Chancellor Angela Merkel opened the possibility that Germany may ultimately accept a write-off of Greek debt, as policy makers this week attempt to engineer a buyback that’s crucial for Greece to receive more funding.

With Greece preparing to open bids today to repurchase bonds issued earlier this year, Merkel told Bild newspaper yesterday that euro leaders might consider writing off debt once the country has a budget surplus. Germany has until now ruled out such a scenario as violating European Union treaties.

“If Greece one day can rely once again on its own revenue, without having to borrow, then we’ll have to look at this situation and make an evaluation,” Merkel told Bild am Sonntag in an interview when asked about the prospect of debt forgiveness. It wouldn’t happen before 2014 or 2015, “if everything goes according to plan,” the chancellor said.

The shift on Greece’s mounting indebtedness, which triggered Europe’s debt crisis three years ago, signals a growing consensus that a Greek exit could doom the 17-member single currency. German lawmakers approved the latest package to alleviate Greece’s burden after Finance Minister Wolfgang Schaeuble said a default could foreshadow the euro’s collapse.

Merkel’s signal of openness to eventual debt forgiveness marks “the end of denial,” Carsten Brzeski, an economist for ING Groep in Brussels who, said in a phone interview. “It’s definitely a shift, but on the other hand, it’s obvious,” said Brzeski, who called an eventual debt writedown inevitable.

Extra Time

Last week’s agreement by European finance ministers to give Greece more time to meet its debt targets helped ease concerns over the crisis. Spanish 10-year bonds posted a third monthly gain, with yields sliding last week to 5.3 percent from 5.6 percent. The euro rose almost 2 percent in two weeks.

EU finance ministers will meet again in Brussels today as Greece starts the repurchase operation. The offer period will end Dec. 7, though could re-open for one or two days, according to Kathimerini newspaper. Euro ministers will evaluate the results of the measure on Dec. 10, it reported.

The buyback, financed from an earmarked 10 billion euros ($13 billion) from the current rescue package, lies at the center of new measures aimed at helping scale back Greece’s debt load to a level policy makers consider sustainable: 124 percent of gross domestic product by 2020, down from a projected 144 percent if policy makers hadn’t acted.

The complex repurchase measure accounts for 11 percentage points, or more than half, of that drop, according to a letter Schaeuble wrote to German lawmakers Nov. 28. Should it fail, Greece’s creditors will have to go back to the negotiating table and try something else, Schaeuble said last week.

New Bonds

What constitutes sustainable debt has spawned tension between the EU and the International Monetary Fund. IMF Managing Director Christine Lagarde, who has taken a harder line on the 2020 target, said the fund’s contribution to the next aid tranche will hinge on the success of the buyback.

The repurchase will target about 62 billion euros of new bonds issued as part of a swap of privately held debt earlier this year, the biggest debt restructuring in history, according to a draft troika report. Greek banks hold some 15 billion euros of those bonds, while the country’s pension funds hold 8 billion euros.

The success of the measure, considered risky because of bondholders’ reluctance to part with securities they might be able to hold to maturity, could rest with cajoling Greek banks to participate, ING’s Brzeski said. Greek Finance Minister Yannis
Stournaras has called the repurchase voluntary.

‘Peer Pressure’

“It can only work if there is some kind of peer pressure on the Greek banks,” Brzeski said, estimating that that alone could take 20 billion euros in Greek debt off the market.

The amount to be raised has been left open, giving an element of leeway for euro policy makers and freeing them to fill in the blanks after the buyback ends. European Union Economic and Monetary Affairs Commissioner Olli Rehn told reporters in New York on Nov. 30 that he was refraining from giving an “explicit target figure” for the repurchase.

While Greece has gotten pledges for 240 billion euros of aid, the funds have been frozen since June as the government tries to get its bailout program back on track after it was disrupted by two elections and a deepening recession.

The efforts to wrest Greece from collapse is part of a move toward moderation among leaders in northern Europe who earlier led a drive of austerity measures and often flirted with the prospect of expelling the country. Merkel’s visit to Athens in October ushered in a period of detente.

“The idea that Greece would have to leave the euro against its will would still cost us much more money than the path we’ve chosen -- and cause great harm to our economy,” Merkel told Bild in yesterday’s interview. “We need to avoid all this uncertainty.”

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