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Huge new package planned for Greece

LONDON

Fresh aid of €60 billion would shift focus from restructuring to growth

BY LANDON THOMAS JR.

A new rescue package for Greece is taking shape, one that would offer billions of euros in fresh loans in return for accelerated privatization and tougher tax collection measures on the part of the beleaguered Greek government.

While the agreement for as much as €60 billion, or $86 billion, would, in theory address Greece's need for cash this year and next, it puts off for the time being a restructuring, hard or soft, of Greece's mammoth debt burden.

At the deal's heart would be an informal understanding that the private sector holders of Greek government bonds might be persuaded to roll over their debts, or extend new loans at the time their older obligations come due.

By taking on more dubious Greek risk — backed by new funds from Europe and the International Monetary Fund — exposed banks would not just step back from the precipice of a "haircut," or a forced loss on their bonds, they might also hope that in another two years, Greece will be in a better position to repay its debts in full.

The expectation that Europe will again come to Greece's rescue bolstered both the euro and equity markets on Tuesday. Yields on Greek 10-year bonds have dropped sharply, to 15.7 percent Tuesday from a high of 16.8 percent last week.

"Restructuring is off the table," said a senior official in the Greek Finance Ministry. "For now it is all about growth, growth, growth." This person, who spoke on condition of anonymity while the talks continued, said an announcement from the European Union, the I.M.F. and the European Central Bank could come as soon as Friday or early next week.

Later in June, the E.U. first and then the I.M.F. would approve the additional financing, thus clearing the way for €12.5 billion to be disbursed to Athens at the end of the month.

The new loans, however, will only be forthcoming if more austerity measures are introduced.

Along with faster progress on privatization, Europe and the fund have been demanding that Greece finally begin cutting public sector jobs and closing down unprofitable entities.

They also have been pushing Greek politicians to unite behind the new austerity package to help ensure it sticks, and are discussing a decrease in the value-added tax as a concession to win support from the right-of-center opposition, which wants more tax relief to help the moribund economy.

A team of bankers and technical experts from the international institutions have been on the ground in Athens for close to a month, attempting to reconcile the essential conundrum of Greece's financial condition.

Harsh austerity measures have taken a severe toll on the economy, resulting in missed financial targets and the need for more public money.

Adding to the urgency has been the persistent flow of deposits out of the banking sector. Since the crisis began, €60 billion in deposits have been withdrawn from Greek banks, about a quarter of the country's output. Bankers in Athens said that outflows were particularly severe last Thursday

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At reframed E.C.B., Trichet's long shadow

FRANKFURT

NEWS ANALYSIS

BY JACK EWING

Since Europe's debt crisis became acute last year, the European Central Bank has gone beyond its role as arbiter of monetary policy to become in effect the adult supervision for quarreling heads of government.

Time and again the E.C.B. and its president, Jean-Claude Trichet, have applied pressure when they thought heads of state were not acting responsibly. As a result, when Mr. Trichet's eight-year term expires at the end of October, he will leave behind an institution that has grown significantly in stature and influence.

He also leaves behind a difficult legacy for his likely successor, Mario Draghi, governor of the Bank of Italy. Mr. Draghi appears to share Mr. Trichet's ability to negotiate cordially with European leaders — and browbeat them when necessary. But Mr. Draghi, already an influential member of the E.C.B. governing council, will also inherit an institution that has become deeply entangled with the banking system, financial markets and the political process.

"The E.C.B. so far has done an admirable job, all things considered," said Dennis Snower, president of the Kiel Institute for the World Economy in Kiel, Germany. "But it has found itself in a very uncomfortable place not of its own choosing. This place may become more uncomfortable as time goes on."

In May 2010, Mr. Trichet and others pushed leaders to recognize that there was a crisis in the first place, and then to fashion a rescue package for Greece. The E.C.B. did its part by buying Greek government bonds.

This year, the E.C.B. has used its clout in the banking system to insist that Portugal and Ireland accept bailout loans. Mr. Trichet has also pushed, with limited success, to get governments to adopt tougher sanctions against euro countries that run up too much debt, with the goal of averting future crises.

In recent days, as the idea of letting

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After recasting E.C.B., Trichet leaves tricky legacy

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Greece stretch out its debt payments gains traction, the bank has set itself up as the main opposition. It is not yet clear whether the E.C.B. will succeed in blocking a restructuring that many economists see as inevitable.

