EVIL PERSONIFIED
BRUTAL ROLE FOR A BRITISH ACTOR

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JOHN VINOCUR
A NEW TURN IN MERKEL'S COZY BOND WITH RUSSIA

PAGE TWO

International Herald Tribune

FRIDAY, JULY 22, 2011 | THE GLOBAL EDITION OF THE NEW YORK TIMES | GLOBAL.NYTIMES.COM

Sweeping debt plan goes far beyond Greece

LONDON

E.U. leaders moving toward novel concept: A good default for Athens

BY LANDON THOMAS JR.

Are some defaults better than others? Europe certainly hopes so.

The grand bargain that European leaders were working toward Thursday might give Greece some much-needed breathing space in dealing with its debt,

NEWS ANALYSIS

but it would also require the country to enter a "selective default," if only for a brief time. The hope is that it will prove manageable with some common guarantees.

That does not mean Greece would stop making payments on its mountain of debt, which, at 150 percent of the country's gross domestic product is deemed by most economists to be insurmountable. It just means that the government in Athens agrees with its bankers and bond holders to significantly push back the deadline for doing do.

Such an arrangement has worked before; proponents have pointed to Uruguay's experience in 2003 as a model.

The problem here, however, is that because any swap of current bonds for ones of longer maturities is likely to be involuntary — bond holders these days are inclined to decrease their exposure to Greece, not increase it — the ratings agencies have said that any such deal would put Greece in selective default, essentially one step removed from the outright variety.

Until now, such a development has been resisted by the European Central Bank, which owns as much as €45 billion, or $64 billion, in Greek bonds. As the guarantor of the stricken Greek banking system, the E.C.B. has also extended over €100 billion in loans to Greek banks and has accepted Greek bonds as collateral.

DEBT, PAGE 15

DRAFT AGREEMENT

Proposals put forward Thursday by European leaders to deal with the euro zone's sovereign debt crisis:

- Banks exchange some Greek bonds for new ones that pay less interest and mature later.
- Greece gets twice as much time to repay loans at low interest rates.
- Interest also lowered on European loans to Portugal and Ireland.
- The European Financial Stability Facility becomes a kind of regional I.M.F., with the ability to buy bonds from any euro zone country.

A RISKY POLICY ON GOVERNMENT DEBT

European banking rules maintain the fiction that government debt is risk free; that idea is being revisited now. *PAGE 15*

PROGRESS ON U.S. BUDGET COMPROMISE

President Barack Obama and the House speaker, John A. Boehner, are said to be closing in on a budget deal. *PAGE 5*

BRUSSELS

Plan would stretch out payments as leaders seek 'European Marshall Plan'

BY STEPHEN CASTLE

After weeks of uncertainty that revived fears about the foundations of the euro, European leaders were close Thursday to clinching a new rescue plan for Greece that could push the country into default on some of its debt for a short period but that would also give Europe's bailout fund sweeping new powers to shore up struggling economies.

According to drafts of a statement that was being discussed into the evening by the 17 euro zone heads of government, banks have agreed to take part in several programs to reduce Greece's debt, including plans that would mean exchanging existing bonds for new bonds with lower interest rates and longer maturities.

The outlines of the plan seemed particularly bold, dealing with the economic problems of bailed-out Ireland and Portugal as well as Greece, and calling for nothing short of a "European Marshall Plan" to get Greece itself on a road to recovery. The underlying economies of those countries — and others — remain remarkably frail, however, and the plan itself had many hurdles to overcome.

On the central issue of extending debt, rating agencies have already issued strong warnings that such steps might constitute a limited form of default because creditors would not be repaid in full on the original terms.

The negotiations came after days of conflict among Europe's leaders over how to keep the debt crisis from engulfing the much-larger economies of Italy and Spain. Any contagion would not only pose a potent threat to the euro — the most important symbol of the European integration — but could destabilize the entire global financial system.

According to the draft declaration, euro zone leaders were set to agree on a

GREECE, PAGE 15

Uganda put to the test on health care for women

ARUA, UGANDA

Deaths during childbirth put focus on government spending and priorities

BY CELIA W. DUGGER

Jennifer Anguko was slowly bleeding to death right in the maternity ward of a major public hospital. Only a lone midwife was on duty, the hospital admitted, and no doctor examined her for 12 hours. An obstetrician who investigated the case said Mrs. Anguko, the mother of three young children, had arrived in time to be saved.

Her husband, Valente Inziku, a teacher, frantically changed her blood-soaked bedclothes as her life seeped away. "I'm going to leave you," she told him as he cradled her. He said she pleaded, "Look after our children."

Half of the 340,000 deaths of women from pregnancy-related causes each

THE FEMALE FACTOR
The right to treatment

year occur in Africa, almost all in anonymity. But Mrs. Anguko was a popular elected official seeking treatment in a 400-bed hospital, and the lawsuit over her death may be the first legal test of an African government's obligation to provide basic maternal care.

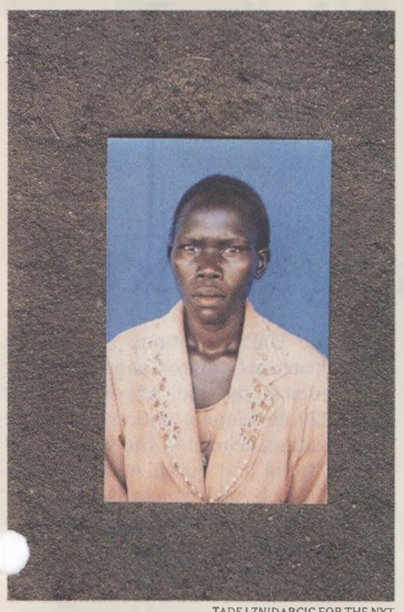
It also raises broader questions about the unintended impact of foreign aid on Africa's struggling public health systems. As the United States and other donors have given African nations billions of dollars to fight AIDS and other infectious diseases, helping millions of people survive, most of the governments have reduced their own share of domestic spending devoted to health, shifting to other priorities.

