Greek Finance Minister Evangelos Venizelos, left, speaks with European Central Bank President Mario Draghi during a meeting in Brussels on Monday. AP

Greece bailout wards off Europe meltdown

By Gabriele Steinhauser
The Associated Press

BRUSSELS — The bailout has saved Europe, for now, but it's unlikely to save Greece.

The $172 billion rescue — agreed to Tuesday after an all-night summit of European ministers — prevented an uncontrolled bankrupcty and calmed investors worried that a Greek default would have started a chain reaction across Europe. But it left key problems unresolved.

Draconian budget cuts could keep Greece, mired in recession after five straight years. The deal doesn't directly address the debt problems in other struggling countries in the 17-country zone that uses the euro. Spending cuts could reduce tax revenue and possibly worsen the government's finances.

"You can't shrink your way out of a recession," said Mark Weisbrot, co-director of the liberal Center for Economic and Policy Research in Washington. "What they are doing to Greece really makes no economic sense."

In Athens, Greeks reacted with a mixture of relief and fear of a dark future.

"I don't see it with any joy because again we're being burdened with loans, loans, loans, with no end in sight," architect Valia Rokou said in the Greek capital.

Finance Minister Evangelos Venizelos said the agreement managed to prevent imminent catastrophe: "we avoided the nightmare scenario," he said.

The agreement was the second massive bailout of Greece following a $146 billion rescue in 2010 that didn't return the country to solvency. It will give Greece $172 billion in loans through 2014 from other eurozone governments and the International Monetary Fund. It was secured after Greece agreed to painful and humiliating measures, including thousands of layoffs of civil service workers and cuts to the minimum wage, imposed by countries suspicious of Greece's reform efforts after two years of what they called the country's broken promises.

The agreement assumes that banks and investors owed money by Greece will take new bonds that reduce their holdings by more than half.