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As the first month of 2012 comes to an end, Greece's future seems to be hanging on the balance. The prospects of a Greek exit from the euro and of a disorderly default are no longer a taboo among leaders or the media[1]. In fact, in an interview with the *Wall Street Journal*,Wolfgang Schäuble, the German Finance Minister, warned Greece that unless it can convince Europe of its commitment and ability to save its economy, the euro zone could withhold the country's next bailout package (of around €130 billion, or more)[2]. Such a move would undoubtedly push Greece into a nasty, and potentially chaotic, default.

Meanwhile, over the course of last week two major events took place. The first was the annual World Economic Forum (WEF) in Davos, Switzerland, where global policymakers and businesspeople met to discuss the current global economic issues. Consensus was that the focus in Europe should shift from austerity to growth, as the persistence on the former is believed to be responsible for sending countries like Greece into deeper recession. Many attendees also called for a greater financial safety net to ensure the solvency of other troubled states and, thus, calm the markets.

Following the WEF, European leaders met on Monday at the EU summit in Brussels. By the end of the summit, all leaders (bar the heads of the United Kingdom and the Czech Republic) agreed on the pact put forward in December, to move to a closer fiscal union. The pact was described by the *Wall Street Journal* as 'a German-sponsored treaty … that imposes tighter budget discipline on euro members and is aimed at preventing a repeat of the Greek debt disaster.'[3]

While the two events should be at the centre of everyone's attention, they were both overshadowed by the uncertainty over Greece's Private Sector Involvement (PSI) deal progress. The deal, which involves a debt swap with private creditors, aims at erasing

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1 http://www.reuters.com/article/2012/01/27/uk-greece-default-idUSTRE80N22B20120127

2 http://online.wsj.com/article/SB10001424052970203920204577191002602753994.html?mod=googlenews_wsj

3 http://online.wsj.com/article/SB10001424052970204740904577192253105056954.html?mod=wsj_share_tweet

50% of the €200 billion Greek debt that is privately held[4]. PSI proceedings have been delayed due to hurdles in negotiations with the Institute of International Finance (IIF), a banking lobby, on the losses private creditors would accept on their bond holdings[5]. Another major issue is also the ECB's participation in the deal.

After the EU summit Lucas Papademos, the Greek Prime Minister, and his EU counterparts seemed confident that a deal would be made by the end of this week. For the time being, it looks like the deal will involve private creditors receiving a 50% cut on the nominal value of their Greek bond holdings in exchange for cash and new bonds at an annual interest rate of less than 4%. Their net present value losses are reported to be close to 70% [6].

According to the *Financial Times*, the EU and the International Monetary Fund (IMF) have also constructed a 10-page list, consisting of actions Greece must take before it receives its next bailout, including a cut of 150,000 public sector jobs by 2015[7]. Meanwhile a suggested German plan was brought to light aiming to impose an EU budget commissioner to oversee all Greek fiscal affairs (with the ability to exercise a veto if needed). The proposal spurred a series of intense reactions within both Greece and the EU. Yet Evangelos Venizelos, the Greek Finance Minister, categorically denied the possibility of such a plan, citing 'national dignity' as the reason this cannot go forward.

For now, markets, leaders and policymakers have their eyes on Greece, while recently rising Portuguese spreads are causing further concern. The final version of the PSI deal, together with the terms of the loan agreement, will undoubtedly affect private investors, credit institutions and crucially, the future of Greece and, to an extent, the euro zone.

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4 http://www.bloomberg.com/news/2012-01-29/papademos-gets-domestic-support-on-greek-debt-troika-talks-1-.html

5 http://www.nytimes.com/2012/01/30/business/global/greek-coalition-partners-to-back-new-reforms.html

6 http://www.reuters.com/article/2012/01/29/greece-idUSL5E8CT0DX20120129

7 http://www.ft.com/cms/s/c54ff27c-4a99-11e1-a11e-00144feabdc0,Authorised=false.html?_i_location=http%3A%2F%2F#axzz1kxUIBMMe