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Berlin is reluctant to play the rescuer

Official suggests Greece look to I.M.F. if it can't solve its debt problems

BY MATTHEW SALTMARSH
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The burden for resolving Greece's financial crisis appeared to shift Thursday toward the International Monetary Fund as Germany distanced itself from supporting bilateral or European aid to the heavily indebted country.

Citing legal hurdles, a government official in Berlin said Thursday that Germany believed that any external financial support to Athens, if needed, would best be provided by the I.M.F.

"In the case that the Greeks get into really serious problems, we would support an I.M.F. solution," said the official, who was not authorized to speak publicly on the matter.

Amid the uncertainty, the euro slipped against the dollar and was quoted at $1.3621 in New York afternoon trading, down from $1.3741 early in the session. European stocks also wilted. The Athens Stock Exchange General Index ended 3.3 percent lower.

Germany is the euro area's largest economy, so Berlin's view on a bailout or other form of debt workout is pivotal.

European governments, including those of France and Germany, had previously signaled that any rescue of Greece, which has been punished by financial markets as a result of its surging deficit, would best be provided from within the euro area.

Berlin initially appeared reluctant to call on the I.M.F., preferring to resolve the matter within the currency bloc — even though some financial officials, like Jürgen Stark, a member of the executive board of the European Central Bank, had signaled their preference for an outside solution.

Since the euro's inception in 1999, no member has sought support from the I.M.F., which nevertheless helped to bail out a number of East European economies at the height of the recent crisis.

An official from one of Germany's euro-area partners said Greece might not be able to borrow enough money from the I.M.F. to finance its requirements, given that any loan would probably be limited to a multiple of the modest quota that Athens holds in the Washington-based institution.

Berlin's about-face on aid to Greece has left some of its European partners scratching their heads about Germany's intentions.

Daniel Gros, director of the Center for European Policy Studies in Brussels, said the change of heart had been prompted by two factors.

"The first is that this is for the domestic audience," he said, referring to sentiment among many Germans that Greece should not be bailed out with their money.

"The second is that the strategy the Germans had in mind didn't work," Mr. Gros said. "The idea was that the mere political offer of support would be enough" to bolster investor confidence in Greek bonds.

Though this succeeded from a German perspective, it has not satisfied Greece, Mr. Gros said.

The Greek government has been pushing for more clarity on what its European neighbors will do in the hope of bringing down its borrowing costs, which have

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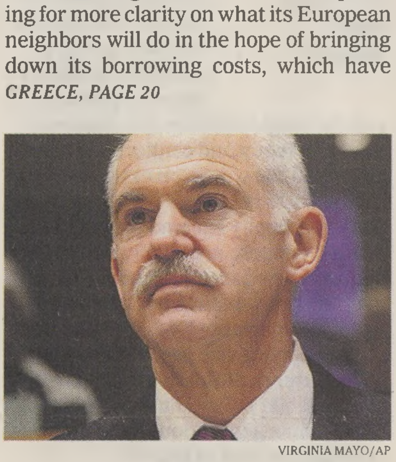

VIRGINIA MAYO/AP

Mr. Papandreou asked Europe on Thursday to tell markets, "Hands off, no speculation."

Berlin suggests that Greece look to I.M.F.

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risen as Greece's debt troubles have become more acute. The yield on Greece's benchmark 10-year bonds rose Thursday to 6.265 percent — a spread, or differential, of 3.14 percentage points over comparable German bonds, the European benchmark for safety.

While Berlin believes that Athens can live with the level of interest it is paying on its bonds — and that is not on the verge of a default — the Greek government thinks it should not have to pay so much to borrow, now that it has agreed to measures that are designed to cut its budget deficit to 8.7 percent of gross domestic product.

"The more the Greeks push for something concrete, the more they run into this brick wall," Mr. Gros added.

Greece, meanwhile, has sought to leave its options open, while expressing frustration at the lack of a solid proposal from its E.U. partners.

Speaking to reporters after meeting E.U. lawmakers in Brussels, Prime Minister George A. Papandreou warned that the government would be hampered in its attempts to enact deficit cuts if the country is unable borrow money more inexpensively.

An offer of E.U. aid "would be enough to tell the markets: hands off, no speculation, let this country do what it's doing, let it in peace to be able to move ahead," he said.

YIORGOS KARAHALIS/REUTERS

STRIKE IN ATHENS **Taxi drivers and gas station owners struck Thursday to protest laws mandating receipts, which will make tax evasion harder.**

If Athens relies on financing from the markets at high interest rates, "that undermines the actual measures that you are taking," Mr. Papandreou said. "That money then goes to the interest of those who are loaning to you rather than the implementation of a program."

The Greek prime minister said that he still hoped for a positive response from Greece's neighbors at an E.U. leaders' summit meeting next week in Brussels.

"We have kept all options open," he said.

Speaking in Washington, Caroline Atkinson, the I.M.F.'s director of external relations, said Thursday that the fund had not yet been approached by Athens.

"We expect the euro-zone countries to want to and to plan to resolve this question by themselves," she said. She added that the I.M.F. was ready to respond to a request from Greece for a loan.

Amadeu Altafaj, the European Commission spokesman on economic and monetary affairs, said that there had been no change in the situation since Monday, when finance ministers of the 16 countries that use the euro announced they had agreed in principle on a rescue mechanism for Greece, if one proved to be necessary.

"We are working on a European framework for a coordinated solution if needed," he said.

As a reason for Germany's apparent change of position, the German official pointed to Article 125 of the European Union's governing treaty, which states that the European Union or individual members should not be liable for or assume the commitments of governments.

The official added that Berlin still believed it was "very unlikely" that Athens would need to turn to the I.M.F.

Still, the drip feeding of announcements from Berlin has left some politicians in Europe cold.

"I find what has happened, or rather what has not happened over the past few days and weeks, incomprehensible," said Guy Verhofstadt, the former Belgian prime minister and the current president of the Liberal Democratic bloc in the European Parliament. "It is incomprehensible because it is precisely a European response that is the quickest and least costly solution."

"The more the Greeks push for something concrete, the more they run into this brick wall."

Officials in the German Finance Ministry also appeared to be unaware of their government's shift in stance. Financial officials in other euro-zone countries were similarly baffled.

"The signals that one gets out of Germany have varied considerably," said an official from another euro-area country, who was not permitted to speak publicly. "I fail to see what their line is."

The official said the assumption among euro-area finance ministries is that Greece might require about €25 billion, or $34 billion, to cover near-term liabilities. Athens needs to borrow €53 billion in financial markets this year and must refinance around €20 billion of debt in April and May — at interest rates likely to be high.

The official added that Greece would probably be able to borrow between $12 billion and $14 billion from the I.M.F., assuming the same model used in recent rescues. For example, in 2009 the fund loaned Romania €13 billion, which was about 1,100 percent of that country's quota at the fund. Greece holds just 0.38 percent of the fund's quota, which is expressed as 823 million of the fund's own unit of currency — Special Drawing Rights — each worth $1.53.

The official said other multilateral lenders like the World Bank or the European Investment Bank would not be in a position to lend Greece €10 billion or more. That would mean that the European Union — and Germany — might have to support Greece in any event, perhaps alongside the I.M.F.

He also said that legal impediments to E.U. support did not appear to be insurmountable, although some euro members might need to change national rules.

"We know how we could do it," he said.

Matthew Saltmarsh reported from Paris and Stephen Castle from Brussels.