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Key decision is put off on another Greek rescue

BRUSSELS

While imminent default averted, crisis mode persists within E.U.

BY STEPHEN CASTLE

Staving off the threat of an imminent Greek default, European finance ministers agreed over the weekend to finance the country through the summer but deferred crucial decisions on a second bailout.

After a two-hour conference call late Saturday, finance ministers from the 17 euro zone countries said they would sign off an €8.7 billion, or $12.6 billion, loan to Athens, part of a €110 billion package agreed upon last year. The board of the International Monetary Fund was expected to approve its portion of this installment — €3.3 billion — in the coming days.

Without the loans, the Greek government faced the prospect of insolvency within weeks. But with Greece still struggling to shore up its finances, the finance ministers also need to put together a second package of loans to help the country through 2014. That bailout is expected to amount to €80 billion to €90 billion but, due to conflicts over the extent of private sector involvement in the effort, agreement on the package may not come until September.

Wolfgang Schäuble, the German finance minister, said that the new program could "be completed before the release of the next tranche in the autumn — provided, as always, that the implementation of the program in Greece takes place as planned," Reuters reported from Berlin.

Nicolas Véron, senior fellow at Bruegel, an economic research institute in Brussels, said, "Greece has enough h over the summer so the very acute worry that Greece would be unable to pay in July has gone." He added, "But Europe has not been proactive for some time and it will probably remain in strong crisis-management mode over the next few weeks."

Constrained by the unpopularity of bailouts at home, political leaders appear able to act only at the eleventh hour, when they have no alternative, Mr. Véron said. "The E.U.'s institutions are not effective and the bigger the crisis, the less effective they are," he said. "Discussion is driven by governments accountable to domestic constituencies and not to the E.U as a whole."

The second bailout was discussed Saturday night, but the finance ministers provided no details on the negotiations. One official who was briefed on the talks said that reaching agreement on a new bailout would "not be easy."

"They are going to have to work really d and we don't expect an agreement before the next meeting of the euro zone ministers on July 11, and possibly not before September," said the official, who requested anonymity because he was not authorized to speak publicly.

The decision Saturday night ended weeks of diplomacy between the euro zone nations and the I.M.F., which said it required assurances that the Europeans would guarantee Greece's finances for the next 12 months before it could release any more aid. Some countries, like

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Austerity measures being demanded from Greece by the International Monetary Fund as a condition for aid have led to rioting in Athens.

E.U. defers key decision on Greece

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the Netherlands, were reluctant to give such a guarantee without knowing that private-sector investors would also play a substantial role in the new bailout.

But when it became clear that a second bailout would take much longer to put together, that dispute ended with an opaque declaration from the finance ministers containing no details about the size and shape of the new loan package.

That appeared to satisfy the I.M.F., whose acting managing director, John Lispky, took part in the conference call, as did the president of the European Central Bank, Jean-Claude Trichet.

"This commitment — together with the recent parliamentary passage of the necessary fiscal measures in Greece — will enable the I.M.F.'s executive board to consider the completion of the fourth review and the release of the next tranche," Caroline Atkinson, the I.M.F.'s chief spokeswoman, said in a statement.

Talks with European banks on a voluntary debt rollover have proved complex enough to suggest that they may drag on well into the summer. One consideration is the need to fashion the package in such a way that credit rating agencies do not classify it as a default by the Greek government. That development would shake confidence not only in the economy of Greece, but also of other heavily indebted European nations.

But Mr. Véron said the bailout had become very complicated because of the political demands of the German government.

"Involvement of the private sector has to be on the basis that it is willing to take part on a voluntary basis," he said. "Yet the political point is to persuade German parliamentarians that the private sector is suffering. Germany has created a bit of an impossible equation to resolve."

According to Mr. Schäuble, German banks are willing to roll over around €3.2 billion of Greek bonds maturing to 2014. France has put forward a plan to involve its banks, though the total involved has not been disclosed.

The Greek finance minister, Evangelos Venizelos, described the ministers' action Saturday as "a development that boosts our country's credibility on a global level." But Jean-Claude Juncker, the finance minister and prime minister of Luxembourg and chairman of the euro zone finance ministers' meetings, warned that Greece would have to accept international involvement in the running of their economy.

"The sovereignty of Greece will be massively limited," he told the German magazine Focus in an interview published Sunday. He said that experts from euro zone countries would be heading to Athens.

"One cannot be allowed to insult the Greeks," he said. "But one has to help them. They have said they are ready to accept expertise from the euro zone."

Speaking in Warsaw on Saturday, Jacek Rostowski, the finance minister of Poland, said errors had been made in the first Greek bailout. Those errors had highlighted the need to spur economic growth in addition to cutting government spending, Mr. Rostowski said. While Poland is not a member of the euro zone, it has just assumed the rotating presidency of the European Union.

"It's clear that everybody has made mistakes over the past year and a half," he said, adding that both the European Union and the nations hit by the debt crisis had erred.

He also warned against the growing divide in opinion between the euro zone's core nations and the debt-ridden countries on the periphery. He said that some opposition parties had shown a "breathtaking short-sightedness" when it came to deciding on whether to support Greece.

"We have to pull together and if we don't hang together we will hang separately," he said.