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Greece nears agreement on bailout package

ATHENS

E.C.B. poised to forgo potential profit on bonds in exchange for austerity

BY NIKI KITSANTONIS AND LANDON THOMAS JR.

After three days of delays, the Greek prime minister, Lucas D. Papademos, finally met Wednesday evening with leaders of the three parties supporting his interim government as evidence mounted that Mr. Papademos was close to securing their agreement to support new austerity measures demanded by the country's financial backers in return for a €130 billion bailout.

Officials in Brussels said that the announcement of a meeting of euro zone finance ministers for Thursday suggested that an agreement in principle was likely among Greek political parties that would keep the country's second bailout package on track.

Jean-Claude Juncker, the prime minster of Luxembourg who heads the group of finance ministers and scheduled the meeting, had said earlier in the day that he would call the group together only if Athens was ready to sign off on the plan.

The Eurogroup meeting in Brussels on Thursday will not be the final word on the deal. But it would allow for preparations to be made for a bond swap under which private investors will take losses of up to 70 percent, according to one per-

POOL PHOTO BY ORESTIS PANAGIOTOU

Prime Minister Lucas D. Papademos of Greece met Wednesday with his top allies.

son briefed on discussions who only agreed to describe them anonymously.

In Athens, the leaders were still locked in a room Wednesday after nearly five hours of talks. But a government official said the leaders were inching their way to consensus on the package.

"This is a serious document — one wouldn't expect discussions to be done in two or three hours," the official said. He added that he expected party leaders "to rise to the challenges and responsibilities involved" and reach a deal "very soon."

The official said that Mr. Papademos briefly interrupted the meeting to talk by telephone with Mr. Juncker and Olli Rehn, the European Commissioner for Monetary and Economic Affairs.

Some details of the bailout remained unclear, but it also appeared increasingly likely that the European Central Bank would agree to forgo at least some of its potential profits on Greek bonds once the government in Athens has

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Greece may be close on austerity deal

GREECE, FROM PAGE 1

signed off on the austerity measures.

On Thursday, the Socialist Pasok party leader, George Papandreou; Antonis Samaras of the conservative New Democracy; and Giorgos Karatzaferis of the right-wing Popular Orthodox Rally (LAOS), examined the text of the outline agreement for the new bailout, which is needed by early March, when Greece must pay off more than €14 billion in existing debt, or $18.5 billion.

The 50-page document, which sets out the measures and fiscal targets the leaders will have to agree to for clinching the deal, is said to have provoked vehement objections from the ranks of all three parties. Analysts suggested that the coalition partners were seeking to avoid as much blame as possible for the deal in hopes of leaving Mr. Papademos as the principal target of public anger.

Mr. Samaras, whose party is far ahead in opinion polls, was said to be objecting to planned cuts to auxiliary pensions, while Mr. Karatzaferis, Greek media reported, asked for legal advice from the Supreme Court and Council of State on whether some of the measures in the agreement are in line with the Greek Constitution.

Mr. Karatzaferis also indicated that he thought some of the measures were too severe for austerity-weary Greeks.

"Tough demands are like tight shoes," he said in an interview on Greek television. "Sooner or later, you want to kick them off."

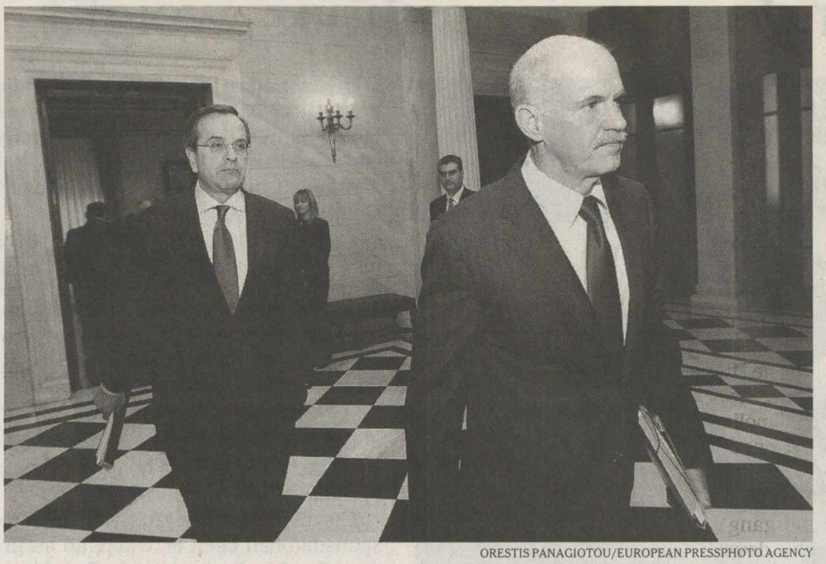
One of the most controversial measures is a 22 percent reduction in the minimum wage to €751 a month, a cut that is expected to affect all salaried workers as the base wage is used as a benchmark by employers. Cuts to auxiliary pensions are another thorny issue.