Mr. Trichet and others argue that a Greek default could disrupt financial markets in ways that would be unpredictable and impossible to control. But in recent weeks the E.C.B. has faced criticism that it has a conflict of interest.

In May 2010, the E.C.B. began buying Greek, Portuguese and Irish debt to try to stabilize markets for those bonds. The E.C.B. moved in concert with the national governments, who at the same time created a €500 billion bailout fund, worth $720 billion at current exchange rates, for the distressed countries.

As a result, though, the E.C.B. now holds €75 billion in bonds from those countries, and would take a big hit to its balance sheet if any of them defaulted.

Last month, Mr. Trichet walked out of a meeting with euro area leaders in Luxembourg. He was upset that the politicians were toying with the idea of a Greek debt restructuring.

Yet the E.C.B.'s foray into politics also created strains inside its own governing council. Axel A. Weber, the president of the German Bundesbank and a member of the council, argued strenuously that the E.C.B. was making a mistake by intervening in government bond markets.

Based on public statements Mr. Weber made later, it appeared that he believed the E.C.B. was moving too far into fiscal policy and letting governments off the hook.

"Primary decision making over wide areas of economic and finance policy remains with member states," he and two Bundesbank economists wrote in a March commentary published in the Frankfurter Allgemeine newspaper.

The ideological split had lasting consequences for the E.C.B. Mr. Weber, who had long been seen as the front-runner to succeed Mr. Trichet, resigned as Bundesbank president at the end of April rather than have to defend polices with which he strongly disagreed.

DANIEL ROLAND/AGENCE FRANCE-PRESSE

Jean-Claude Trichet will leave behind an institution whose influence has grown enormously as a result of the European debt crisis.

Even though European politicians seem to resent E.C.B. meddling, they have been glad to allow the central bank to deploy its financial resources at crucial moments, propping up commercial banks with cheap credit and intervening in bond markets.

In many respects, the E.C.B. is far better equipped to deal with the crisis than national governments. It is a pan-European institution able to act quickly — and independently.

Mr. Trichet and the other members of the governing council, which is made up of the six members of the E.C.B. executive board and 17 heads of national central banks, do not need to worry about re-election and are in a better position to take unpopular stands.

The E.C.B. has platoons of economists as well as lines of communication to banks that provide it with constant information about what is going on in markets and the euro area economy. Most national finance ministries have nowhere near the same expertise.

And the E.C.B. has leverage over the banking system. Some Greek and Irish institutions would probably collapse without the low-cost loans that the E.C.B. provides, accepting the banks' devalued government bonds as collateral.

The financial lifeline also gives the E.C.B. huge clout over those countries' banking systems, a situation that some leaders resent. Brian Lenihan, the Irish finance minister until his party was voted out of power in February, complained publicly that he had been railroaded into accepting an aid package.

Members of the E.C.B. governing council bristle at any suggestion that they have bullied anybody and instead see themselves as rescuers.

"The level of commitment of the euro system to Ireland has absolutely no historical precedent," Mr. Trichet said on May 5, referring to the monetary infrastructure overseen by the E.C.B. "We are siding with Ireland in the difficult circumstances."

European leaders may chafe at E.C.B. scolding, but they seem to recognize the need for a strong E.C.B. president. Mr. Trichet's departure could have been an opportunity for them to choose someone more pliant to replace him. Instead they have nominated Mr. Draghi, who brings many of the same qualities as Mr. Trichet.

Mr. Draghi is well known among leaders of the Group of 20 nations and for years has played the same role in Italy that he will be asked to play as head of the E.C.B. — the rational technocrat restraining the spendthrift impulses of politicians.

Last October, for example, the French president, Nicolas Sarkozy, lost his cool with Mr. Trichet during a meeting in Brussels. Mr. Trichet wanted tougher automatic sanctions for countries that exceed treaty limits on debt and deficit spending, and was upset about suggestions that private investors should contribute to a bailout of Greece.

According to people who were at the meeting, Mr. Sarkozy shouted that he was not going to let some bureaucrat tell him what to do. Mr. Trichet also replied sharply, startling others in the room, according to one high-ranking participant, who did not want to jeopardize his relationships with other officials by speaking publicly about the incident.

"But it was short-lived," the person said. "Just after that they exchanged kind words and the incident blew over."

After years of working with Silvio Berlusconi, the Italian prime minister, Mr. Draghi appears to have the gumption to deal with similar outbursts.

