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E.U. leaders push to solve deep divide over Greece

BRUSSELS

Effort to hold crisis talks is aimed at calming fears, but outcome holds risks

BY STEPHEN CASTLE

European officials pressed on Tuesday to hold an emergency summit meeting of euro zone leaders this Friday in hopes of resolving deep disputes that have held up the second Greek rescue package.

With financial markets haunted by fears of wider contagion and uncertainty over the results of European bank stress tests to be announced on Friday, the plan represents a risky gamble by Herman Van Rompuy, the president of the European Council. If the meeting is held on schedule and fails to answer key questions left hanging by European finance ministers on Monday and Tuesday, it could end up unsettling the markets more.

A gathering of finance ministers from the 17 E.U. countries that use the euro ended late Monday with a declaration suggesting that their bailout fund be expanded and allowed to purchase sovereign bonds from Greece and other deeply indebted countries.

That idea — originally rejected months ago because of German objections — has forced its way back onto the agenda as a result of the growing turmoil on the financial markets and fears that Spain and Italy could be the next victims of Europe's debt crisis.

As the meeting on Monday was getting under way, the Greek prime minister, George A. Papandreou, sent a letter to Jean-Claude Juncker, who heads a meeting of the euro zone finance ministers, expressing his frustration with Europe's failure to follow through on its promises and warning of the dangers of inaction. The letter was made public on Tuesday.

"If Europe does not make the right, collective, forceful decisions now," Mr. Papandreou wrote, "we risk new, and possibly global, market calamities due to a contagion of doubt that could engulf our common union."

"Now there is a greater need to avoid mistakes of the past," the letter added. "'Crunch time' has arrived and there is no room for indecisiveness and errors."

At their meeting in Brussels, the finance ministers outlined a range of options to reduce the burden on countries like Greece that have accepted bailout loans, including cutting their interest rates and extending loan maturities, as well as helping them to buy back their bonds trading in the market. That reflects a growing consensus that heavily indebted countries cannot afford their current obligations and need some relief to avoid being condemned to an endless round of austerity and no growth.

Crucially, however, the ministers left unresolved the continuing dispute over private sector sacrifice to help pay for a second bailout for Greece, and whether

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uropeans should run the risk of their scue prompting ratings agencies to eclare the country in selective default.

Such an outcome is opposed by the uropean Central Bank, which insisted n restating its position in the communiqué of euro zone finance ministers.

But Germany and the Netherlands have being pressing for substantial involvement by the private sector — something they see as essential if they are to sell the Greek bailout to skeptical voters at home.

Asked about a plan that might be classified a selective default, Jan Kees De Jager, the Dutch finance minister, said it was no longer ruled out.

"Obviously, the European Central Bank has stated in the statement that it did stick to its position," he said, "but the 17 ministers did not exclude it any more in exploring the options for private sector involvement, so we have more options, a broader scope."

The idea of a summit meeting on Friday arose from the failure to broker a deal on the role of private investors, said one official with knowledge of discussions but who was not authorized to speak publicly. "The idea is to discuss it on the highest level," the official said.

But other officials say they fear that the plan could backfire if, with little time for preparation, the differences between the German government and the E.C.B cannot be bridged.

"It's extremely high risk," said one official, who was not authorized to speak publicly, "because my understanding is that the work is not ready and every journalist and market player will be looking for a result on Friday."

Though Nicolas Sarkozy, the French president, had been pressing for such a meeting, other leaders were taken by surprise, the official added, suggesting that bank stress test results expected to be released Friday would raise the stakes further.

A third E.U. official said that if the meeting were confirmed, Mr. Van Rompuy would propose options to overcome differences between the German government and the E.C.B., though he declined to elaborate.

Summit meetings of European leaders are normally organized months in advance. But there have been crisis meetings before, including an emergency gathering of euro zone leaders in ris during the financial crisis that led to a crucial decision that major countries would stand behind their big banks to prevent any unexpected failure.

Alarm has been building once again over the euro zone's repeated failure to take the initiative in the crisis and its apparent inability to reach a decision until pushed to the brink.

Still, Olli Rehn, the European Union's commissioner for economic and monetary affairs, rejected suggestions that the declaration Monday night was too vague to pacify the financial markets.

"I am aware that there is some criticism that we are sometimes behind the curve," he said. "On the other hand, the euro area is a community of 17 member states, the E.C.B and the European Commission, and these kinds of decisions have to be taken by unanimity."

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On Tuesday, a meeting of the 27 E.U. finance ministers discussed their new potential headache: Friday's scheduled release of the results of stress tests on their banks. Officials insist that the exercise is more stringent than tests last year, which failed to reveal a looming banking crisis in Ireland. They insis that Europe's banks and government are better prepared this time around.

"Once identified," Mr. Rehn sai "any vulnerable banks must recapita ize themselves, or be recapitalized or re structured."

Jacek Rostowski, finance minister c Poland, which holds Europe's rotatin presidency, argued that Europe now had "a banking system that is in much better shape than it was last year."