

# Portugal urged to pass austerity plan

EU leaders warn amid risk of chaos

Lisbon works to show unified front

By Peter Spiegel and Joshua Chaffin in Brussels

Portugal's seemingly inexorable slide into an orderly bail-out threatened to become a drawn-out and potentially chaotic process as European leaders warned that Lisbon must pass the recently rejected austerity package before they would consider providing rescue loans.

Meeting at a summit in Brussels, heads of governments and senior European Union officials both warned

that Portugal was entering weeks of political uncertainty that might leave the country without the ability to act on the new EU-backed budget measures or to request an international aid package.

"For them to ask the stability fund to intervene, they need to have the willingness and preparedness to bring a new austerity package to parliament," said Mark Rutte, the Dutch prime minister. "That will always be a prerequisite for European help."

Portuguese officials in Lisbon and Brussels, where both José Sócrates, the prime minister, and Pedro Passos Coelho, opposition leader, travelled to meet their EU counterparts,

attempted to present a confident front, with the prime minister and his likely election opponent insisting they both would be able to guide the country through the current crisis without resorting to a bail-out.

"It's impossible to answer that question," Mr Passos Coelho said at a meeting of centre-right leaders ahead of the summit, when asked if the country was headed for a bail-out.

"I hope that Portugal will be free of a bail-out," Mr Sócrates told reporters that his concern was to defend "Portugal, the European project and the euro".

The reception for the Portuguese leaders was not entirely sympathetic, with some officials frustrated

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that Lisbon allowed a domestic political squabble to overshadow the EU's efforts to shore up the eurozone's periphery. The summit was expected to focus on a so-called "grand bargain" of measures to restore stability to Europe's debt-ridden countries.

The two sides agree on debt and deficit targets set by the EU and the collapse was largely caused by sniping over how the austerity pact was put together. "It is a cynical ploy by Sócrates and the other leaders see that," said an EU diplomat.

But the Portuguese political unrest not only threatened to undermine those efforts, it also highlighted growing political instability throughout the eurozone. In

the bloc's prosperous and less-indebted north, voters have become more resistant to calls from Brussels for increased mutual aid. In the debt-laden weaker economies on the eurozone's periphery, governments are struggling to implement austerity measures.

Although a bailout for Portugal could be months away, David Cameron, prime minister, came under pressure from party colleagues over Britain's potential contribution.

Philip Hollobone, a Tory MP, argued the whole point of Britain staying out of the euro "was to avoid bailing out countries like Portugal". "It's going to cost us all a huge amount of money if we have to step in to bail-

out Europe's dodgy economies," he warned.

Mr Cameron said it "would not be right" to speculate on any EU financial support for Lisbon.

Brussels had one of its biggest anti-austerity demonstrations in recent memory. Police put the number of demonstrators at 12,000; organisers said it was closer to 20,000. "There was a negative vote in the parliament but now let's give the time to the Portuguese government, the Portuguese authorities, the Portuguese democracy to solve these issues," said José Manuel Barroso, European Commission president.

Additional reporting by Jan Cienski and Alex Barker

## Former Ukraine president on death charge

By Roman Olearchyk in Kiev

Ukrainian prosecutors have formally charged Iurii Kuchma, former president, in connection with the murder in 2000 of a journalist.

Prosecutors refused to say, however, whether Mr Kuchma will be accused of ordering the murder of Georgy Gongadze or with playing an indirect role in his death.

"Investigators have today charged Kuchma... on exceeding authority, which led to the death of Mr Gongadze," Yuriy Boychenko, a spokesman for the prosecutor's office, told the Financial Times. "This is the preliminary charge. Further investigation is ahead. It is too early to say what the final charges will be."

Mr Kuchma, who was president from 1994-2005, and senior officials in his administration have been accused of involvement in Gongadze's abduction and murder. The journalist's headless body was discovered in a shallow grave not far from Kiev, the capital. Many observers in and outside Ukraine have accused the authorities of conducting a cover-up.

Prosecutors announced on Tuesday, for the first time in the investigation, that Mr Kuchma was a suspect in the case.

Critics said investigators under Viktor Yanukovich, Ukraine's president, who rose up the political ranks under Mr Kuchma, were bringing the charges with no intention of obtaining a conviction.

Mr Kuchma has repeatedly denied involvement in the murder of Gongadze, whose reporting was highly critical of the former president. "I have been charged," Mr Kuchma said on Thursday as he emerged from the prosecutor's office, where he was questioned for a second consecutive day. Asked what the charges entailed, he said: "I have not read [the charges] from the beginning to the end."

Investigators said last year that they had amassed evidence to link former high-ranking law enforcement officials in Mr Kuchma's administration to the murder, including an ex-interior minister who was found dead in 2005 with two gunshot wounds to the head. Mr Kuchma was allegedly implicated in the murder by secret audio recordings released by a presidential bodyguard. A senior prosecutor said on Tuesday that the recordings were considered "material evidence".

