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Greek debt talks fail to break deadlock

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Greek political leaders failed to agree on fresh austerity measures during all night talks on Wednesday but were given breathing space to complete a €130bn rescue package and avert a full scale default.

Officials from the so-called troika – the European Commission, European Central Bank and International Monetary Fund – joined the discussions in the early hours in a failed effort to break a deadlock over proposals for deep pension cuts.

Greece has still to find an extra €325m of budget savings to complete a €3bn austerity package agreed with international lenders by the weekend.

A government official said on Thursday: "We are almost there, we're confident this can be done in the next two weeks."

Evangelos Venizelos, the finance minister, said he still expected to attend a meeting on Thursday of the eurogroup of finance ministers called to approve the Greek bail-out. "The country's financial survival in the years ahead depends on this programme. I hope a positive decision will be taken [at the euro group meeting)".

People familiar with the negotiations in Athens said Antonis Samaras, the conservative leader, had raised objections to cuts in supplementary state pensions, while former premier George Papandreou refused to discuss the alternative of cutting primary pensions. The pensions issue is seen as critical as elderly, low-income Greeks have been hit hardest by the deeper than expected recession.

George Karatzaferis, the rightwing leader and junior coalition partner, left the talks. It was not clear whether he would return to join the negotiations.

There has been mounting frustration in other European capitals, including Brussels, where officials had hoped to get a deal agreed last weekend so that they could quickly execute the central pillar of the deal – a €200bn bond swap that will see private Greek debt holders lose half their holdings, wiping €100bn off Athens' €350bn debt pile.

Once the deal is agreed, the focus of the Greek drama will turn to Paris, where the lead negotiators for private bondholders were to meet with investors to begin preparations for the debt restructuring, and to Brussels, where eurozone finance officials will meet on Thursday to cobble together enough money to keep Greece afloat for the foreseeable future.

Debate over the structure of the new bail-out package continued to intensify behind closed doors as eurozone leaders attempted to construct a programme that would both keep the total in new rescue funds at €130bn and reduce Greek debt levels to 120 per cent of economic output by 2020.

Both those goals were signed off at a summit in October, but Greece's worsening budget outlook has forced finance ministry officials to rework the package to stay within those parameters.

There was growing consensus that sufficiently reducing Greece's debt level, which is now at about 160 per cent of economic output, would require more than the agreed €100bn cut in private debt, with leaders' focus increasingly turning to the €40bn in Greek bonds held by the European Central Bank – the largest of any single investor.

According to several senior eurozone officials, the ECB has not yet agreed to help a revised bail-out plan, but it was studying whether it could forgo profits on the €40bn portfolio – which would pay out about €55bn if taken to maturity – by transferring the bonds to the eurozone's bail-out fund, the European Financial Stability Facility, at the price it originally paid for them.

Another plan being considered would have Greece buying the bonds directly from the ECB at the depressed price, using EFSF funds or bonds to pay for them. Either scheme would require eurozone governments ensuring more EFSF funds to buy the Greek bonds – which may prove politically impossible.

While senior officials at EU institutions and eurozone member states were hoping the ECB would agree to forgo its profits, which would knock as much as €15bn off of Greece's debt load, four officials with direct knowledge of the talks said such a deal had not yet been agreed.

Without ECB agreement, officials worry it will be impossible to get Greece's debt down to levels approved by the International Monetary Fund, which has estimated that the private debt restructuring alone will only get Athens' debt to just under 130 per cent of economic output by 2020. Without IMF approval, the €130bn in new bail-out funds cannot be approved.

Standard & Poor's, the debt rating agency, weighed in on the side of the IMF on Wednesday, saying the restructuring of privately held debt was not enough to make Greece's debt load sustainable.

"Because only a small subcomponent of investors are actually taking the haircut and the official sector [ECB] is not, or only partially, then the reduction ... is probably not sufficient debt relief to make debt sustainable," said Frank Gill, an S&P analyst.