Once the leaders finally agree to the package, the document drawn up the so-called troika — the International Monetary Fund, the European Commission and the European Central Bank — was to be taken up during a cabinet meeting that was expected Thursday morning — ahead of a scheduled vote on the measures in Parliament on Sunday.

As many lawmakers object to imposing additional austerity on Greeks, the bill's approval by Parliament is not guaranteed, even though the government's three-party coalition controls more than 250 seats in the 300-member house.

In another sign that a deal is close, the Institute for International Finance, which is leading the negotiations for the more than 30 private sector banks involved, started meeting with members in Paris on Wednesday to iron out remaining wrinkles and legal issues associated with the debt reduction initiative. A deal could emerge as soon as this week, despite delays, a person involved in the talks said.

"We now are expecting the Greek leadership to discuss things with the troika and the eurogroup," said Frank Vogl, a spokesman for the I.I.F., adding that the private creditors would only accept the swap once Athens has reached a political settlement and the package was approved by European officials and the I.M.F. "All elements of what will eventually be an agreement," he said, "are contingent on other elements."



ORESTIS PANAGIOTOU/EUROPEAN PRESSPHOTO AGENCY

Antonis Samaras, left, and George Papandreou entering a meeting Wednesday in Athens, where they examined the text of the outline agreement for a new bailout.

Another element that is now part of the active discussions is for the European Central Bank to exchange its portfolio of more than €50 billion in Greek bonds for securities issued by Europe's main rescue fund.

Crucially, the swap would be priced not at the bond's face value but at the reduced price at which the central bank bought the securities, thus allowing Greece to benefit from the discount.

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These discussions have been ongoing for the better part of a month and people involved in them say that the swap is not yet a done deal. "The E.C.B. won't do anything until the debt restructuring deal is complete and party leaders in Greece have agreed to reforms," an official from the so-called troika group of institutions that are providing loans to Greece said on condition of anonymity.

In Athens, the prospect of wage and pension cuts was proving particularly hard to swallow. They "move us backward," said Constantine Michalos, the president of the Athens Chamber of Commerce.

Mr. Michalos said that he was upset that European leaders had spoken more positively about the need for economic growth in recent weeks but then had not come through with any concrete offers.

The first installment of the bailout was supposed to be a €89 billion tranche in March, but officials are now saying that the initial payment may be limited to about €30 billion to insure that Greece continued to abide by the terms of the agreement in coming months.

It has also become evident that Greece's ambitious goal of raising €9.3 billion this year through privatizations is going to fall short due to a lack of international interest. Officials involved in the privatization process say that €4.7 billion is a more realistic target, though many believe even this will be hard to meet.

European officials now estimate that Greece will need at least another €15 billion in 2012 to close its financing gap. But with the I.M.F. making it known that it will not increase its loans to Greece, the burden to come up with the extra funds has now fallen upon euro zone governments and the E.C.B.

The swap by the E.C.B. would gain Greece a reduction in its debt of as much as €10 billion. That would provide a much needed boost for Greece and also give comfort to the I.M.F., which has come to believe that without a sharper reduction in its debt, Greece will not be in a position to manage its finances over the longer term.

Private bond holders have pushed the E.C.B. to take a loss on its portfolio along with them. The bank has fiercely resisted such suggestions, given that it has a portfolio of more than €100 billion in bonds from Portugal, Spain and Italy, which it fears may demand similar concessions.

Landon Thomas Jr. reported from London. Rachel Donadio contributed reporting from Athens, Liz Alderman from Paris and Stephen Castle from Brussels.