Three police officers were convicted in 2008 of taking part in Gongadze's murder. A court granted them reduced 12- to 13-year prison terms in return for their co-operation.

Investigators said they were now trying to prove which senior officials might have given orders to carry out the crime.

## Political vacuum increases pressure

Elections

An early poll is seen as the only way to prevent Portugal having to seek a financial rescue, writes Peter Wise

The collapse of the Lisbon government means it could be months before Portugal can implement fresh austerity measures or appeal for an international bail-out.

José Sócrates, the outgoing prime minister, who resigned on Wednesday, and Pedro Passos Coelho, leader of the centre-right Social Democrats (PSD), the main opposition party, both say an early election is the only way to resolve the crisis.

But under Portugal's constitution, an election could not take place for at least two months and the new government would not be sworn in until several weeks later. Some economists fear Portugal will need to turn to the European financial stability facility, the EU's bail-out fund, before then. "It is hardly likely that Portugal will manage without external support up to new elections," Christoph Weil, an economist with Commerzbank, said in a report on Thursday.

"Lisbon has to pay back €5bn in debt in mid-April and will probably not be able to borrow these funds at acceptable conditions on the capital market."

Portugal's borrowing costs hit new euro-era highs again on Thursday amid growing fears that the uncertainty created by the fall of the minority Socialist government would push the country into a financial rescue.

Lisbon economists said a failure by European Union leaders to produce a comprehensive solution to the eurozone debt crisis at their summit in Brussels could add to market

pressures on Portugal's cost of borrowing, already at levels widely considered unsustainable.

But if, as the outgoing government warns, a rudderless Portugal finds it increasingly difficult to finance its debt in the market, the vacuum created by the crisis has left no one in Lisbon with the political authority to negotiate a bail-out with the EU and the International Monetary Fund. Agreeing on a rescue deal before an election would also raise questions of political credibility.

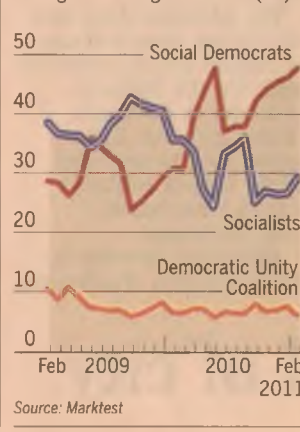
"Any bail-out package agreed before voters have had their say risks lacking the popular legitimacy required to implement it," said Kevin Dunning, an analyst with the Economist Intelligence Unit.

Anibal Cavaco Silva, Portugal's conservative president, will today meet political parties in an effort to dispel the uncertainties. He is first expected to sound out the possibility of forming a "grand alliance" between Portugal's main political parties, without dissolving parliament. But

"It is hardly likely that Portugal will manage without external support up to new elections"

Changing hands

Portuguese voting intentions (%)



Source: Marktest

deep antagonisms between the outgoing Socialists and the PSD make this improbable.

The president also has the option of appointing a non-party political "technical government" to manage the country until an election. But political leaders believe he will call an early poll, keeping Mr Sócrates in office in a caretaker capacity in the meantime.

Mr Passos Coelho, whose refusal to back the European Commission-backed austerity measures brought down the government, says he is strongly committed to the same deficit-reduction goals as the Socialists, but plans to achieve them in a way that "spreads the sacrifices more fairly".

Party officials said on Thursday that a PSD government would consider increasing value added tax, already at 23 per cent, as an alternative to a special tax on pensions proposed by the Socialists. Unconfirmed reports suggested a PSD government might also have 10 or 11 ministers instead of the current 16, as part of a crackdown on government spending.

The party has also indicated it would shelve big state infrastructure projects such as a high-speed rail line.

The PSD has enjoyed a lead in opinion polls for several months with about 35 to 45 per cent of voting intentions, but it has rarely reached the threshold needed to win an absolute majority.

However, Mr Passos Coelho has made clear he would seek to govern in a coalition with the small conservative Popular party.

The Socialists have recently polled about 25 to 30 per cent of voting intentions. But political analysts said the party's election machine should not be underestimated. Mr Sócrates has said he will stand for re-election to a third term as prime minister.

