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Pressing for deal, Europe delays crisis meeting over Greece

BRUSSELS

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As they scramble to prevent the euro zone debt crisis from spiraling out of control, European leaders on Wednesday put off a proposed summit meeting for several days in the hope they could bridge crucial differences next week over the role private investors will play in a second Greek bailout.

The German chancellor, Angela Merkel, was a key factor in resisting pressure for a meeting Friday, arguing that it would be too early to deliver the comprehensive package of measures needed to restore stability to the euro zone, according to one official briefed on the discussion.

Mrs. Merkel is not opposed, however, to holding a meeting of euro zone leaders soon, said the same official, who added that Herman Van Rompuy, president of the European Council, hoped to organize the meeting for Monday or Tuesday of next week.

Other diplomats, who were not authorized to speak publicly, suggested that the date might slip further into the week.

In the meantime, the results of stress tests on European banks are planned for release Friday, promising another difficult landmark in a turbulent few weeks that have seen credit downgrades for Portugal and Ireland and a tide of uncertainty engulfing the Italian bond and stock markets.

Pia Ahrenkilde Hansen, a spokeswoman for the European Commission, on Wednesday described as "incomprehensible" a decision late Tuesday by the ratings agency Moody's Investors Service to downgrade Ireland's credit to junk status.

Another agency, Fitch Ratings, gave Italy a vote of confidence Wednesday despite the recent turmoil there, maintaining its rating on the country's debt. "In the absence of negative shocks, adherence to the fiscal targets set out by the government would be consistent with stabilizing Italy's sovereign credit profile and rating at AA-," it said.

Also Wednesday, the International Monetary Fund said that Greece must move quickly and decisively to bring its public debt under control. "It is essential that the authorities implement their fiscal and privatization agenda in a timely and determined manner," an I.M.F. report said, adding that "the debt dynamics show little scope for deviation."

The backdrop to the continuing uncertainty was the failure of finance ministers from the 17 countries in the euro zone to conclude a comprehensive agreement Monday on a second bailout package for Greece, estimated to be worth around €85 billion, or $120 billion.

The ministers agreed to lighten the burden on debtor countries by reducing their interest rates and extending loan maturities, as well as helping them to buy back their bonds.

Still unresolved is the dispute over the extent to which creditors will have to sacrifice in a second bailout for Greece, and whether Europeans should include bond swaps in the rescue with the accompanying likelihood of it being declared a selective default by credit rating agencies.

"There is everything to play for and it all depends on what Mrs. Merkel does," one E.U. official said.

Such an outcome is opposed by the European Central Bank, which argues that, by allowing the European bailout fund to finance the buyback of Greek bonds at market rates, private bondholders would be involved, as Germany wishes, but without a risk of default. France has argued that it is crucial to get a solution acceptable to the E.C.B.

"My bet is there will be some form of summit next week," said one E.U. official not authorized to speak publicly, "and it will go further toward the E.C.B model than to selective default — though there is everything to play for and it all depends on what Mrs. Merkel does."

In its report on Greece, the I.M.F. highlighted the risk of default for the Greek banking sector, saying that having bondholders participate in any future bailouts "may well generate" a selective default rating for Greece, "although perhaps only for a short period of time."

Adding to tension this week is anticipation about bank stress tests that will be released Friday after stock markets

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close. The tests, which will examine banks' ability to withstand economic and market shocks, could reinforce fears that many banks remain fragile.

In an indication that more banks may fail than in stress tests conducted last year, the Helaba Landesbank Hessen-Thüringen in Frankfurt conceded Wednesday that its capital reserves would not meet the threshold to pass.

Helaba complained bitterly, however, hat the European Banking Authority, which is conducting the tests, had refused to give the bank credit for state aid it has received, and said it would have passed otherwise.

According to Helaba, the banking agency said it did not have time to scrutinize whether the state aid qualified as core tier 1 equity. The agency declined to comment.

Germany's landesbanks, typically owned by state and local governments and local savings institutions, are regarded as a weak spot in the otherwise powerful German economy. They have been among the most vocal critics of the stress tests. All the landesbanks passed the tests last year, a result that contributed to skepticism that the exercise was strict enough.

Hans-Dieter Brenner, the chief executive of Helaba, said in a statement that the banking agency had "without reason pilloried a financial institution that is healthy to the core."

Jack Ewing reported from Frankfurt.