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The holdouts st

Argentina vs Elliott Associates. A

World Business Newspaper

News Briefing

Egyptians continue protests over Morsi
Thousands of Egyptians packed Tahrir Square, Cairo, in growing demonstrations against President Mohamed Morsi's assumption of wider powers. **Page 5**

US house prices rally
US house prices rose for a sixth month, confirming a revival in the sector that could fuel more rapid economic growth – as other ta showed US consumer fidence at its highest nce 2008. **www.ft.com/us**

D lowers forecast
ECD slashed its 2013 orecast and said it could not rule out a serious global recession – as it urged more easing in the eurozone, Japan and some emerging markets. **Page 4; Joseph Nye, Page 11**

Paris Palestinian vow
France said it would vote for Palestinian non-member status – a move implicitly recognising Palestinian statehood – when the issue goes before the UN General Assembly this week. **www.ft.com/mideast**

ConAgra buys Ralcorp
US packaged food group ConAgra acquired Ralcorp for $5bn as it bets that recession-weary American shoppers will continue to seek out cheaper, private-label groceries. **Page 13, Lex, Page 12**

Lynch challenges HP
Autonomy founder Mike Lynch issued an open letter to the Hewlett-Packard board demanding an explanation of allegations levelled against him during the $8.8bn writedown of the UK company's value. **Page 13**

Shorter attacks Olam
Shortselling firm Muddy Waters said Olam, the Asian commodity company, was at high risk of failure amid practices that it compared with those of failed group Enron. **Page 13**

Eurozone states face losses on Greek debt

Bailout deal falls short of deficit target

By Peter Spiegel in Brussels and Quentin Peel in Berlin

Eurozone governments could be forced to accept losses on their rescue loans to Greece after Monday's late-night deal to overhaul its bailout failed to agree how to reach new debt targets for the struggling country, according to documents seen by the Financial Times.

After three gatherings in two weeks, eurozone finance ministers agreed to release a long-delayed €34.4bn aid payment to Athens. But the series of measures, which could relieve Greece of billions of euros in debt by the end of the decade, do not go far enough.

The measures to be implemented immediately as part of the deal will lower Greece's debt levels to 126.6 per cent of economic output by 2020, not the 124 per cent announced by eurozone leaders, according to the documents and senior officials.

Eurozone governments postponed further debt relief – amounting to 2.7 percentage points of gross domestic product – to when Greece begins taking in more money than it spends, not counting interest payments.

Officials said Greece could reach "primary budget surplus" by the end of 2014, pushing the additional debt relief to after next year's German elections. Because the deal already cuts interest on loans to just 50 basis points above interbank lending rates, any further cuts would almost certainly force losses on to eurozone creditors.

"That is sort of gaining hold, but it's not fully acknowledged because of the political cycle in Germany," a senior official involved in the discussions said of losses on bailout loans. "It is there but it's there in a way [Angela] Merkel cannot be pinned down that you've committed to it."

Wolfgang Schäuble, German finance minister, acknowledged yesterday that he and his eurozone counterparts had agreed to further debt relief when Greece reaches primary budget surplus.

But Mr Schäuble has been adamant that losses on loans violate German law because it would not be possible to lend Greece more once a haircut had been applied to earlier loans. Although people briefed on deliberations said Mr Schäuble was becoming isolated on the issue, he said all ministers agreed a writedown was "not the right solution".

Laurence Boone, economist at Bank of America Merrill Lynch, said: "The deal buys a lot of time if Greece implements everything, the economy starts recovering . . . and the Europeans deliver on their promise to keep cutting the Greek debt." But that might be "too many 'ifs' to be reassured", she added.

EU officials are exploring other ways to hit the 2020 target, including reducing the amount Greece must spend to access development funds, which could save it enough to cut debt levels a further 2.6 percentage points of GDP.

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Debt relief for rescue loans 'on the table now'

Writedowns loom

Tough decisions for creditor countries appear to have been delayed until after German polls, says Peter Spiegel

The overhaul of the Greek bailout programme scraped together almost every available source of debt relief but one: accepting losses on the €53bn rescue loans provided to Athens by eurozone governments.

All profits on Greek bonds held by the European Central Bank, about €7.1bn, will be returned to Athens instead of to national central banks. Interest rates on bilateral loans to Greece will be cut to 50 basis points above interbank rates, almost giving Athens the money at cost.

And the shrinking minority of Greece's €350bn debt held in private hands will, in theory, be bought back by Athens in a voluntary purchase scheme aimed at convincing bondholders to take just pennies on the euro for their holdings.

Even with all that – covering every single significant holder of Greek debt other than the International Monetary Fund – the deal comes up a bit short.

In the not too distant future, according to senior officials and bailout documents seen by the Financial Times, international lenders will have to find more water from the Greek debt stone. Many, including at the IMF, believe the only way to do that is through a writedown of official bailout loans, known in euro-speak as "OSI" for official sector involvement.

