EU tries to save Greek rescue

By Peter Spiegel in Brussels

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European finance ministers will hold an emergency meeting on Tuesday in an effort to narrow differences over a €172bn ($247bn) rescue package for Greece.

The bail-out deal is at risk of being derailed by a growing dispute between Berlin and the European Central Bank over the role of private bondholders.

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Senior European officials said hardening positions on both sides made it unlikely that the standoff would be resolved at the afternoon meeting of eurozone ministers, which will be followed by an evening session involving all 27 EU nations.

But officials saw hope that ministers would be able to focus the dispute, so that negotiators could strive to achieve a deal before next week's ministerial meeting, where the programme is due to be finalised.

"We need to clarify some basic choices," said a senior European official involved in the talks. "We may well have to work on the basis of several options, but we'll narrow down the options in any case so that we have a more meaningful way to move forward."

At issue is whether current holders of Greek bonds will be asked to swap them for new, longer-maturing bonds that would push off Greek repayments to the end of the decade – a plan backed by Germany.

The ECB has resisted such a move, insisting it would amount to a de facto default. Instead, it wants bondholders whose debt comes due over the next three years to purchase new, longer-maturing debt voluntarily – a so-called debt rollover. The ECB and the French government think such a plan is less likely to trigger a default and further market turmoil.

The road taken will be critical to determining how much new bail-out funding Greece will get from the EU and the International Monetary Fund. Of the €172bn Greece is expected to need to the end of 2014, about €87bn is already accounted for: €57bn from Greece's existing EU-IMF bail-out, and another €30bn from a privatisation programme finalised this month.

That leaves another €85bn unaccounted for, which must be made up either through new EU-IMF loans or by persuading private bondholders to delay their redemptions.

Germany has insisted that its plan for private-sector involvement could reduce Greece's near-term debt burden by €30bn, meaning new loans of about €55bn. But other officials have questioned Germany's optimism, and have resisted putting firm estimates on what is supposed to be a voluntary programme.

There are signs that no decision may be reached before a meeting on Friday between Angela Merkel, the German chancellor, and Nicolas Sarkozy, French president. Officials hope the two can strike a deal that could be finalised at the finance ministers' meeting in Brussels next Monday, rather than waiting until a full EU summit – known as the European Council – on the 23rd, which would be the absolute limit for a decision.

"It is not in anybody's interest to let this confrontation between Germany and the ECB to continue until the European Council," said the senior European official.

Although France has sided with the ECB, Germany has won over allies in recent days, including Jean-Claude Juncker, the Luxembourg prime minister who heads the group of eurozone finance ministers, and Mark Rutte, the Dutch premier. The Dutch finance minister said on Monday the government would approve further support for Greece only if private creditors accepted substantial extensions on the maturity of Greek debt.

However, after meeting with the Bundestag on Friday, Wolfgang Schäuble, the German finance minister, appeared to gain some political room for manoeuvre after parliamentarians supported "adequate participation" of bondholders – but did not specify a swap.

"I think it's more likely to be rollover," said the senior European official. "There's even quite a clear majority between the member states towards that option. The ECB has hardened its position, so now the question is can the Germans somehow show some flexibility."