Greece to Invoke New Powers to Boost Participation in Debt Swap

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Just over 80% of Greece’s private-sector creditors agreed to turn in their bonds for new ones with less than half the face value, touching off a massive debt swap that marks a seminal moment in Europe’s long-frustrated efforts to rescue its most financially vulnerable nation.

The Greek government announced the results of its proposed restructuring early Friday morning. It said 83% of bondholders had submitted to the deal. The government said it would invoke so-called collective-action clauses that will impose the exchange on the vast bulk of reluctant creditors, bringing participation up to 96%.

The announcement that the restructuring will go ahead precipitates the largest-ever sovereign-debt default and the first for a Western European country in half a century.
Greece had proposed €206 billion, or $273 billion, in bonds for the exchange. Just over €100 billion will be sliced from the amount Greece owes.

Stock markets in the U.S. and Europe rose Thursday as more creditors signed up to the exchange. While a consummated debt swap has been on the horizon for more than a week, the diminished uncertainty of a messy surprise lifted risky assets. The Italian 10-year bond, a critical barometer of euro-zone sentiment, was sharply stronger early Thursday. Markets in Asia rose Friday morning, with Tokyo up 1%. On Friday in the U.S., data on nonfarm payrolls, the jobless rate and trade deficit will be released.

The outcome of the debt exchange had been becoming increasingly clear over the past several days, but it remains a milestone for the European Union's beleaguered common currency, and for the debt crisis that began in Greece more than two years ago and has threatened the project ever since.

It is also a critical milestone for Greece, which will see some relief from its debt, and, crucially, secure more aid from Europe. But the bedraggled country is still reeling from government austerity and years of recession. Few think its economic future, at least in the near term, is any brighter.

Greece's staggering debt burden—now more than 160% of its yearly economic output—had by spring 2010 driven away the private financial markets that had been financing the country's borrowing binge. The EU stepped in with rescue loans and put Greece on a fiscal diet. Still the debt mountain grew.

European leaders insisted for more than a year that Greece wouldn't be allowed to fail and would pay back its creditors; then, last year, it became apparent that the costs of keeping it afloat were too much for the rest of the euro zone to bear.

A first proposal for a debt restructuring, in July, asked private creditors to forsake on average 10% of the face value of their holdings.

As Greece's finances deteriorated, that plan evaporated.

The restructuring now set to be executed will see Greece chop 53.5% from the face value of around €200 billion in bonds held by private creditors. Greece's other major creditors include its fellow euro-zone nations, who have lent €53 billion, the International Monetary Fund, which lent €20 billion, and the European Central Bank and other national central banks, which bought more than €50 billion of its bonds. None of those borrowings are affected by the restructuring.

Of the €206 billion in total securities in private hands, €177 billion are government bonds issued under the laws of Greece, about €10 billion are bonds issued by state-owned companies and guaranteed by Greece and €18 billion are government bonds issued under the laws of foreign jurisdictions, where Greece's reach is more limited.

Greece's laws—changed in February—permit the country to bind all Greek-law holders to the exchange with the consent of two-thirds. That threshold was easily cleared, and Greece said all €177 billion to be forced into the exchange.

Among the group who submitted was a subset of about €9 billion that took an unusual route: they declined to swap their bonds but agreed to allow Greece to force them to do so. That bit of legal gymnastics was likely employed by bondholders who also owned credit-default swaps, insurance-like contracts that pay off when a creditor suffers losses.

Those creditors needed a forced deal for the default swaps to be paid.

Of the foreign-law bonds, 69% agreed to the exchange, as did the bulk of the state-owned-company bonds. Greece said it would give those bondholders who resisted another two weeks to change their minds, but it implied it would play tough.

There are, at best, around €8 billion of bonds belonging to creditors who may challenge the exchange through courts or arbitration panels. Greece has said repeatedly it doesn't have the money to pay holdouts, and they face a difficult fight.

Several steps will follow in the coming days.
invoking the collective-action clauses to bind all Greek-law creditors; a teleconference of euro-zone finance ministers is scheduled for 2 p.m. Brussels time on Friday.

A panel convened by the International Swaps and Derivatives Association, an industry group, is responsible for deciding when the swaps are triggered. The group said early Friday that the panel would meet at 1 p.m. London time.

On Monday, the new Greek bonds will be issued for trading. Bondholders who submit to the swap—or are forced to do so—will get a package of securities including cash or high-quality short-term bonds issued by the euro-zone rescue fund valued at 15% of the face value of whatever they exchange, plus a series of Greek bonds maturing over the next 11 to 30 years valued at 31.5%. Those bonds have already begun trading in a hypothetical "gray market," said people familiar with the matter.

The new 30-year bond was quoted between 15 and 17 cents, and an 11-year bond at between 20 and 22 cents. Those levels indicate that investors think Greece will still be unlikely to meet all its obligations after the restructuring.

—Matina Stevis, Nektaria Stamouli and Costas Paris contributed to this article.