For every dollar of foreign aid given to the governments of developing nations for health, the governments decreased their own health spending by 43 cents to $1.14, the University of Washington's Institute for Health Metrics and Evaluation found in a 2010 study. According to the institute's updated estimates, Uganda put 57 cents less of its own money toward health for each foreign aid dollar it collected.

Ugandan officials dispute the idea, with one saying the country's own health spending had increased, "but not that substantially." Still, the government set off a bitter domestic debate this spring when it confirmed that it had paid more than half a billion dollars for fighter jets and other military hardware — almost triple the amount of its own money dedicated to the entire public health system in the last fiscal year.

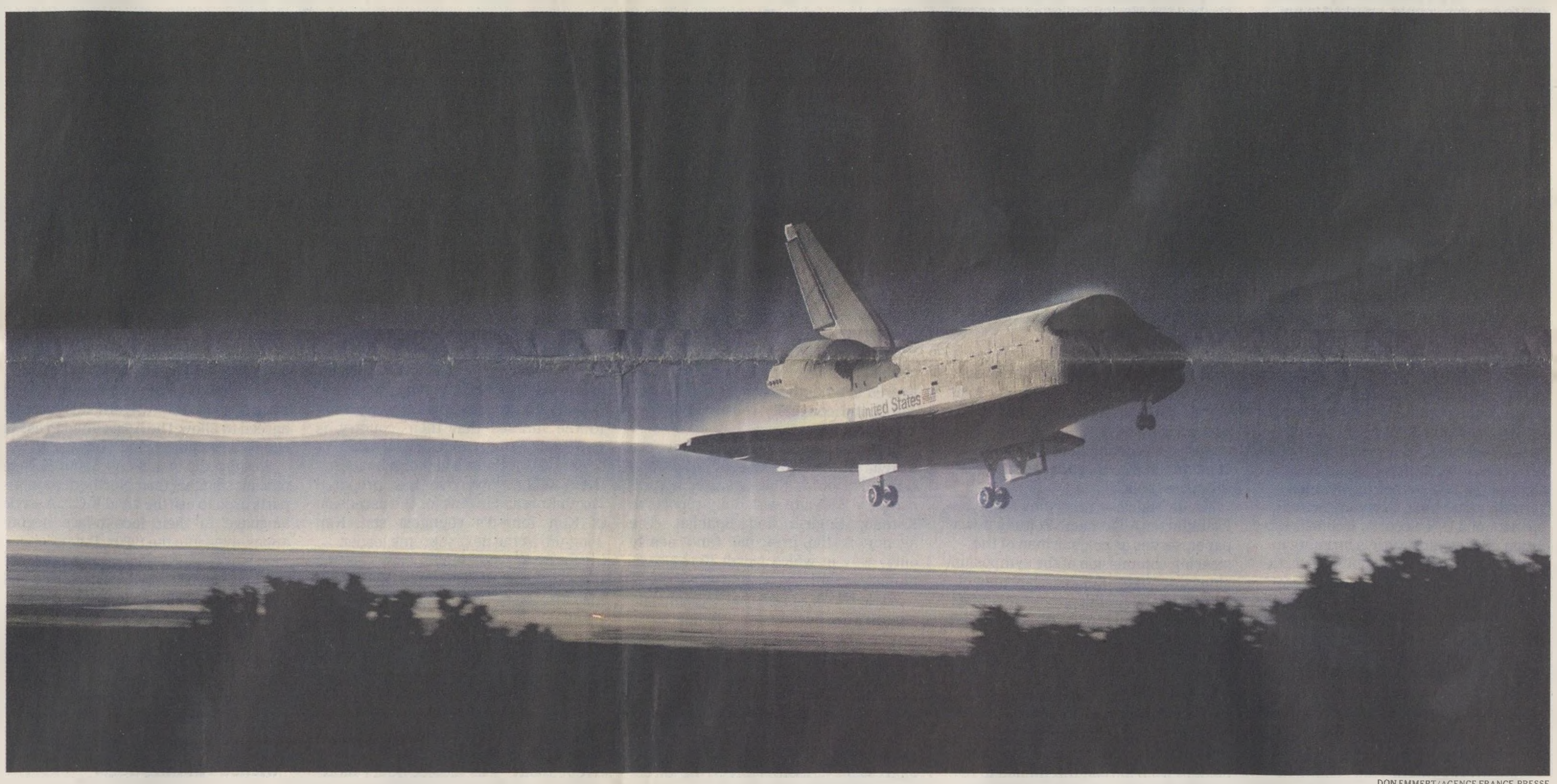
Poor people surged into Uganda's public health system when the government abolished patient fees a decade ago. A growing number of African countries adopted similar policies, and experts say that many more people are

UGANDA, PAGE 8



TADEJ ZNIDARCIC FOR THE NYT

Jennifer Anguko died in a major public hospital that handles obstetric emergencies.



DON EMMERT/AGENCE FRANCE-PRESSE

Landing in the history books The space shuttle Atlantis gliding into Cape Canaveral, Florida, on Thursday, ending the space shuttle program. In 33 missions over 26 years, the Atlantis traveled a distance equal to circumnavigating the Earth 4,848 times. "After serving the world for over 30 years, the space shuttle has earned its place in history, and it's come to a final stop," said Capt. Christopher J. Ferguson, the commander. *PAGE 4*

In Syria, even death fails to stop a rebel anthem

HAMA, SYRIA

BY ANTHONY SHADID

As anthems go, this one is fittingly blunt. "Come on Bashar, leave," it declares to President Bashar al-Assad. And in the weeks since it was heard in protests in this city, the song has become a symbol of the power of the protesters' message, the confusion in their ranks and the violence the government has used against dissent.

