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For the Opening Act: A Greek Tragedy

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FOR THE OPENING ACT: A GREEK TRAGEDY

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On October 27, 2011, after months of uncertainty and growing fears, European leaders reached a three-pronged agreement[1] designed to lower Greece's debt burden and prevent the crisis from escalating by spreading to other Eurozone states[2] and potentially crippling the European Union and others on the global market. In the few weeks that have followed, many, including the Greeks, have questioned Greece's place in Europe, a prime minister has resigned, and questions remain.

First, private investors agreed to take a 50% loss on their Greek bonds.[3] As a result, Greece's debt will be reduced from the current rate of 160% of its GDP to 120% by 2020.[4] Second, banks will be required to raise around €106 billion in new capital by June 2012.[5] The goal is that the new capital will protect the banks, as well as larger economies, from any government defaults.[6] Finally, the Eurozone member states agreed to increase the lending capacity of the European Financial Stability Facility (EFSF)[7] from €440 billion to over €1 trillion.[8]

The EFSF bailout fund could be leveraged in a handful of ways. Insurance could be offered to debt purchasers[9] thereby making the bonds more attractive to investors.[10] Another proposal with support is to create special investment vehicles to

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1 *See Leaders Agree Eurozone Debt Deal after Late-Night Talks*, BBC NEWS (Oct. 27, 2011, 5:30 ET), http://www. bbc.co.uk/news/world-europe-15472547 [hereinafter *Leaders Agree*].

2 *See id*. Of the 27 EU members, only 17 are currently parties to the common European currency, the Euro.

3 *Id.*

4 *Id.*

5 *Id.*

6 *Id.*

7 *See About EFSF*, EUROPA.EU, http://www.efsf.europa.eu/about/index.htm (last visited Oct. 27, 2011). The EFSF was created by the euro area member states, within the framework of the Ecofin Council, in May 2010. The purpose of the EFSF is to maintain financial stability by providing financial assistance to euro area member states.

8 *Leaders Agree*, *supra* note 1.

9 *See Euro Deal Leaves Much to Do on Rescue Fund, Greek Debt*, REUTERS (Oct. 27, 2011, 3:44 PM), http://www.reuters.com/article/2011/10/27/us-eurozone-idUSTRE79I0IC20111027.

10 *See Eurozone Crisis Explained*, BBC NEWS (Oct. 27, 2011, 2:19 ET), http://www. bbc.co.uk/news/world-europe-15472679.

allow big investors, including countries like China, to contribute.[11] Most likely, these and other options would be used simultaneously.

Moving forward from this agreement, EU leaders continue their calls for more stringent financial reform and now square their focus on Italy, the Eurozone's third largest economy.[12] Recently, German Chancellor Merkel and French President Sarkozy criticized Italian Prime Minister Berlusconi for his reluctance to follow through with promised budget cuts and other economic reforms.[13] EU President Van Rompuy specifically noted that the main concern for Italy is implementation of Berlusconi's proposals.[14] Even as this crisis may be averted for now, the looming question of Italy tempers enthusiasm for this agreement and highlights the balancing act for Europe's leading economies as they continue charting a path to a more robust unity, continued cooperation, or disappointing abandonment of the EU.

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[11] *Id.*

[12] *See Europe Agrees to Basics of Plan to Resolve Euro Crisis*, N.Y. TIMES, (Oct. 26, 2011), http://www.nytimes.com/2011/10/27/world/europe/german-vote-backs-bailout-fund-as-rifts-remain-in-talks.html?pagewanted=2&ref=europeansovereigndebtcrisis.

[13] *Id.*

[14] *Id.*