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Athens closes in on bondholder pact

By Sam Jones in London and Kerin Hope in Athens

The Greek government on Wednesday appeared to move closer to a deal with private bondholders that would avert a threatened default by Athens .

Talks with holders of close to €200bn of Greek debt broke down last week, after some eurozone officials called for a sharply lower coupon, or interest payment, on new bonds.

The latest proposal called for a coupon starting at about 3 per cent and rising to 4.5 per cent as the bond approached maturity, one banker said. Another said the average interest paid during the life of the bond would be 4.25 per cent, which he described as a rate "that the banks would be happy with".

The deal would amount to a 68 per cent loss for bondholders in net present value terms, according to people familiar with the talks.

Lucas Papademos, Greek premier, and Evangelos Venizelos, finance minister, began discussing the fresh proposal on Wednesday in Athens with Charles Dallara, managing director of the Institute of International Finance representing private sector creditors.

Greece wants to wrap up at least the outline of a deal on the bond swap ahead of a meeting of eurozone finance ministers on January 23. The IIF said discussions would continue on Thursday.

"There's a bit of optimism in the air," said one person with knowledge of the discussions. But another person close to the process cautioned: "It's too early to say. This time last week we were very hopeful but then the deal fell through."

Officials must try to persuade all of Greece's creditors to swap their current bond holdings voluntarily for a new package of debt that will give the country greater leeway to meet its obligations.

If they do not, Greece may not be able to make a €14.5bn debt repayment on March 20, or may have to rush through legislation to force recalcitrant bondholders to accept its current proposals – a move that would trigger credit default swaps written on Greek debt, according to experts.

An initial compromise package, which included a 50 per cent "haircut" on bondholders' capital, had been agreed at last October's European Union summit but a large amount of detail was not tackled.

Negotiators hit an impasse last week after Greece came under pressure to reduce the interest rate payable on the bonds from about 5 per cent a year to 3 or even 2 per cent.

If a deal was reached on Wednesday it could be put to the IIF steering committee of creditors for approval this week, a Greek official said.

A senior Greek banker said: "An acceptable deal now seems reachable, perhaps as early as this week."

Most observers remain sceptical that the deal will gain 100 per cent acceptance, however. A significant minority of traders in Greek debt – known as "basis holders" – are happy to sit on the bonds they hold and wait for a default because they also own credit default swaps, which will pay out if authorities try to force their hand.