Although no one in Hama quite seems to agree on who wrote the song, there is consensus on one point: a young cement layer who sang it in protests was dragged from the Orontes River this month with his throat cut and, according to residents, his vocal chords ripped out. Since his death, boys as young as 6 have offered their rendition in his place. Rippling through the virtual communities that the Internet and revolt have inspired, the song has spread to other cities in Syria, where protesters chant it as their own.

"We've all memorized it," said Ahmed, a 40-year-old trader in Hama who regularly attends protests. "What else can you do if you keep repeating it at demonstrations day after day?"

Tunisia can claim the slogan of the Arab revolts: "The people want to topple the regime." Egyptians made famous street poetry that reflected their incomparable wit. "Come on Bashar, leave," is Syria's contribution to the pop culture of sedition, the raw street humor that mingles with the furor of revolt and the ferocity of crackdown.

When the government derided them as infiltrators, protesters appropriated the term with pride. After Mr. Assad warned of germs in the body politic, echoing Col. Muammar el-Qaddafi's dismissal of rebels in Libya as rats, protesters came up with a new slogan: "Syrian germs salute Libyan rats." Protesters in Hama fashioned a toy tank from trash containers in the streets. On the birth date of Mr. Assad's father, Hafez, who ruled for 30 years, youths in Homs set their chants to the tune of "Happy Birthday."

"Come on Bashar, leave" is more festive than funny, with an infectious refrain, chanted with the intoxication of

SYRIA, PAGE 8

A brotherly strategy pays off at the Tour

GALIBIER SERRE-CHEVALIER, FRANCE

BY GREG BISHOP

As the 18th stage of the Tour de France ended Thursday, Andy Schleck of Luxembourg plunged uphill, ahead and alone. On a race day billed as potentially epic and certainly pivotal, Schleck powered up three climbs in succession and tried to seize control of this race with two stages and the ceremonial ride into Paris remaining. He did so by conspiring with his brother, Frank, who ceded his best chance at victory in order to conquer the man many thought unconquerable, the great Alberto Contador.

It was a combination that has marked the entire Tour in a most unusual way — two brothers collaborating to forward the chances of the one who in the end seemed most likely to walk away with the title. After the mesmerizing stage on Thursday, it seems as if that brother will be Andy. (Page 11)

"I went out this morning and I told myself, 'No guts, no glory,'" Andy Schleck said after the stage. "I took the race by the horns. I was all in."

The two brothers' strategy has been evident throughout the Tour.

For example, two hours after Stage 17 of the Tour de France concluded the day before, the brothers Schleck retired to the Idea Hotel in Moncalieri, Italy, to plot how to elevate one of them into first place by Sunday evening.

Their father, Johny Schleck, sipped a beer Wednesday on a red leather couch in the lobby. The middle of his three sons, Frank, sat in third place with four stages remaining. His youngest, Andy, was in fourth. My two guys, he called them.

Throughout their cycling careers, the Schleck brothers have challenged conventional cycling dynamics. Where elite teams are generally built to assist one cyclist's chances of winning an overall race, the Schlecks are both capable here, both close. But they knew they

TOUR DE FRANCE, PAGE 11

CHRISTOPHE ENA/THE ASSOCIATED PRESS

Andy Schleck powered up three climbs on Thursday to win Stage 18 of the Tour de France.

CURRENCIES NEW YORK, THURSDAY 1:30PM

				PREVIOUS
▲	Euro	€1=	$1.4370	$1.4220
▲	Pound	£1=	$1.6300	$1.6150
▲	Yen	$1=	¥78.510	¥78.790
▲	S. Franc	$1=	SF0.8190	SF0.8200

Full currency rates Page 17

STOCK INDEXES THURSDAY

▲	The Dow 1:30pm	12,716.96	+1.15%
▲	FTSE 100 close	5,899.89	+0.79%
▲	Nikkei 225 close	10,010.39	+0.04%

OIL NEW YORK, THURSDAY 1:30PM

▲	Light sweet crude	$99.84	+$2.89

29
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BUSINESS

E.U. and Chinese growth slows

While most investors focused on a meeting of European leaders attempting to resolve the Greek debt crisis, survey data suggested a backdrop of stagnating economic activity in the euro zone and softening output in China. *PAGE 14*

Nokia and Ericsson speed cuts

The two largest telecommunications equipment makers in Europe will initiate cuts after a weak quarter. *PAGE 14*

VIEWS

Abkhazia with a human face

Caught between Russia and Georgia, Abkhazians should not be made to feel like outcasts. It's not wise to put the brakes on democratic development, writes Victor Erofeyev. *PAGE 6*

After the space shuttle

With the end of the Atlantis mission, it may seem like an appropriate moment to mourn the space shuttle program. But space exploration will flourish without it, writes Nicholas de Monchaux. *PAGE 6*

WORLD NEWS

Spain to close door on Romania

The Spanish government is set to endorse tougher restrictions on Romanians seeking to enter the country, reversing Madrid's previous commitment to give Romanians unrestricted access as fellow members of the 27-nation European Union. *PAGE 4*

Tequila's hipper cousin

Mezcal, often called the Mexican firewater, has gone from relative obscurity to global stardom. *PAGE 5*

COMING THIS WEEKEND

Don't call her a starlet

Every so often in Hollywood a young actress rolls into town and drops jaws. Keep your eye on that one, studio executives say. That one is different. Olivia Wilde, 27, is one of those women.

