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The devil is in the details and the data

By Peter Spiegel in Brussels

One of the consequences of clinching a last-minute deal in the early hours, such as Thursday morning's agreement between Greek bondholders and European governments, is that much of what is needed has not yet been finalised.

The headline figure of a 50 per cent cut in the face value of Greek bonds has drawn the most attention - but just how that is to be achieved remains unclear.

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The details are critical. Depending on how the programme is set up, bondholders could end up with something significantly less onerous than leaders touted on Thursday morning.

"While this approach has a better structure and bigger haircuts than the terrible July deal, it does not go far enough and may yet be undermined as most details remain to be agreed," said Sony Kapoor, head of Re-Define, the economic consultancy.

The centre of the next, critical phase of negotiations - expected to resume within the coming days - will be over a bond swap programme, which must be completed by January.

Officials said that at its most basic the Greek haircuts will work like this:someone owning a €100 bond will trade it for a bond with a face value of €50. But the real value of the new bonds will be highly dependent on their annual interest rates - or so-called "coupons" - and how long it takes for the €50 to be paid back - known as maturities.

By adjusting coupons and maturities and taking into account other "sweeteners" already agreed by European officals - such as the €30bn ($42bn) in collateral they will provide to back the new bonds - the pain on bondholders could be lessened considerably.

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One economist who has advised European governments estimated that the net present value of the new bonds – the measure of what they are worth when the coupons and maturities are taken into consideration – could come close to bonds that were supposed to be offered after July's aborted Greek bail-out. Those bonds were estimated to have just a 21 per cent reduction in net present value.

By cutting in half the face value of the estimated €200bn in Greek bonds in private hands, officials have taken a far more aggressive stance in reducing Greece's overall debt levels than they did three

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months ago, a move long called for by outside analysts. But such swingeing cuts are also dependent on almost all Greek bondholders agreeing to participate in the plan. Unlike the July deal, which set a target at 90 per cent participation, Thursday's plan includes no such target.

In addition, by taking such big up-front haircuts, European officials threaten the very solvency of the largest single holders of Greek debt – Greek banks, which hold about €50bn in sovereign Greek bonds. A senior EU official said €30bn of the new €130bn rescue package must go to bailing out Greek banks – a €10bn increase from July.

Negotiations over the bond swaps could prove the trickiest part of the deal as it moves forward. Senior European officials believe that, because they have committed bondholders to bringing down Greek debt to 120 per cent of gross domestic product, banks and other investors in Greek bonds will have little wiggle room. "That basically limits the room for manoeuvre for coupons and maturities," said another senior EU official.

But negotiators for bondholders clearly feel differently. Mr Dallara said that when he presented the deal to the IIF's member financial institutions they would be satisfied the reduction in new bonds' net present value would not be overly onerous. "That is very crucial to us and we feel confident we protected our interest in containing the net present value loss.

"We have done multiple options of coupons and constructions built around this €30bn package and we feel confident that... we can reach agreement on the particulars that protect the [net present value] loss."

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