"There is nowhere else to run," said Mujtaba Rahman, a Europe analyst at the Eurasia Group risk consultancy. "If the innovations in this programme and the means of financing it do not work, only harder and much less comfortable solutions are left."

Tullia Bucco, economist at UniCredit, said the eurozone would "most likely agree to revisit the issue of debt sustainability and provide larger debt relief" after next year's German parliamentary elections.

> '[Eurozone will] most likely agree to revisit the issue of debt sustainability'
>
> **Tullia Bucco**
> **UniCredit**

The seeming inevitability of official writedowns goes a long way towards explaining why it took three all-night Brussels meetings of eurozone finance ministers over two weeks to jerry-rig the deal agreed in the early hours yesterday.

Some eurozone leaders are desperate to avoid such losses because the issue remains politically explosive in northern creditor countries, particularly Germany and the Netherlands, where leading politicians have vowed not to take losses on their Greek loans.

People briefed on the 12 hours of talks held on Monday night said German finance minister Wolfgang Schauble, whose government faces national elections in September, remained the strongest holdout and suggested that other triple A creditor countries may be open to the idea further down the line.

"OSI is clearly on the table now in ways it has not been before," said a senior official involved in the talks. Other senior officials are not convinced that losses will be necessary even when eurozone leaders address the issue again, probably in the next 18 months. Some believe anywhere from 2-2.6 percentage points of gross domestic product could be cut from Greece's debt levels by allowing Athens to pay less in co-financing for EU development grants.

One eurozone official involved in the talks said even the target insisted on by the IMF – that Greek debt come down to "substantially lower" than 110 per cent of GDP by 2022 – may be reachable without many more cuts, particularly if Greece's economy begins to respond to reforms implemented under the bailout programme.

That assumption relies on economic and fiscal projections that could well disappoint. If they do, eurozone finance ministers agreed that more cuts to bailout loans will be considered to hit the new targets: debt at 175 per cent of GDP by 2016, 124 per cent by 2022, and below 110 per cent by 2022.

See Lex
See Editorial Comment
See Markets
Video,
www.ft.com/lexvideo

Eurozone policy makers bank on buyback plan

Retiring bonds

By Robin Wigglesworth, Peter Spiegel and Ralph Atkins

Economists often describe government debt buybacks as "boondoggles" – a waste of time and money.

That has not deterred eurozone policy makers from making a bond buyback part of Greece's bailout programme.

At face value, the attraction is obvious. By buying back Greek bonds trading below their par value and retiring them, Athens can cut its overall debt burden.

Although much of Greece's private sector indebtedness was wiped out in a €200bn restructuring this year, about €62bn remains in the hands of Greek banks, European investors and, increasingly, hedge funds betting on a buyback.

Officials hope that a repurchase could account for more than half the debt reduction that yesterday's deal stipulates, lowering Greece's debt from 144 per cent of economic output in 2020 to 126.6 per cent. Documents seen by the Financial Times show negotiators are assuming 11 percentage points of that cut will come from a buyback.

Nonetheless, senior officials acknowledge they have no firm idea how much debt they will be able to retire through the programme, which will be funded by €10.2bn in loans provided in Greece's next €34.4bn bailout tranche.

"I think none of us really knows," said a senior negotiator. "We'll have to see."

European finance ministers said the buyback price could be no higher than prices at Friday's market close – about 28 cents in the euro on average for all Greek maturities, according to Exotix, a brokerage.

Although the average price of Greek private sector bonds fell as low as 11.6 cents in the euro in late May, the price mooted by policy makers leaves little premium to entice bondholders. Greek banks, insurers and pension funds can probably be coerced into signing up for a buyback, but hedge funds are likely to hold out for a better deal.

The average price of Greek bonds – collectively, the bundle is known as the "strip" – edged up to more than 29 cents on the euro, indicating that investors think a better deal may be on the cards.

Hans Humes of Greylock Capital, a New York-based hedge fund, sat on the coordinating committee for creditors this year and estimates that at least €20bn of Greek bonds are in the hands of hedge funds.

"A lot of people bought cheap so, in theory, they might sell, but not at that price," he told the FT. "You might get participation at 40 cents but if the Europeans chase the price up, it's self-defeating."

Christine Lagarde: Greek aid linked to scheme's success

Some hedge funds are likely to hold out for the full amount. Elliott Associates, an aggressive fund that made its name suing governments, holds some of the restructured Greek debt and "is not going to exit at any price other than 100 per cent", a European banker close to the talks predicted.

If the buyback programme fails, it will throw the painstakingly organised, long-delayed bailout programme for Greece into disarray again.

Christine Lagarde, the International Monetary Fund chief, made clear yesterday that she would not sign off on her organisation's next aid payment until the results of the buyback were in.

Officials said the IMF was expected to come back and demand more debt relief if the buyback fell short of its goals.

Despite the debt reduction hopes pinned on the buyback, the programme's failure might be the better option for Greece.