A bit of bling for the backyard

Some parents of means are spending significant — often eye-popping — sums on high-end playhouses for their children that also function as a kind of backyard installation art.

PAGE TWO

For Merkel, an uneasy new turn

John Vinocur

POLITICUS

How does the leader of an admirably democratic country offer a seeming endorsement to a presidential hopeful from an authoritarian state — all the while knowing its top job will be decided privately and in advance?

Ask Angela Merkel. The chancellor let on at a German-Russian symposium in Hanover this week that her man in the Russian election next March is President Dmitri A. Medvedev.

At an annual event whose persistent coziness and lack of vigorous exchange — call it a tone of connivance — gets frequently targeted by the German news media, the Russian president was talking about academic titles when the word "candidate" popped into his remarks.

Mrs. Merkel snatched it up. No artful or subtle mention of the barriers to real political expression in Russia followed. Rather, the chancellor said, "Candidate — that's lovely to hear."

The meeting's participants, according to one newspaper, smirked in unison. When it comes to how Prime Minister Vladimir Putin and Mr. Medvedev decide between themselves who will be the Russian president, (they have said the country prefers a single candidate), Süddeutsche Zeitung, the largest national daily, wrote: "Merkel's favorite's name is Medvedev. Anyone who observed the chancellor relating to her guest couldn't miss it."

Or, with a little close reading, couldn't overlook how very aware the Merkel government is of the embarrassing aspects of seeming to tighten links to Russia at a time when Moscow is about to demonstrate how far in the last decade it has retreated from democracy.

These days, Germany's decision to abandon atomic power reinforces its energy dependence on Russia — while some German utilities, breaking precedent, intriguing monopoly commission supervisors, and raising European concerns, have initiated plans to let Gazprom invest in their companies.

At the same time, Germany is a cosponsor of a U.N. Security Council resolution condemning Syria's brutality in putting down protests against its dictatorship — while Mr. Medvedev, representing Syria's essential arms supplier, made clear Tuesday to Mrs. Merkel that Russia would block the condemnation.

So much for the Russians helping Germany, as current council president, to save a bit of face for humanity against President Bashar al-Assad of Syria.

These are the sticky circumstances of the next months. The perspective of having to criticize (or, conceivably, to explain away) a predetermined Russian election appeared so unappetizing that an announced Year of Russia in Germany will begin in May 2012, only once a new boss is installed in the Kremlin.

Much of the German media have been extremely hard on Mrs. Merkel for what some see as a serious loss in German prestige among its oldest allies. This is largely because of perceived German selfishness in European affairs, and Berlin joining Russia in its refusal in March to vote in favor of a Security Council resolution to halt massacres of civilians by the Qaddafi regime in Libya.

There's never been a coherent explanation for the German decision, other than the supposition its timing was in relation to an important regional election that Mrs. Merkel's coalition eventually lost. This time, there's no immediately visible yield in backing Mr. Medvedev.

The chancellor seems to think he is a modernizer, but Mr. Putin is widely regarded as the most likely future president.

In all of this, the arguably greatest error in terms of international reality would be Mrs. Merkel's appearing to suppose there is some major strategic differentiation between the two Russian leaders, and to cast Mr. Medvedev as a relatively benevolent force.

Is there a difference? While Mr. Medvedev was president, Russia invaded Georgia and, shortly afterward, he proclaimed the countries along Russian borders, in the manner of the Brezhnev doctrine, to be of vital "strategic interest."

Under Mr. Medvedev's leadership, Russia also designated NATO as the single greatest threat to its security, menaced eastern Europe with new missiles, and has refused to negotiate reducing Russian supremacy in tactical nuclear weapons in Europe.

A trace of the illusions, dreams and ambitions that have frequently dominated German thinking about Russia over the centuries could well be present in Mrs. Merkel's current positioning.

An excellent book (not for beach reading), "Der Russland-Komplex," looks into these issues. Its author, Gerd Koenen, has warned of recurring German delusions concerning Russia and said Germany was again an object of Russia's "refreshed world ambitions."

As a former East German, Mrs. Merkel's personal view of Russia has been hard to track. But one of her first acts as chancellor in 2005 was to reverse her election campaign position that a planned Russia-to-Germany natural gas pipeline was a troubling, no-go adventure. Instead, she quickly announced the start of its construction.

Five years ago, Mr. Koenen described the Merkel government as one concerned with doing nothing to antagonize Moscow — and in the process "maintaining a link even at the expense of raising false expectations."

This is, I think, the context for understanding an approximate political endorsement by a German chancellor of a non-announced candidate for president.

To a degree, it extends to how, in the same week, Mr. Putin, a former K.G.B. agent who recruited West Germans to spy against their country, could win (and then be relieved of) the German Quadriga award "for his achievements in the reliability and stability of German-Russian relations."

It's perhaps a detail, but the vice chairman of the selection committee was Lothar de Maizière, a former East German who, as a cabinet minister in a government led by Helmut Kohl, resigned after coming under suspicion of having had connections to the Stasi, the secret police.

Mr. de Maizière, according to the Frankfurter Allgemeine Zeitung newspaper, serves as co-chairman of the steering commission of the symposium alongside Viktor Subkov, chairman of Gazprom and first deputy prime minister to Mr. Putin. Mr. de Maizière is also a cousin of the defense minister, Thomas de Maizière, former chief of staff to Mrs. Merkel.

As it turned out, the Quadriga committee initially resisted pressure from inside Germany to withdraw Mr. Putin's award, then gave in as prizeholders from abroad threatened to return theirs. Mrs. Merkel and the government said nothing.