### Europe divided by austerity

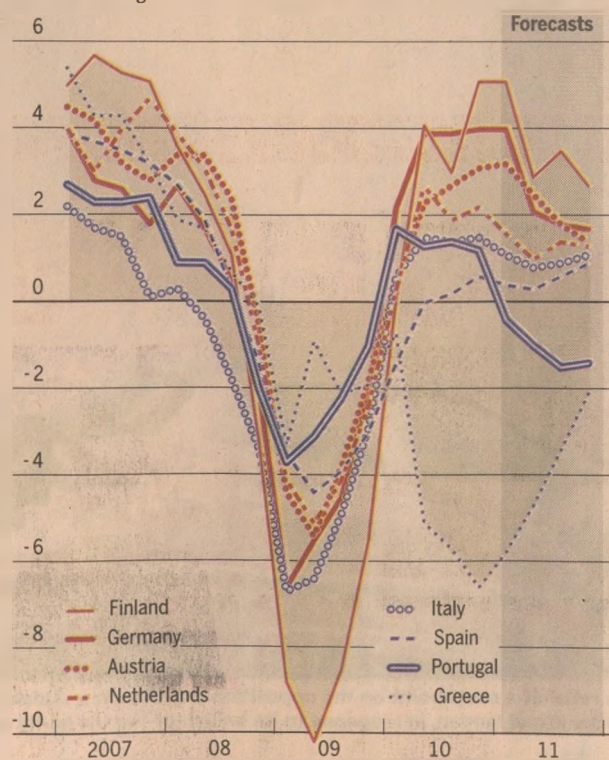


A police cordon during a demonstration in Brussels on Thursday. Photo: Getty Images

### North European nations are enjoying faster growth...

GDP growth

Annual % change



### ...while the south struggles with deficits

Public budget deficit forecasts for 2011

As % of GDP

Finland 1.6%

Germany 2.7%

Austria 3.6%

Netherlands 3.9%

Italy 4.3%

Portugal 4.9%

Spain 6.4%

Greece 7.4%

Sources: Thomson Reuters Datastream; Consensus Economics; Oxford Economics; European Commission, Autumn forecasts

## Public mood swing turns CDU election strategy on its head

By Quentin Peel in Stuttgart

"We're not rich, but we are content," says Ralf Eggert, mayor of Gaildorf, a picturesque little town in the heart of the Swabian forest, in Germany's wealthy south-western state of Baden-Württemberg.

He is talking about several hundred solid citizens who turned out in a sports hall last week to applaud the campaign speech of Stefan Mappus, the Christian Democrat state premier.

Yet in spite of all appearances to the contrary, a revolution is brewing in the most successful state in Germany. After almost six decades of conservative government, the citizens of Baden-Württemberg seem set to elect a centre-left "red-green" alternative.

Mr Eggert is clearly not speaking for the noisy bunch of drum-banging demonstrators at the door, demanding the closure of all nuclear power stations, the scrapping of plans to dig a high-speed rail line

under the nearby city of Stuttgart and the introduction of a minimum wage.

The poll in Baden-Württemberg is a thoroughly German, provincial affair. But the consequences of an upset are huge, domestically and internationally. It could precipitate political turmoil in Berlin.

If the ruling Christian Democratic Union, headed by Angela Merkel, lost power in the state on Sunday, it would be a humiliating blow to her position as chancellor. Her supporters fear it might inspire a party putsch. Some even speculate about the launch of a new conservative party.

If the centre-left wins, it could also produce the first Green state premier in the country, at the head of a coalition with the Social Democratic party in Stuttgart, the state capital.

The threat of an upset in the most important of seven state elections in Germany this year has dominated government decision-making for months. It has also been a critical factor in

European Union negotiations on measures to stabilise the euro.

In Brussels, Ms Merkel has struck an ever tougher line, demanding drastic austerity from the most debt-laden governments, while rejecting any German guarantee of their borrowing.

But worries about Europe are now secondary. The Japanese earthquake caused Ms Merkel to perform an extraordinary U-turn in her nuclear pol-

### Merkel faces defeat

Angela Merkel, the German chancellor, faces a humiliating election defeat in the south-western state of Baden-Württemberg on Sunday, writes Quentin Peel.

Opinion polls suggest that after almost six decades in power there, her Christian Democrats (CDU) will lose to a centre-left coalition of Greens and Social Democrats (SPD).

The latest Forsa poll

icy, ordering an instant moratorium on extending the life of nuclear power stations. More than 70 per cent of voters believe it was a move to save the election.

Most observers think her refusal to consider German participation in any military intervention in Libya was also influenced by fear of a disastrous defeat.

Before Japan, everything seemed to be coming right for Ms Merkel. The remarkable recovery of the Ger-

man economy started to get through to the voters. Baden-Württemberg, the heartland of engineering and technology companies such as Daimler and SAP, has picked up rapidly.

"No other state has recovered so well," Mr Mappus declares in the sports hall. At 2.7 per cent, it has the lowest youth unemployment in Europe. But his words have a hollow ring. It is not the economy but fear of an atomic catastrophe that has tipped the scales.

The nuclear backlash has upset the whole CDU election strategy. That was pro-nuclear and pro-modernisation. Mr Mappus - dubbed Atom-Mappus by his opponents - backs the moratorium, but he cannot rid himself of his pronuclear past. Nor will he contemplate a coalition with the Greens, his deadly rivals.

Winfried Kretschmann, the avuncular Green candidate, is a conservative figure who seems astonished to think he might be state premier on Monday. But he does not rule anything out.

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