Financial experts said money spent on bond repurchases would be better used elsewhere, given that private sector debt has low interest payments and nothing comes due for a decade.

"People went for the easy option. More complex and more efficient solutions were essentially left aside," said the European banker. "It's wasteful in terms of official funds and inevitable that the Greek package will have to be reopened again."

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● Lex video
Lex's Stuart Kirk and Vincent Boland discuss whether Greece can ever climb out of its austerity trap and achieve the target debt-to-GDP ratio of 124 per cent
www.ft.com/lexvideo

● Blog
Another late-night Brussels meeting, though this one less shambolic than last week's. The eurogroup managed to add up some numbers on a spreadsheet and agree a Greek debt deal
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"Without fear and without favour"

Wednesday November 28 2012

Greek patient gets more life support

Eurozone must prepare for more radical steps in future

After weeks of foot-dragging, the eurozone has stumbled towards a new aid programme for Greece. The package agreed in the early hours of Tuesday morning will not be the last. But it shows Europe is starting to accept grudgingly that there is a cost to keeping Athens in the single currency.

That Athens will, at last, receive the €34.4bn it had long been promised by its partners is welcome. After the Greek government had passed a draconian programme of fiscal consolidation requested by the eurozone, it would have been unthinkable for the rest of the bloc to refuse to fulfil its side of the bargain. The cash will also help the economy: fresh capital will ease the constraints on the country's struggling banks.

There are also signs that the eurozone is coming to terms with what market participants have long recognised. Athens' public debt is unsustainable and creditors – including the official sector – will have to take further hits to put it back on the right track. The International Monetary Fund deserves credit for putting its foot down and demanding a more realistic plan.

The steps taken on the path to debt-relief are, however, still questionable. Reducing the interest rate charged on bilateral loans was hardly the best place to start: it may force countries in difficulty such as Italy and Spain to lend to Greece at a loss while Germany will still make a small profit. The maturity extensions agreed were too timid. It is doubtful whether they will give enough time for Greece to grow sufficiently to repay its debt.

The political reasons behind this cautiousness are understandable. Asking national parliaments to pass a more ambitious debt-relief programme with the prospect of Cyprus and potentially Spain being the next in line is tricky. The German national elections, scheduled for 2013, are another roadblock. It may be easier for a new German government to accept a more ambitious deal, rather than the outgoing coalition led by Chancellor Angela Merkel.

Yet the eurozone should realise that the crisis cannot be resolved without a rebalancing between creditors and debtors. The latest plan is full of slippages. In the short term, a debt buyback from the private sector may not lure in enough investors. In the long term, Greece's growth forecasts could prove overambitious. In both cases, the official sector will have to bridge the gap. This week's deal offers little more than life support to the Greek patient.

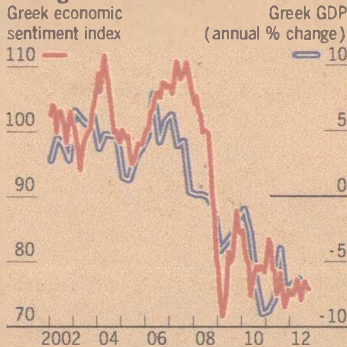
Grecian 2020

Anybody locked in a room for long enough with Jean-Claude Juncker will eventually capitulate. If Angela Merkel is the euro's banker, the prime minister of Luxembourg is its enforcer. The famously relentless Mr Juncker has triumphed once again. Greece's international creditors have finally agreed measures to reduce its debt ratio to 124 per cent of gross domestic product by 2020 and to provide more financing. Time has been bought, cans have been kicked, as usual. Once again, though, the deal has not removed the possibility of a Greek exit from the eurozone.

Forget the strings attached to the resumption of the bailout. The important thing is that if the debt ratio target is to be met, it will require a phenomenal economic turnround. Unfortunately, economic growth is the one thing that neither Mr Juncker nor anyone else – least of all the Greek government – has been able to deliver. Deutsche Bank estimates that the Greek economy in 2014 will be a fifth smaller than was envisaged by the International Monetary Fund in May 2010, when Athens got its first rescue package.

The inevitability of this week's eement is priced in – the Greek year bond yield has fallen by about a third since August. Greek bank shares fell 10 per cent yesterday, however. That sector may be the biggest casualty of the train wreck. Its enforced restructuring to create three main banking groups – which should be a positive signal to investors – has instead become an indicator of increased convertibility risk: nobody wants to buy Greek assets as long as an exit from the euro is even remotely possible.

Losing its marbles



Sources: Thomson Reuters Datastream; Deutsche Bank

Arguably, the deal represents the moment at which its eurozone partners went so far down the road with Greece that it will be easier to keep going than to turn back. Even that, however, does not reduce the likelihood that creditors will have to write off more – perhaps all – of their Greek debt. Even if the 124 per cent debt ratio is achieved, only a country with a growing economy can possibly claim to be solvent at that level. Greece, alas, is very far from solvency at any level.