At the Hanover symposium, Mr. Medvedev offered up a coda to the events. His approach spoke both to his great closeness to Mr. Putin, and how they both regard German-Russian relations.

Mr. Medvedev called rescinding the prize "cowardly" and "incoherent" and said — no little presumptuousness here — "I believe this prize has come to an end — at least for international society."

From Mrs. Merkel, there came not a peep. Or any clue of what her silence was meant to defend.

E-MAIL: *pagetwo@iht.com*
TOMORROW: *Alan Cowell on the changing nature of news.*

K.C.N.A./KNS, VIA THE ASSOCIATED PRESS

A rally in Pyongyang, with a reported 100,000 citizens denouncing the South. The banner reads, "Let's topple the national traitor Lee Myung-bak, who betrayed and sold the nation!"

Rude rhetoric of a rogue state

SEOUL

Should the world worry about North Korean attack diplomacy?

BY MARK MCDONALD

Whenever North Korea sends up a diplomatic flare, as it did recently with a threat to start "a merciless sacred war" against South Korea, the message is delivered in a flamboyant vernacular that can sound comically retro or ominous and threatening.

The statements come through the Korean Central News Agency, the state-controlled office that operates a rudimentary Web site with daily reports in Korean, English and Spanish. The agency is the principal (and nearly only) way in which North Korea communicates with the outside world.

While North Korea's back-channel diplomacy has become more temperate in recent years, the Communist propagandists at K.C.N.A. still regularly promise "strikes without mercy by the steadfast and ever-vigilant People's Army."

They warn of "10,000-fold reprisals" against U.S. military exercises in the region, which the North calls "imperialist aggression." Another recurring threat is to turn Seoul, the South Korean capital of 10 million, into "a sea of fire."

U.S. forces based in the South and South Korean politicians, especially President Lee Myung-bak, come in for especially florid disdain: They are "swollen-headed traitors," "half-baked extra-large Philistines," "wicked running dogs" and "loud-mouthed gangsters."

Former President George W. Bush was regularly called "vile human scum." Secretary of State Hillary Rodham Clinton has been derided as "the little schoolgirl."

"The language is unbelievably rude and tough, far more aggressive than the Soviet Union under Stalin, and far superior to Mao's China," said Andrei Lankov, a leading North Korea analyst and a history professor at Kookmin University in Seoul. "North Korea, they're the world champions."

Official public language in North Korea is "a rhetoric of superlatives, of extreme and unflagging hyperbole, and propaganda is delivered in a loud, emotional style," said Brian R. Myers, a professor of international studies at Dongseo University in Pusan and author of "The Cleanest Race: How North Koreans See Themselves and Why It Matters."

Northern officials pride themselves on what they call "attack diplomacy," Mr. Myers said, and K.C.N.A.'s "fiery statements serve an important domestic political function by demonstrating to the masses that their country is powerful enough to speak its mind."

Analysts, scholars and diplomats say the K.C.N.A. invective has prepared North Korean citizens for the ascension of Kim Jong-il's youngest son, Kim Jong-un, as the next supreme leader.

"K.C.N.A. statements are getting ideologically tougher — in our eyes more anachronistic — for a purpose: They are building the ideology for the next Kim," said Victor D. Cha, a professor at Georgetown University and a senior adviser at the Center for Strategic and International Studies in Washington.

"The regime is returning to its ideological roots of the 1950s and '60s — when North Korea was doing well, relative to today — as the necessary direction in which the regime needs to move," Professor Cha said.

U.S., British and South Korean diplomats who have negotiated directly with their North Korean counterparts say that the over-the-top language should not be laughed off or dismissed out of hand.

"We are quite accustomed to the language, which they've used for the past several decades, so it doesn't necessarily raise alarms," said a senior South Korean official with long experience in inter-Korean negotiations. He spoke anonymously because of the highly strained relations between the Koreas and because he still negotiates with the North.

"But we have to be cautious and read the language very carefully," the official said. "In some cases, what they say is actually what they mean. When the language comes high and fast, we have to pay attention."

It is difficult for ordinary South Koreans to pay attention. The K.C.N.A. Web site, which operates through an Internet service provider in Japan, is blocked in South Korea under its National Security Law. So is the Web site of Rodong Sinmun, the newspaper of the ruling Korean Workers' Party.

News media companies, universities and research agencies in the South can get K.C.N.A. feeds by first obtaining government approval and then buying an expensive subscription.

The firewall could soon become a little more porous: K.C.N.A. officials recently agreed to allow The Associated Press to open a news bureau in Pyongyang.

Western diplomats and South Korean officials said that their Northern counterparts used to use the vivid K.C.N.A.-style language in their face-to-face negotiations, even into the 1980s. But no longer. Personal conversations at meetings are more restrained, with less hectoring and hard-line Communist slogans.

"They're diplomats, so there's a certain pedigree and professional pride," said John S. Park, director of the Korea Working Group at the United States Institute of Peace in Washington.

They are "swollen-headed traitors," "half-baked extra-large Philistines" and "wicked running dogs."

But the diplomatic gloves come off when the K.C.N.A. ideologues hold forth on the agency's Web site.

"The North Koreans still believe in the main principles of their ideology," Mr. Myers said. "It's like with religious people in the West. They know their language often makes the nonbeliever chuckle, and may even impede efforts to win converts, but they use it regardless, because their faith dictates it."

The recent threat of a "sacred war," according to Korean diplomats in Seoul, did not raise any particular alarms. The term might be seen in the West as something like a call for jihad, but not in the Koreas. One Seoul diplomat said the term, in Korean, was "merely colorful and flamboyant."

"Interpreting their statements may not be as much a science as an art," said Changyong Choi, a North Korea scholar at Syracuse University in New York State who has made a study of official news reports from the North.