"You don't just need a background in technical monetary policy to run the E.C.B.," said Stefan Gerlach, managing director of the Institute for Monetary and Financial Stability at Goethe University in Frankfurt. "You need somebody who has as good political savvy as President Trichet."

Liz Alderman contributed reporting from Paris.

U.S. slump extended as home prices hit fresh low

SAN FRANCISCO

BY DAVID STREITFELD

U.S. housing prices fell in March to their lowest point since the downturn began, erasing the last little bit of recovery from the depths plumbed two years ago, according to data released Tuesday.

The Standard & Poor's/Case-Shiller home price index for 20 large cities fell 0.8 percent from February, the eighth drop in a row. Prices are now down 33.1 percent from the July 2006 peak.

"Home prices continue on their downward spiral with no relief in sight," said David M. Blitzer, chairman of the S.&P. index committee.

Housing is in persistent trouble, industry analysts say, not only because so many people are blocked from the market — being unemployed, in foreclosure or trapped in homes that are worth less than the mortgage — but because even those who are solvent are opting out.

The desire to own your own home, long a bedrock of the American Dream, is fast becoming a casualty of the worst housing downturn since the Great Depression.

Even as the economy began to fitfully recover in the past year, the percentage of homeowners fell sharply, to 66.4 percent from a peak of 69.2 percent in 2004. The ownership rate is now back to the level of 1998, and some housing experts say it could decline to the level of the 1980s or even earlier.

"The emotional scars left by the collapse are changing the American psyche," said Pete Flint, chief executive of the housing Web site Trulia. "There was a time when owning a home was a symbol you had made it. Now it's O.K. not to own."

Trulia, a real estate search engine for buyers and renters that is based in San Francisco, is a hive of renters, including Mr. Flint. "I'm in no rush at all to buy," he said. He expects homeownership to decline to about 63 percent, a level the country first achieved in the mid-1960s.

The new Case-Shiller data did not offer much room for short-term optimism. The national housing index, which is reported quarterly, fell 4.2 percent in the first quarter after a decline of 3.6 percent in the fourth quarter of 2010. This, too, is a new recession low.

Twelve of the 20 cities in the index hit a new recession low in March. Washington was the only city where prices rose both

J. EMILIO FLORES FOR THE NYT

Tim Hebb sold his California home before the slump. He isn't rushing to buy anew.

from February and from a year earlier.

Years of declines are teaching potential buyers to expect more of the same. Tim Hebb, a Los Angeles systems engineer, expertly called the real estate bubble. He sold his bungalow in August 2006, then leased it back for a year. Since then, Mr. Hebb, a 61-year-old single father, has rented a succession of apartments.

"I have flirted with buying again many times over the past few years," Mr. Hebb said. "Let's face it, people are not rational creatures."

But he always resists, figuring housing is still overpriced and even when it stops declining it will stumble along the bottom for years and years. He says there is plenty of time to get back in if he should ever want to.

Housing prices are now back to where they were in mid-2002. Such a decline was unimaginable to the boosters and many of the analysts in the middle of the boom, who were fond of saying that house prices never fell on a national basis.

But as credit dried up and the easy refinances disappeared, the foreclosures began. Prices fell sharply in late 2006, 2007 and 2008.

The market turned around in 2009, prompting hopes that the worst was over. A government tax credit proved wildly popular, but after it expired last year the declines resumed.

When demand will naturally rekindle to stabilize the market is a matter of debate. Most economists have been saying that they think the price declines will level off in the second half of this year, although a few think they will continue until 2012. What no one seems to anticipate is any sort of a brisk recovery. Instead they see a muddling along until the foreclosure crisis diminishes and the excess housing supply is soaked up.

The financial blog Calculated Risk estimated the excess housing supply this week using 2010 census data, which it compared with 1990 and 2000. The blog concluded that the excess supply in April 2010 was about 1.8 million units but probably several hundred thousand fewer now.

Greece poised to get fresh relief

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and Friday following comments — later described as rhetorical — by a Greek politician about Greece leaving the euro.

With great reluctance, European governments have come to the conclusion that an additional €60 billion now, while politically unappealing, would be less costly than the unquantifiable public funds that would be needed if a restructuring of Greece's debt produced a Lehman Brothers-like contagion that spread not just to Portugal and Ireland but possibly Spain and the financial system as a whole.

But how an economy already in free fall will generate the growth to produce the needed budgetary surplus to start paying down its debt remains unanswered.

