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# EU reaches deal on Greek bonds

By Peter Spiegel, Stanley Pignal and Alex Barker in Brussels

European leaders reached a deal with Greek debtholders on Thursday morning that would see private investors take a 50 per cent cut in the face value of their bonds, a deep haircut that officials believe will reduce Greek debt levels to 120 per cent of gross domestic product by the end of the decade.

The agreement, struck after nearly 11 hours of talks at a summit of eurozone leaders, includes a new €130bn bail-out of Greece by the European Union and the International Monetary Fund.

"Debt sustainability for Greece can only be established if the private sector participates in a substantial way," Angela Merkel, the German chancellor, said after the deal was reached. "The world had its eyes on us today."

The Greek deal proved the most difficult and intractable of all the elements of a three-pronged rescue plan that European leaders hope will reverse their escalating sovereign debt crisis.

They agreed to increase the firepower of their €440bn bail-out fund by providing "risk insurance" to new bonds issued by struggling eurozone countries – a scheme designed for potential use in Italy – but they did not specify the amount of losses that would be covered by the insurance.

Both Ms Merkel and Nicolas Sarkozy, the French president, said it would increase the size of the fund "four or five times", but a final number could not be calculated because it was unclear how much money was left in the fund. Most analysts estimate about €250bn will remain after the second Greek bail-out, putting the fund's new firepower at more than €1,000bn.

Although the details of the deal as outlined by both European leaders and the Institute of International Finance remained vague, officials said that €30bn of the €130bn in the government bail-out money would go to so-called "sweeteners" for a future bond-swap, which would be completed by January.

Some €35bn in such "credit enhancements" were included in the original July deal with the IIF, an association of global financial institutions. In that deal, the money was used to back new triple-A bonds that would be traded in for debtholders' current bonds.

Whether the new programme would be organised in a similar fashion remained unclear. Such factors as the interest rates and maturities for new bonds are critical to determining how valuable the swap will be for private investors.

Charles Dallara, the IIF managing director who served as the bondholders' chief negotiator in Brussels, said in a statement that the net present value of bondholders' losses had not yet been determined. He added that his consortium would need to continue to work with authorities "to develop a concrete voluntary agreement".

"The specific terms and conditions of the voluntary [haircuts] will be agreed by all relevant parties in the coming period and implemented with immediacy and force," Mr Dallara said.

Some elements of the package appeared to be based on optimistic assumptions. Under the terms of the deal, Greece agreed to put €15bn it aims to raise from a vast privatisation programme back into the European Financial Stability Facility, the eurozone's €440bn rescue fund. International monitors have already acknowledged that Greece will struggle to raise the €50bn in privatisation cash it promised earlier this year, but the €15bn is supposed come on top of previous commitments.

Asked whether adding €15bn to Greece's already faltering €50bn privatisation programme was feasible, Yves Leterme, the Belgian prime minister, distanced himself from the proposal, saying: "This element was not a necessity for Belgium."

"We all know there is a flaw in the implementation of Greece's privatisation programme," he added, stressing the need for more EU experts to help Greece meet its divestment targets. The €15bn should be available "in the next four or five years," he said.

Still, despite the uncertainties that remained, European leaders hailed the package as a milestone in their efforts to tackle the crisis. "I believe this is a global, ambitious and credible response to the crisis," Mr Sarkozy said.

Pierre Gave, head of research at Gavekal, a Hong Kong-based research group, said the Greek deal was "big on words but short on detail".

"To me it seems like we don't really have a lot of detail. What is this, the 14th meeting in the last 20 months? I think it's just more of the same. Europe is going to continue to muddle through but we won't know the end-game until a year or two from now, whether we will move towards a full-scale fiscal federation or whether we will move to a breakdown of the euro experiment."

*Additional reporting by Hugh Carnegy in Brussels and Robert Cookson in Hong Kong*