But the phrase "sea of fire" can rattle people in Seoul. When it was first issued as a threat against the capital in 1994, it caused deep fear and outrage.

"A sea of fire in Seoul was really an alarming image when it was first mentioned," the senior government official said. "We're within range of their long-range artillery, and it reminded people of certain catastrophes."

Seoul suffered terribly during the 1950-53 Korean War, which ended in a truce, not a full peace treaty. Technically, the Koreas remain at war.

On the Korean Peninsula, Northerners are seen, even by themselves, as speaking more aggressively than people in the South.

"Vitriolic oratory also is a staple of the North Korean education system, from grade school on," said Sung-yoon Lee, a professor of international politics at the Fletcher School at Tufts University near Boston. "The louder and more colorful your venom about the United States, the better a revolutionary and patriot you are."

K.C.N.A.'s internal workings are still quite opaque, and many scholars said it was unclear whether the agency's directors appreciate that their reports are sometimes laughable when rendered into English.

But the vitriol, according to Mr. Lankov, the historian, does serve a purpose by keeping the outside world wary and off-balance, especially the recurring threats of military strikes.

"Nobody takes it too seriously, but you can also awake to the sound of gunfire in the morning," Mr. Lankov said. "It amplifies the message that North Korea wants to deliver — that the peninsula is unstable and on the brink of war."

That uncertainty "sends investors packing" from South Korea, Mr. Lankov said. "And that's exactly what the North Koreans want."

IN OUR PAGES ✻ 100, 75, 50 YEARS AGO

1911 Heat Wave Causes Fires in U.K.

LONDON The heat wave has returned with a vengeance and yesterday [July 21] was by far the hottest day in London and the south and east of England for five years, with a shade temperature reaching the tropical height of 33 deg. Cent. (91.5 deg. Fahr.) in London. Cases of heat prostration were common. Several downs, the Hurst Park racecourse, a factory and a school were set on fire by the intense rays of the sun. Crops were browned in the hard-baked soil, and fruit was almost cooked on the trees.

1936 Spanish Rebels Gain Ground

HENDAYE, FRANCO-SPANISH FRONTIER With the Fascist army of General Molla advancing on Madrid from the north and the forces of General Francisco Franco coming up from the south, the fall of the Spanish capital and overthrow of Spain's Popular Front regime is expected within a few days at most, according to reports received here. The combined Royalist and Fascist troops are making unexpectedly easy progress as thousands of armed peasants rush to join their colors. The exact position of General Molla is unknown here, but he is said to be making a rapid advance as forces of the Popular Front opposing him are dissolved almost without resistance. Some of the more optimistic Spanish Fascists predict the capture of Madrid by tomorrow [July 22].

1961 Reds May Back Off in Berlin

WASHINGTON The United States has received from behind the Iron Curtain the first indications that Soviet Premier Nikita S. Khrushchev is looking for ways to cool off the Berlin crisis. Western diplomats in Moscow have, it is reliably learned, sent along reports that top Communist officials are not only stressing negotiations but — and this is the vital point — indicating that they might talk on terms somewhat acceptable to the West.

U.N. council split on addressing climate change effects

UNITED NATIONS

BY NEIL MACFARQUHAR

The persistent inability of the United Nations to forge an international consensus on climate change issues was on display here again as Security Council members disagreed over whether they should address possible instability caused by problems like rising sea levels or competition over water resources.

Western powers like the United States argued on Wednesday that the potential effects of climate change, including the mass migrations of people, made it a crucial issue in terms of global peace and security. Russia and China, backed by much of the developing world, rejected the notion that the issue even belonged on the Security Council agenda.

With the major powers again at loggerheads, President Marcus Stephen of Nauru traveled the 13,000 kilometers, or nearly 8,000 miles, from his tiny Pacific island state to plead for action.

Speaking on behalf of some 14 island states vulnerable to disappearing or at least losing significant territory to rising sea levels, Mr. Stephen mused aloud about how the debate might differ if larger countries were affected.

"What if the pollution coming from our island nations was threatening the very existence of the major emitters?" he said. "What would be the nature of today's debate under those circumstances?"

"This is more than disappointing. It's pathetic."

Countries threatened with extinction — already some residents have experimented with emigrating as higher and higher tides endanger their livelihoods — are tired of merely hearing sympathy for their plight, the president said.

"Demonstrate it by formally recognizing that climate change is a threat to international peace and security," Mr. Stephen said, comparing it to nuclear proliferation or terrorism given its potential to destabilize governments and create conflict. "Neither has ever led to the disappearance of an entire nation, though that is what we are confronted with today."

Achim Steiner, the head of the United Nations Environment Program, noted that 145 countries rely on water from rivers that cross borders, with tension escalating among states over control of them as demand outstrips supply.

Despite such pleas, the debate, organized by Germany as this month's council president, broke down along the same basic lines as the first such discussion four years ago. Much of the argument was about bureaucratic prerogatives. (Mr. Stephen said he wished council members were more concerned about encroaching water than encroachments on bureaucratic turf.)

Both Russia and China stressed that other United Nations bodies were the proper places for discussion, particularly the United Nations Framework Convention on Climate Change, because it includes all member states. A bloc of some 120 developing nations endorsed this position, echoed in the speeches of Brazil, India and South Africa, among others. Some said concerns about climate change were based on speculation rather than science.

American ambassador Susan E. Rice lashed out at other members for not addressing the problem. "This is more than disappointing," she said. "It's pathetic."

Outside organizations that track climate change negotiations said that despite the lack of consensus, any high profile attention paid to the issue was helpful.

They also noted a certain irony that countries arguing against Security Council action, like Russia and China, were actually taking real steps toward mitigating climate change at home, whereas the United States — for all its rhetoric at the United Nations — lacked a national program.