"Greece's G.D.P. is already declining and now the government will need to cut another €7 billion in spending," said Jason Manolopoulos, who manages a hedge fund based in Athens and Geneva and is the author of "Greece's 'Odious' Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community."

"That is only going to make the debt to G.D.P. figures worse," he said. "There is no getting around it: Greece is insolvent."

With a debt of 150 percent of gross domestic product, or G.D.P., that may well be so. But while skeptics like Mr. Manolopoulos are keeping the cash levels in their funds high, convinced that Greece will be required to default sooner rather than later, such a sense of pressing gloom has not yet become contagious.

The big bet for Europe and the I.M.F. is whether private-sector banks can be persuaded to keep their Greek exposure. This new approach is patterned on a 2008 pact called the Vienna Initiative, in which the European Bank for Reconstruction and Development and the I.M.F. persuaded banks with exposure in Hungary, Romania and other East

"Restructuring is off the table. For now it is all about growth, growth, growth."

European countries to keep their credit lines fresh while new public sector loans were provided to these countries.

There is, however, a big difference between jawboning a regional public institution to lend more to a country in which it already has operations than persuading a risk-averse commercial bank in France, Germany or Italy to lend more to a country that it wants to permanently cut ties to.

What is more, there is a significant difference in the sums involved. A report Tuesday by the credit ratings agency Fitch suggested that the €50 billion to €60 billion being discussed might not be enough, and that as much as €100 billion in extra financing would be needed to give Greece the time and space to return to solvency.

Another crucial point is the extent to which "reform fatigue" in Greece might prevent the ambitious deficit-cutting targets from being reached. A recent survey by Kapa Research found strong support for privatization, but two other polls found support for the governing Socialists at the lowest level since 2009 elections.

Prime Minister George A. Papandreou still has a comfortable majority in Parliament, but his credibility has been damaged of late as the economic growth stagnates and unemployment rises.

In fact, the dynamic of protesters has changed markedly over the past several weeks. No longer is it just union leaders condemning the government's policies, but a broader collection of people, mostly young, who have been inspired by a protest movement in Spain.

Their numbers so far have not been large, but they have been consistent — filling up the main Syntagma Square in Athens for seven days running.

"People here have lost 30 percent of their income," said Theodore Pelagidis, an economist based in Athens and author of a recent book on the collapse of the Greek economy.

"It is nice that we are getting a loan from Angela Merkel," Mr. Pelagidis added, referring to the German chancellor, "but I am not sure this will be enough given the depth of the recession. We are just kicking the can further down the road until the time finally comes to restructure the debt."

Forestalling a looming crisis over the world's supply of food

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Specifically, France is pushing for the creation of a database on stocks, dubbed the Agricultural Market Information Initiative, that would be managed by the U.N. Food and Agriculture Organization in Rome. It would track stocks held by countries and shifts in demand, although some countries, like China, have been reluctant to divulge information they deem strategic.

France has also asked international organizations like the World Food Program and the World Bank to draw up plans to establish reserve stocks of food in countries seen as most vulnerable to shortages, and to look at new insurance products to better hedge farmers' risks.

Another area that France and the G-20 finance ministries are examining is the possibility of limiting the scope of positions in agricultural derivatives, standardizing those products and tightening regulation of over-the-counter transactions. But some experts argue that food price volatility is less the result of speculation and more an inevitable side effect of climatic conditions and economic and demographic factors. These experts contend that it may be more useful to mitigate the side effects than to seek to prevent price swings.

"Everybody blames speculation," Alexander Sarris, professor of economics at the University of Athens and a former senior official at the United Nations, told a World Bank development conference in Paris on Monday, "but speculation is a symptom and not a cause of spikes."

Governments should facilitate the development of a range of tools, he said, to help mitigate the effects of price rises, including better information about and management of stocks, early warning systems based on econometric and meteorological models, and tougher rules negotiated through the World Trade Organization to avoid arbitrary export bans.

Some participants in the conference said that insurance policies already existed that paid farmers immediately after damaging changes in weather, but they contended that more needed to be done to educate the users of such financial products about their benefits.

Others said "virtual" food reserves, or financial funds designed to compensate those affected by price surges, could also be introduced, along with drought- and food-resistant seeds.

"Whatever we do, we will have volatility in future," said Pierre Jacquet, chief economist at the French Development Agency. "We need to be open to a range of solutions, and test them."