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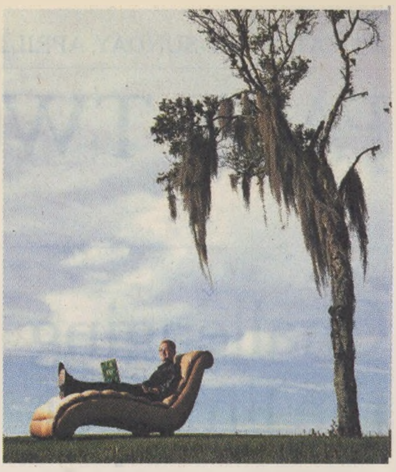

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Greece asks for aid for its 'sinking ship'

ATHENS

E.U. and I.M.F. funds sought as austerity plans fail to persuade markets

BY NIKI KITSANTONIS
AND MATTHEW SALTMARSH

Describing his country's economy as "a sinking ship," Greece's prime minister formally requested Friday an international bailout, testing the solidarity of the European Union as never before.

"We drew up a plan, we took difficult and painful measures," Prime Minister George A. Papandreou said in a nationally televised address. "But the markets did not respond."

Worries about Greece's runaway debt — its budget deficit last year added an estimated 13.6 percent of gross domestic product to an overall debt that already exceeded 100 percent of G.D.P. — have pushed interest rates on Greek bonds above those of emerging countries like India and the Philippines that are generally considered riskier.

Many investors are convinced that Athens, facing years of fiscal austerity and potential economic stagnation, will ultimately be required to reschedule its debts and renegotiate terms with lenders, a step short of a full default.

"This clearly buys Greece quite a lot of time," said Julian Callow, chief economist at Barclays Capital in London.

But further out, Mr. Callow added, perhaps beyond 2011, "this doesn't rule out some kind of rescheduling."

That would involve negotiations with banks and bondholders in which Athens might try to reduce its obligations or push repayments further into the future.

The urgency in the Greek request was suggested from the fact that Mr. Papandreou was speaking from the Aegean island of Megisti rather than the capital. "The time has come for us to ask our partners in the E.U. to activate the mechanism we formulated together."

He was referring to an emergency aid package arranged two weeks ago in Brussels. The plan foresees up to €30 billion, or $40 billion, in loans from Greece's euro-zone partners, and up to €15 billion from the International Monetary Fund.

The activation of the E.U.-I.M.F. rescue plan, Mr. Papandreou said, "will send a strong message to the markets that the E.U. is not playing their game and will not leave its currency at risk."

The announcement means that money from the I.M.F. can be released

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Burdened by debt

The fiscal troubles of euro-zone members like Greece have contributed to the decline of the euro versus the dollar in recent months.

Source: Bloomberg

Greek prime minister formally requests a bailout for its 'sinking ship'

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once the board of the fund has approved the terms.

"We are prepared to move expeditiously on this request," Dominique Strauss-Kahn, the I.M.F. managing director, said in a statement issued in Washington, where a meeting of the Group of 20 finance ministers is taking place.

The loans pledged by Greece's euro-zone partners are still awaiting approval by legislators in some countries. That includes Germany, which has the euro-area's most important economy. Athens may end up receiving its money in bits and pieces from its partners rather than in a single check, said an E.U. official, who was not permitted to speak publicly.

The idea of bailing out Greece has been highly unpopular with German voters and may still face a legal challenge before that country's Constitutional Court.

But the Finance Ministry in Berlin said the German government was "ready to act" to clear the way in Parliament.

"We in Germany are pledged to solidarity and we will show it," Michael Offer, a spokesman for the Finance Ministry, said. "We're doing this to stabilize the euro, which means it's also in our own national interest."

French and German banks are among the biggest holders of Greece's sovereign debt, and a default would weigh heavily on their balance sheets.

Still, with an important regional election approaching at home, Chancellor Angela Merkel said that the aid would be granted only after Greece had negotiated a new austerity program with the Union, the European Central Bank and the I.M.F. — and after they had determined that Greece had no other options.

Those talks began this week in Athens and are expected to conclude in a matter of days.

"Only when these steps have been taken can we talk about aid as well as the kind of aid and amounts," she said in Berlin. "It is not direct help from the government budget, but rather guarantees."

Mr. Papandreou did not mention any new budget cuts in his speech. The government has already implemented two austerity packages aimed at cutting spending and increasing revenue, which have fueled unrest from unions.

Greece has near-term financing pressures. It requires up to €10 billion in May to cover redemptions, coupon payments and its primary government deficit, according to investors.

The Greek finance minister, George Papaconstantinou, insisted that the money would be there, "without a doubt," and that Athens would be able to repay bonds coming due on May 19.

"Greece will have no borrowing problems on May 19," he said in Athens before leaving for Washington.

The yield on benchmark 10-year Greek government bonds initially fell to 8.1 percent Friday after the reports, before rising again to 8.7 percent. On Thursday, it touched a new high of close to 9 percent.

The euro rose against the dollar after briefly touching the lowest point in a year early in the day, but then dipped again amid uncertainty over the timing of the aid.

The Athens composite share closed down 0.2 percent, reversing early gains of almost 4 percent.

More broadly, some investors fear that the Greek crisis has opened fault lines for the currency bloc that might be difficult to close.

"At some stage the euro area will arrive at a fork in the road," said Gerard Lyons, chief economist at Standard Chartered Bank in London, "as some economies are structurally different to others."

For Greece, Spain, Italy, Ireland and Portugal, the financial crisis has highlighted the constraints of euro membership. Unable to devalue their currencies to help regain industrial competitiveness, and impelled by E.U. fiscal agreements to meet certain budget targets, they are facing years of belt-tightening just when their economies could use a lift from additional spending.

Other countries like Germany, the Netherlands and Austria have kept deficits down while retaining an edge in global markets, in part of by restraining domestic wage increases. France lies somewhere between the two camps.

Mr. Lyons said the long-term choices for the euro area appeared stark: either push on toward a political union, handing budgetary power to a central authority, or form a "two-speed" block.

Marco Annunziata, chief economist at UniCredit Group, said Greece "should get some benefit of doubt as the I.M.F. program gets under way."

He added that markets "will remain nervous and will most likely require to see several months of track record of successful adjustment before becoming more confident that debt sustainability is within reach and a restructuring can be avoided."

The bailout package has raised a host of technical as well as political issues for the euro area, because the euro's founding treaties insisted that no such step could be taken.

Berlin will raise its share of the money on the markets through KfW, the state development bank. Guarantees for those loans require approval by lawmakers.

In France, which is making the next-biggest contribution, the government has revised its 2010 budget to authorize a loan of up to €6.3 billion this year. French lawmakers will discuss the contribution next month.

"The process is under way," the French economy minister, Christine Lagarde, said in Washington. "Everybody has to do their homework now."

Matthew Saltmarsh reported from Paris. James Kanter contributed from Brussels and Jack Ewing from Frankfurt.