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European debt gets good reviews in rough times

FRANKFURT

BY JACK EWING

When European banks bought loads of Greek bonds over the years, making themselves more vulnerable to default and amplifying the current crisis, they were just doing what regulators encouraged them to do — and, indeed, still encourage them to do.

NEWS ANALYSIS

Despite the threat to the banking system caused by Greece and massive markdowns on Greek bonds in the market, European banking regulations maintain the fiction that Greek debt is risk free. The same holds true for bonds from Ireland, Portugal or any other European Union country.

The regulations, left intact by new European Commission bank rules issued Wednesday, provide a strong financial incentive for banks to buy government debt. Because the risk of losses is officially zero, banks do not need to set aside additional reserves when they buy government debt. That effectively lowers the price.

"The assumption was that states don't go bankrupt, which is obviously not true," said Bert van Roosebeke, a banking expert at the Center for European Policy in Freiburg, Germany. "It's totally crazy."

Governments have benefited from the regulations, which helped create a market for their bonds and keep interest rates low. But now that Greece's problems are shaking the euro area, the policy seems ill-advised.

Banks' extensive holdings of sovereign debt are a central issue in the crisis, creating a dangerous link between government fiscal problems and bank stability. The exposure of financial institutions to government bonds adds another layer of complexity as European leaders struggle to find a way to reduce Greece's debt load without bringing down the euro.

"The fact that private banks own considerable shares in European government bonds and risk a major share of their equity in this market makes a restructuring more difficult than otherwise," Kai A. Konrad, an expert in tax law at the Max Planck Institute, wrote in a paper co-authored with Holger Zschäpitz, a reporter for the newspaper Die Welt.

Regulators' favorable treatment of sovereign debt "is like a subsidy by which the governments distort banking decisions, making banks more inclined to finance government debt than engage in their core business," Mr. Konrad and Mr. Zschäpitz wrote in the article, published this month by the Ifo Institute for Economic Research in Munich.

Bank stress tests last week helped bring the issue into relief, for the first time providing detailed information on European bank holdings of government debt and allowing analysts to estimate the carnage from a Greek default, as well as from price declines for other bonds.

The damage would be substantial. The data indicated that most banks outside of Greece would survive if forced to recognize market losses on their sovereign holdings. But a large number would have to raise billions in additional capital to return to health.

For example, analysts at Credit Suisse looked at 49 major banks and posited what would happen if they absorbed markdowns on their Greek, Portuguese, Irish, Italian and Spanish debt in line with losses those bonds have already suffered in the markets. That included a 50 percent markdown on Greek debt.

While only a handful of banks would fail, almost all of them in Greece, more than half the banks would need to raise new capital to bring their reserves back to levels considered healthy, Credit Suisse concluded. The total amount of money they would have to raise would be €82 billion, or $118 billion.

While it would be easy to blame the banks for making themselves so vulnerable, they were responding to government incentives that are not likely to change anytime soon.

The new banking rules issued by the European Commission will sharply increase the amount of reserve capital that banks must keep on hand, in line with guidelines agreed to by the Group of 20 nations. But European government bonds will continue to be considered risk free and immune to capital requirements, at least until 2015.

In explanatory documents released Wednesday, the commission acknowledged the issue, asking, "Isn't the risk of such debt amply illustrated by current events in the euro area?" The commission went on to say that it was simply complying with an agreement among European leaders.

Regulators' favorable treatment "is like a subsidy by which the governments distort banking decisions."

International banking guidelines also put a zero-risk label on government bonds bought by banks in that country. As a result, most banks have huge holdings of their own government's debt. The five largest Italian banks, for example, own €164 billion in Italian government debt, making them acutely sensitive to the fiscal fortunes of their homeland.

New rules taking effect in the course of the decade will force banks to set aside at least minimal sums to cover the risk of government bonds. The so-called Basel III banking rules approved by G-20 last year would require banks to hold capital reserves equal to at least 3 percent of all their holdings, regardless of the perceived risk. That rule, designed to prevent banks from taking on too much leverage or gaming banking regulations, would also apply to government bonds.

But the rule, known as a leverage ratio, would not take effect until 2018 and could still change. The European Commission said it would implement a similar rule by 2018, but it is waiting until after an evaluation period to determine whether the leverage ratio should be 3 percent or some other number.

The new European rule also gives the commission the power to impose additional capital requirements on banks, including their government bond holdings, if officials see a risk to the financial system.

"It's not an option to continue like we are today," said Mr. van Roosebeke of the Center for European Policy. "The question is if politicians have enough courage to look at the risk."

E.U. leaders look at novel concept in Greek crisis

DEBT, FROM PAGE 1

Bank officials have been vocal in warning that if Greece were to default, selective or otherwise, that would cause contagion to spread as bond holders in other countries, fearing a similar outcome, ditch Irish, Portuguese and even Spanish and Italian bonds.

Maintaining that uneasy balancing act was at the heart of the negotiations Thursday. The plan that has emerged would have Europe's main rescue vehicle, the European Financial Stability Facility, promise to provide a financial guarantee on the debt while Greece and its bond holders hash out the terms of a debt swap that would ease Greece's burden.

Contrary to this fear, bond markets have rallied strongly, with yields on 10-year Greek bonds narrowing sharply Thursday, from 18 percent to 16 percent, partly because investors are ready to embrace even the slightest sign that Europe is moving decisively on the issue.

In addition, as the plan is currently structured, it is quite likely that banks holding Greek bonds will not have to suffer an immediate haircut, or loss.

