Incentive from E.U. for Athens to cut further

BRUSSELS

Commission president proposes early payment of €1 billion to Greece

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Seeking to sweeten the medicine for Greek politicians who must decide next week whether to embrace a strict austerity plan, the president of the European Commission, José Manuel Barroso, on Tuesday proposed early payment of around €1 billion in E.U. funds earmarked for Athens.

At a summit meeting of European leaders Thursday and Friday, Mr. Barroso will propose special treatment for Greece to make it easier for the debt-laden country to use the funds, the equivalent of $1.4 billion, to encourage badly needed economic growth.

''Greece has the potential to access a significant amount of E.U. money,'' Mr. Barroso said in Brussels, adding that the funds should be concentrated where they can create jobs. The idea was to ''front-load and accelerate them, so that Greece gets the benefit now.''

The suggestion came as Fitch Ratings said Tuesday that it would consider even a voluntary rollover of Greece's sovereign debt as a default that would lead it to cut the country's credit rating, while a top U.S. official criticized Europe for failing to speak with one voice on the Greek debt crisis.

Speaking in Washington on Tuesday, the U.S. Treasury secretary, Timothy F. Geithner, called on Europe to ''speak with a clearer, more unified voice on the strategy'' for Greece, according to Bloomberg News. ''I think it's very hard for people to invest in Europe, within Europe and outside Europe, to understand what the strategy is when you have so many people talking.''

Carrot offered by E.U. for action by Greece

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Mr. Geithner said he told leaders of the Group of 7 industrialized countries last weekend that the European Union had "a very substantial financial arsenal" at its disposal and needed to ensure that it was "available to be deployed to do the kind of things they need to do to make this process work."

"That means make it available so banks can be recapitalized where they need capital, to make sure there is a funding available to the banking system," he said. He added that there was "no reason why Europe cannot manage these problems."

European leaders have been desperately trying to prevent a Greek default, which would hurt global markets and could fatally undermine the euro monetary union. Some analysts have said it could have an impact on credit and debt markets comparable to the one that followed the collapse of Lehman Brothers in 2008.

The warning by Fitch kept pressure on Prime Minister George A. Papandreou and his newly shuffled government, which faced a vote of confidence in Athens late Tuesday. It also kept the heat on European policy makers as they worked on a second bailout for the country.

If the Greek government survives the vote, as expected, Parliament will be asked to endorse further spending cuts, which are a condition of receiving a fresh disbursement of €12 billion, or $17.3 billion, from last year's €110 billion bailout from the Union and the International Monetary Fund.

"The assumption must be that if these two critical votes are passed, the short-term pressure on Greece will ease," said Adam Cole, head of foreign exchange strategy at RBC Capital Markets in London.

The Barroso plan is intended to help tackle one of the main obstacles facing the Greek economy, which risks a downward economic spiral of low growth that depresses government tax revenue.

A large pot of money has been allocated by the Union to Greece for job creation projects, but of a total €20 billion for 2007-13, only about one-quarter has been disbursed. One of the obstacles is that most of the E.U. grants require matching funding from the country receiving aid, something that Greece is now unable to afford. Changing that rule, however, would be time-consuming, so officials believe that accelerating payments would be a quicker way of helping the Greek economy.

Mr. Barroso also reinforced calls for Greek politicians to endorse the austerity measures. "My message today is that if Athens acts, Europe will deliver," he said.

"If anyone thinks that without the program agreed with the E.U. and the I.M.F. we can still get by somehow, there's an alternative program, that's not true. There is no alternative. The E.U. and the I.M.F. won't support any other program."

Euro zone finance ministers have said that a second Greek bailout will include a contribution by private holders of government bonds. Ministers have asked that the contribution be voluntary but "substantial," but its exact nature remains uncertain.

That uncertainty has raised concerns at Fitch and other ratings agencies. Andrew Colquhoun, a senior director for Asia-Pacific sovereign ratings at Fitch, said at a conference Tuesday in Singapore that Fitch would regard a debt exchange or voluntary debt rollover "as a default event and would lead to the assignment of a default rating to Greece."

But Cristina Torrella, a senior director in Fitch's financial institutions group, said in a statement that a restructuring

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or rollover of Greek government debt "would not automatically trigger a default by the major Greek banks."

"The precise rating actions on the banks will depend on the full terms of the sovereign event and the extent to which this considers maintaining solvency and, vitally, liquidity in the Greek banking system," Ms. Torrella said.

The most crucial immediate consideration for bank ratings, Fitch said, would be whether a procedure remained for the European Central Bank to continue providing liquidity to Greek banks.

A month ago, Fitch downgraded Greece's credit rating three notches to B+, a highly speculative grade. Fitch said then that extending the maturity of existing bonds would be considered a default.

Standard & Poor's cut Greece's rating to CCC from B last week, making it the lowest-rated sovereign debt by S.& P., and warned that any attempt to restructure the country's debt would be considered a default. The other big ratings agency, Moody's Investors Service, has a Caa1 rating on Greece's sovereign debt.

The International Swaps and Derivatives Association, an industry body, has said that a debt exchange that extended maturities would not be considered a formal default because it would not set off a requirement for payment on contracts to insure against default.

Matthew Saltmarsh reported from Paris.