Greek Prime Minister Papademos will meet with party leaders backing his government to seek approval on reforms needed to win a $170 billion bailout and prevent a default, Stephen Fidler reports on Markets Hub.

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according to the draft.

The euro zone and the IMF, frustrated by what they say is the intransigence of Greek politicians against economic overhauls, have insisted that both the Greek governing coalition and the main opposition support the program.

Broad political support, they hope, will prevent the Greek program from running further off course, after years of Greece repeatedly missing its deficit-reduction targets.

But economists worry that the Greek economy is reaching the limits of austerity, beyond which deficit cuts harm the economy more than they bolster the government’s finances. The draft agreement sees the Greek economy contracting 4%-5% this year before growing in the first half of next year—an assumption that may prove to be optimistic as the economy responds to the new austerity policies.

European Union and IMF officials have increasingly taken this criticism to heart, easing rules on spending EU funds in Greece and pushing an aggressive debt restructuring rather than insisting on Greece repaying its debts in full.

The restructuring will see Greece’s private-sector bondholders receive new bonds with half of the face value of the old ones and maturities of as long as 30 years. The average coupon on the new bonds is likely to be less than 4%—and well below 4% through 2020.

The goal is to keep Greece’s debt below 120% of gross domestic product by 2020.

The private-sector restructuring, which will reduce Greece’s debt by around €100 billion, will get the government only part of the way there.

That is why the ECB’s participation is needed. The central bank bought its Greek bonds at a steep discount over the past two years.

The agreement, should it be supported by Greek political parties, will see the bank forgo at least some profits it would earn if these bonds were repaid at 100 cents on the euro, people familiar with the decision said.

Instead, the ECB will exchange its Greek bonds for other bonds, issued by the euro zone’s temporary bailout fund, valued at the purchase price of its Greek holdings, plus potentially some profit on top, these people said.
WSJ's Charles Forelle reports on the potentially pivotal day in Greece as the country’s leaders meet with the goal of hammering out a debt bailout deal. Photo: AP.

in Athens contributed to this article.

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The amount of profit, if any, the ECB would earn is still under discussion, they said.

—Alkman Granitsas