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As Europe delays, Athens feels heat

Greek banks seek billions from government to buy time as uncertainty grows

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With investors becoming increasingly worried about the failure so far of European officials to agree on the terms for loans to Greece, the main banks in Athens added another concern Wednesday by turning to the Greek government for more financial support.

The continuing uncertainty over Greece's ability to refinance its heavy debt load pushed its 10-year bond yields above 7 percent, while the country's stock market slumped and the euro came under renewed pressure.

The finance minister, George Papaconstantinou, said Greek banks had asked for permission to receive some of the €17 billion, or $22.7 billion, remaining in a €28 billion state support package first agreed upon in 2008 under the previous conservative administration.

"The banks want to have additional security, now that the economy and the banking system are under pressure," Mr. Papaconstantinou said. He added that his government was "discussing with the Bank of Greece a procedure to distribute the funds."

Greek banks have become more reliant on the European Central Bank in Frankfurt and the Athens government, having been effectively pushed out of the interbank market, where banks lend to one another, amid investor fears about their ability to repay.

A senior financial regulator in Athens said the announcement by the finance minister, on top of a pledge of support from the E.C.B. last month, would help give Greek banks some breathing space.

"We are quite relaxed about the funding situation until next year," said the official, who was not permitted to comment on the matter publicly. "Beyond that, we don't have visibility."

He said Greek banks would now have access to more than €15 billion from the government, mainly in the form of guarantees on bonds issued by the banks.

But the developments, which came the day after Greece said it would revise its budget deficit figures slightly upward from the 12.7 percent of gross domestic product reported for last year, did little to reassure investors. They continued to sell Greek assets Wednesday, perhaps testing the willingness of euro-zone governments to follow through with their pledge of support to Athens.

Analysts said confidence in Greek bonds would probably not return until details of the European assistance package, which is to be carried out in conjunction with the International Monetary Fund, were set and the funds were ready to be deployed.

"There's a suspicion among investors," said Stephen J. Lewis, director of research at Monument Securities in London, "that the agreement was not genuine and that it was designed to fob off the market and buy everyone time."

"The haggling over the details in Europe is causing some concern," he added. "When that's over, there will then be squabbling between the I.M.F. and the Europeans over who sets the conditions. So there is still a great deal of uncertainty."

The yield on the Greek government's benchmark 10-year bond soared to 7.156 percent from 6.973 percent Tuesday. The spread, or interest rate gap, over comparable German bonds rose to 4.04 percentage points from 3.73 points Tuesday, a reflection of the growing concerns about holding Greek debt.

Shares in Greek banks slid in Athens. Emporiki Bank, controlled by Crédit Agricole of France, closed down 2 percent; Geniki Bank, in which Société Générale

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Pressure builds on Athens amid aid uncertainty

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of France has a majority interest, was off 3.2 percent; and National Bank of Greece slid 4.2 percent. The Athens composite share index fell 61.11 points, or 3 percent, to close at 1,987.58 points.

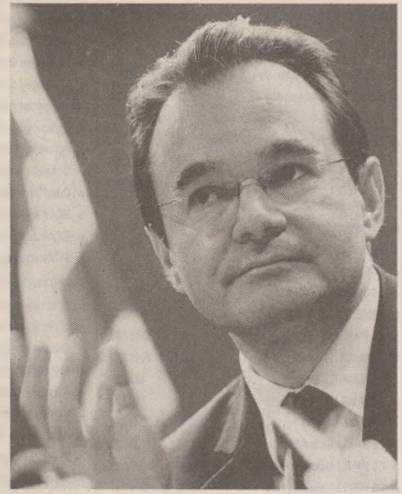
The euro fell to $1.3365 in afternoon trading in New York from $1.3399 late Tuesday.

Immediately after his announcement on the banks, Mr. Papaconstantinou joined I.M.F. officials for technical talks on his government's efforts to cut public spending and push through structural changes to bring the budget deficit down to 8.7 percent of G.D.P. this year.

A ministry spokeswoman, Filio Lanara, said the officials examined a draft law aimed at curbing rampant tax evasion but did not call for austerity measures over and above the public sector salary cuts and tax increases heralded last month that are aimed at saving some €4.8 billion this year.

Separately, in Brussels, the European Council's president, Herman Van Rompuy, repeated the promise of financial help, telling European lawmakers in a speech that E.U. countries "stand ready" to give bilateral loans. The Council represents E.U. member states.

But behind the scenes, European governments are still debating the terms of their rescue package for Greece.



VIRGINIA MAYO/AP

George Papaconstantinou, the Greek finance chief, said the banks sought security.

Officials from euro-area countries will discuss the details again late Thursday to set the groundwork for a possible political agreement by ministers at an informal meeting in Madrid on April 16.

Germany has drawn a particularly tough line, insisting that lending should be close to recent market rates, at 6 percent to 6.5 percent, to discourage other countries from following the Greek example.

One euro-area official involved in the talks, who spoke on the condition of anonymity because he was not authorized to comment publicly, said that Berlin's current position was largely aimed at placating German domestic opposition to bailing out Greece. For that reason, it does not necessarily represent Germany's ultimate stance, which may well soften.

He said the final interest rate for loans from European countries could end up closer to 4.5 percent.

The assumption among European officials is that the I.M.F. would offer Greece around €10 billion to €11 billion, about 12 times Greece's quota at the fund, while the rest would come from Europe.

The rate the I.M.F. currently charges what it calls high-access borrowers, of which Greece would be one, is 3.25 percent, plus surcharges over three years, according to an I.M.F. official. The rate rises to 4.25 percent after three years.

The European and I.M.F. programs would be based on similar macroeconomic assumptions, officials said, which would mean the I.M.F. would have to negotiate with European officials before any joint announcement is made.

The ideal place for such an announcement would probably be the spring meetings of the I.M.F.-World Bank and Group of 20 finance ministers in Washington at the end of this month.

As for the Greek banks, they were at risk of losing access to funds from the European Central Bank until it signaled last month that it would hold off tightening lending rules until at least 2011, a change aimed at helping Greek banks in particular.

Given the official financing channels, "the major banks here don't face huge urgency in respect to the liquidity issue," said Anthony Christofidis, a research director at ATE Securities in Athens. But he noted that the state guarantees on Greek bonds held less value the more that the yields on Greek bonds rose.

"With the interbank channels closed, it is increasingly important what the E.C.B. says and does," Mr. Christofidis said.

More details of the changes will be announced at the E.C.B.'s governing council meeting Thursday.

Matthew Saltmarsh reported from Paris and Niki Kitsantonis from Athens.