

# Agreement Reached: Now What?

14 July 2015

Early Monday morning, Greece and its European creditors reached an agreement to extend bailout facilities to Greece pending ratification by both sides. The ball is now in Greece's court, as the country faces two deadlines for achieving legislative action.

- By Wednesday, July 15, Greece must institute reforms to make its pension system more sustainable, and streamline the value added tax (VAT) rate to boost VAT revenue. Greece must fulfill further commitments by July 22.
- If legislative action is forthcoming, then the eurozone agrees in principal to start negotiation on a loan package for Greece from the European Stability Mechanism (ESM) worth 82 to 86 billion euros.
- A trust fund consisting of 50 billion euro of Greek assets will be set up, and managed by Greece. The fund will be used in part as a mechanism for paying off part of the loan package.
- From the trust fund, 25 billion euros will be used to repay for the recapitalization of the Greek banks; 12.5 billion euros will go to reducing Greek debt; and 12.5 billion euros will funnel into a stimulus package.
- We anticipate that Greece will receive short-term financing to bridge to the ESM loan, in order to satisfy roughly 12 billion euros in debt repayments through mid-August.
- The ECB's Emergency Liquidity Assistance (ELA) program is critical, and is a lifeline to the Greek banks. The ECB's behavior will be critical to keeping the banks and the economy afloat over the near-term.

## What happened in markets on the news?

The contagion and volatility in markets from the current Greece crisis has been somewhat muted due to the following:

- The crisis was already a major investor flashpoint two to three years ago.
- Greece's economy is relatively small and mechanisms were put in place after the global financial crisis to prevent contagion.
- The amount of Greek government debt held within the private sector is minimal.

While the European equity and debt markets have not faltered during the crisis, the widening of spreads in the euro periphery versus German bunds in recent weeks does indicate that some risk premium has been baked in from the Greek crisis.

**While there is still a fair amount of uncertainty surrounding the Greek situation, once it is resolved, investors should re-focus on the positive fundamentals in the European region.**

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