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On Sunday evening (February 12th) the Greek parliament voted on legislation concerning further reforms, austerity measures and the terms of the restructuring of privately held Greek bonds. The approval of such legislation was required in order for Greece to receive its next €130 billion bailout, a necessary step to go through with its private sector debt restructuring.

While legislation passed with a two-thirds majority, officials across Europe were nosufficiently satisfied. This was due to the lukewarm support Greece's main political parties showed to the new measures, and to a €325 million hole in the €3.3 billion cuts the legislation included, whose sources were not fully identified.

Following such considerations, Antonis Samaras, the leader of Nea Demokratia, sent a letter to European Union leaders pledging to support the implementation of the austerity measures included in the latest bailout programme. George Papandreou, leader of PA.SO.K, sent a similar letter too. After several cabinet meetings the sources of the €325 million hole were also identified in detail (including some much contested pension cuts). Yet, further uncertainty over Greece's commitment to reform and discipline led leaders to delay the decision on the new bailout until early March (most likely on March 2nd). The new date is dangerously close to the March 20th bond redemption, when Greece must repay €14.5 billion. This move is expected to motivate Greek parties to prove their commitment to follow through the terms of the agreement.

Meanwhile, the Eurogroup meeting set to take place on February 14th was postponed for the following Monday (February 20th). Finance ministers communicated via a conference call instead. According to the *Financial Times*, during such a call, representatives from Germany, Finland and the Netherlands took a harsher stance towards Athens, suggesting they may ask for letters from other political parties. They also reportedly discussed the possibility of extending the mandate of the current, caretaker government, a scenario that seems to be popular among European officials and the IMF.

The likelihood of this scenario increased following developments within Greece's two big parties on Sunday. After the vote, George Papandreou and Antonis Samaras expelled 22 and 21 MPs from their parties, PA.SO.K and Nea Democratia, respectively. All the expelled lawmakers voted against the legislation, a move that was deemed a 'deal breaker' by party leadership.

The MP expulsions led to a spike in the number of independents in Parliament, causing concern among their European counterparts. Given such political instability, scepticism regarding a Greek default has been gaining prevalence, while officials seem more confident in their ability to deal with the aftermath of such an event. As GDP shrunk by about 7% in 2011, and unemployment reached an unprecedented high (exceeding 20%), consensus seems to be that the focus on austerity has pushed the country into a much deeper recession than expected. As a result, social unrest has peaked. People who have lost their jobs or seen their savings evaporate and living standards drop dramatically have taken to the streets. Some have even developed an anti-German sentiment. While postponing elections might calm some around Europe, it is likely to cause even further social turmoil in Greece.

It still remains more plausible that the rest of the Eurozone will not let Greece default. The next Eurogroup meeting will probably finalise the PSI details and provide Greece with a ‘to do list’, describing what must be done by the Greek government for the €130 billion to be released in early March. Yet, this will come with a cost in the form of tight scrutiny, supervision and further austerity for many years to come.

UPDATE

On February 21st, after fourteen hours of negotiations between eurozone finance ministers and officials, a second Greek bailout deal was reached. The deal, which includes a EURO 130 billion aid package and a 53.5% haircut on privately held Greek bonds, is expected to bring Greece’s debt down to 120.5% of GDP by 2020. For it to go through Greece must first complete a list of prior actions by the end of the month, including serious spending cuts - some in the form public sector jobs. Doing so is a prerequisite for the country to receive the much-needed next tranche of aid before its March 20th bond redemption.

While this scenario will not be pain-free, it seems to be both sustainable and satisfactory enough for both creditors and European officials to give it a green light. According to Evangelos Venizelos, Greece’s finance minister, the deal means that a "nightmare scenario" had been averted. The plan’s focus seems to have shifted from austerity, to growth and competitiveness enhancement. This shift, which has long been advocated by many economists, is expected to bring some further calm among both markets and officials.