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Greek talks stumble over interest rates

LONDON

BY LANDON THOMAS JR.

Talks between Greece and its private-sector creditors over restructuring its debt have again hit a snag over how much interest the new bonds will pay.

While considerable progress has been made, Greece's financial backers — Germany and the International Monetary Fund — have been unyielding in their insistence that the longer-term bonds that will replace the current securities carry yields in the low 3 percent range, officials involved in the negotiations said Sunday.

Bankers and government officials still expect a deal to be reached; Greece and its private-sector creditors on Friday appeared near to a deal that would bring the yield to below 4 percent. But the continuing disagreement over the interest rate is a reminder of just how complex and politically sensitive it is to restructure the debt of a euro zone economy.

Greece's private creditors, who hold approximately €206 billion, or $266 billion, in Greek bonds, are resisting accepting a lower offer. They argue that they are already faced with a 50 percent loss on their existing bonds and that the lower rate would compound the pain they receive — making it all the more difficult to describe the deal as voluntary.

A coercive deal, bankers warn, could lead to a technical default and the activation of credit-default swaps, or insurance, which all sides are trying to avoid.

Talks broke off over the weekend when Charles H. Dallara, the managing director of the Institute of International Finance, a bankers' group that is representing private-sector bondholders, left Athens. In a statement, a spokesman for the group said that Mr. Dallara had a previously planned engagement in Paris.

During an interview broadcast Sunday on Greek television, Mr. Dallara emphasized that creditors were insisting on 3.8 percent to 4 percent. "This is certainly the maximum offer that is consistent with the voluntary debt exchange," he said on the Greek station

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