(BN) Greece Begins Buyback as Merkel Floats Writeoff Prospect (2
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(Updates prices in 10th paragraph. See TOP CRIS for more on Europe's debt crisis.)

By Maria Petrakis and Emma Charlton

Dec. 3 (Bloomberg) -- Greece offered 10 billion euros ($13 billion) to buy back bonds issued earlier this year as the bailed-out nation attempts to cut a debt load that may threaten future international aid.

Greek bonds rallied after the so-called modified Dutch auction was announced today by the Athens-based Public Debt Management Agency. The prices offered for bonds maturing from 2023 to 2042 averaged 33.1 percent of face value, based on information in a statement from the debt agency today, higher than euro-area finance ministers indicated would be paid. The offer runs until 5 p.m. London time on Dec. 7.

Success is crucial to releasing aid that's been frozen since June. The offer was part of a package of measures approved by the finance ministers last week to cut the nation's debt to 124 percent of gross domestic product in 2020 from a projected 190 percent in 2014. The 10 billion-euro buyback may enable Greece to retire about 30 billion euros of debt, Citigroup strategist Valentin Marinov wrote in a comment.

The average price "is higher than previously published or announced," said Spyros Politis, chief executive officer of Athens-based TT-ELTA AEDAK, which oversees about 300 million euros of assets and owns Greek government debt. "At the moment it looks as if it will be successful, or if they miss the target, they will miss it by a small margin. Anything that reduces the overall debt burden is good."

Higher Prices

The bid to ease Greece's debt burden underscores a move away from austerity-first measures European leaders have embraced since the financial crisis began in 2009. German Chancellor Angela Merkel yesterday opened the possibility that Germany may ultimately accept a write-off of Greek debt, previously a taboo in the biggest contributor to euro bailouts.

In the Dutch auction, investors will be able to specify the price, within a set range, at which they are willing to sell the securities. The Greek debt agency offered an average maximum purchase price for bonds maturing from 2023 to 2042 of 34.1 percent of face value and an average minimum of 32.1 percent, based on information in the statement.

The prospects for a successful buyback may have improved after the government set the prices above the level of Nov. 23, which euro-area finance ministers had said would be the maximum. The average price across maturities that day was 28.1 percent of face value, Royal Bank of Scotland Group Plc analysts said in a note today.

Hedge Funds

The buyback is aimed at the 62 billion euros of new bonds issued when Greece restructured its privately held debt in March. Greek banks hold about 15 billion euros of the bonds, while the country's pension funds have 8 billion euros, according to a Nov. 27 draft report by the troika of the European Commission, European Central Bank and International Monetary Fund. Hedge funds hold as much as 22 billion euros, Nomura analysts Dimitris Drakopoulos and Lefteris Farmakis estimated in a Nov. 30 report.

Hedge funds with Greek bonds include Dan Loeb's Third Point LLC and Louis Bacon's Moore Capital Management LLC, according to letters to investors and a person with knowledge of the matter who asked not to be identified because the firms are private.

Greek bonds rose for a third day, pushing the 10-year yield below 15 percent for the first time since the nation's debt was restructured in March. The price has more than doubled since a post-restructuring low of 13.3 percent on May 31.

The yield on the 2 percent securities maturing in February 2023 fell 120 basis points, or 1.2 percentage points, to 14.93 percent at 4:21 p.m. London time, raising the price to 38.45 percent of face value.

'Right Direction'

Investors who join the buyback will receive payment in six- month bills from the European Financial Stability Facility, the Greek debt agency said.

The buyback is "going in the right direction," Luxembourg Finance Minister Luc Frieden told reporters before a meeting of euro-area finance ministers in Brussels today.

The IMF set the 2020 debt-cut target as a condition for continuing to fund a third of Greece's bailout program. IMF Managing Director Christine Lagarde said after the euro-area finance ministers' meeting that the fund will examine the results of the buyback before deciding whether to approve disbursement of additional aid.

The buyback accounts for 11 percentage points, or more than half of the 20 percentage points of the planned drop.

'Debt Relief'

The buyback is "symptomatic of the half-rescues which have characterized euro-zone policy makers' response to the Greek crisis," Nicholas Spiro, managing director of Spiro Sovereign Strategy in London, said in an e-mail. The latest fix fails "to address the core of the problem: the pressing need for large- scale official sector debt relief to help secure Greece's membership of the euro zone."

While Greece has gotten pledges for 240 billion euros of aid, the funds have been blocked 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 Bank of Greece, the nation's central bank, said today it expects the economy to return to growth in 2014, and warned that any delay in implementing economic reforms and budget measures could threaten that forecast.

"Exiting these Greek PSI bonds makes sense given the remaining considerable execution risks in the Greek program which we think will challenge Greece's political stability in 2013," Royal Bank of Scotland wrote in a note today.

Finance ministers plan to make a formal decision on Greece's 34.4 billion-euro disbursement by Dec. 13. Deutsche Bank AG and Morgan Stanley International were appointed to manage the buyback, according to the PDMA.

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