Germany's advocacy for a so-called reprofiling of Greek debt — namely, a deal that would force bond holders to swap their short term Greek debt for bonds with a much longer maturity — is driven by mounting political pressure at home that private investors take some form of a loss on their positions.

By taking on longer term Greek debt at a lower interest rate, the financial institutions are on the hook for losses in the future if, as most economists believe, Greece's debt is ultimately restructured again.

"A reprofiling takes maturing bonds out of the equation and it keeps the bond holders in the game and ultimately will make them share in the pain," said Lee C. Buchheit, a lawyer at Cleary Gottlieb Steen & Hamilton who has worked on similar debt deals in Latin America. "Everyone knows that something more drastic is coming but when it comes you want it to be the bond holders who pay, not the taxpayer."

Indeed, between 2009 and this year, foreign banks have decreased their exposure to Greece to €45.5 billion, from €68 billion, while taxpayers in Europe, with Germany way out in front, have seen their exposure to Greece go from zero to €120 billion — with that figure expected to grow even more.

In 2003, Uruguay, with significant support from the U.S. Treasury, was able to reach an agreement on its debt that resulted in friendlier terms and an agreement with its banks.

But critics say that there are big differences between Uruguay and Greece, in that Uruguay suffered from a short-term liquidity crisis that came from contagion in the region, not a solvency problem rooted in a near-bankrupt state.

The point is also made that in Uruguay, bond holders were spread out and had less leverage. With Greece, those on the hook are large, politically connected European banks, not to mention the E.C.B. itself.

Such distinctions may well be valid. But it is also true that the near meltdown in Italian bonds last week has pushed Europe to take a more aggressive stance toward dealing with Greek debt and to consider proposals that just months ago would be unthinkable.

For example, a panel of German economists that advise the government came out last week and recommended what economists call a hard restructuring of Greek debt.

That would entail bond holders suffering an immediate 50 percent loss on their holdings.

In the face of such a prospect, a maturity extension — and the risk that comes from being in selective default — may well be an acceptable alternative, for Europe, Greece and even the bond holders themselves.

Summit meeting seeks 'European Marshall Plan'

GREECE, FROM PAGE 1

POOL PHOTO BY STEFFEN KUGLER

Prime Minister George A. Papandreou of Greece, Chancellor Angela Merkel of Germany and President Nicolas Sarkozy of France, back to camera, in Brussels before the start of a euro zone summit meeting Thursday. Outlines of a plan discussed by heads of government would deal with the economic problems of Ireland and Portugal as well as Greece.

remarkable shift of direction. A series of measures to lighten the burden on Greece, Ireland and Portugal represents a recognition that the mountain of debt hanging over them threatens to stifle any prospect of recovery.

The draft calls for a "comprehensive strategy for growth and investment in Greece," including the release of European Union development funds to finance infrastructure projects.

More significant, the euro zone leaders were also being asked to give wide-ranging new powers to the bailout fund, the European Financial Stability Facility by allowing it to buy government bonds on the secondary market and to help recapitalize banks where necessary.

That would effectively turn it into a prototype European version of the International Monetary Fund. Under the draft proposals, the bailout fund would even be able to help shore up countries that had not requested a rescue.

Germany rejected such ideas only months ago.

Strengthening the bailout fund would signal a new willingness to come to terms with the scale of the euro zone's debt crisis by taking a big step toward common economic structures. The challenges for Greece and the other bailed-out countries remain enormous, however, and some fear a default may still happen, even though markets reacted positively Thursday.

Diplomats said that going forward with the proposals would require a change in the fund's rules, which in turn would require approval by national parliaments.

On the eve of the summit meeting, a statement from the French president, Nicolas Sarkozy, and the German chancellor, Angela Merkel, said they had "listened" to the views of the president of the European Central Bank, Jean-Claude Trichet, who flew in from Frankfurt unexpectedly to join them in Berlin.

Though the statement from Mr. Sarkozy and Mrs. Merkel did not say whether they had settled the issue of allowing Greece to write down some of its debt — something Mr. Trichet has argued against publicly and adamantly — suggestions before the summit meeting in Brussels were that the E.C.B. had softened its stance.

That appeared to be the sense of the draft summit meeting statement, which opened the way to a variety of different measures.

"The financial sector has indicated its willingness to support Greece on a voluntary basis through a menu of options (bond exchange, rollover and buyback) at lending conditions comparable to public support with credit enhancement," the draft document said.

Though no figures were specified in the draft agreement, the loss for private investors would be around 20 percent, according to a German official not authorized to speak publicly.

"Selective default" is a term used by rating agencies when such terms of a bond as the repayment deadline or interest rate have been altered. It falls short of an outright default, which usually occurs when the borrower stops making payments.

One theory is that the rating agencies could be persuaded to wait before issuing any formal ruling on the plan.

According to the draft, the maturity of European loans to Greece would be extended to a minimum of 15 years from 7.5 years and at interest rates of around 3.5 percent.

Similar help through reduced borrowing costs would be extended to Portugal and Ireland. The Irish government would, in exchange, end a dispute with France by promising to "participate constructively" in talks on a common base for corporate tax in Europe. Officials said that means Ireland would not be required to raise its relatively low corporate tax rate — currently 12.5 percent — as had been sought by some countries, including France, which have higher tax rates.

The summit meeting was called after days of market turbulence in which borrowing costs spiked for Italy and Spain, raising fears that the euro zone debt crisis would spread to those much bigger countries, potentially setting off another global financial crisis. Germany, Finland and the Netherlands have insisted that private bondholders share the pain of a second bailout, putting them at odds with the E.C.B. and some other governments. Besides concerns over contagion, the central bank has said a selective default would make it impossible for it to accept Greek bonds as collateral.

Officials suggested that an earlier proposal for a tax on banks had been dropped. This was once seen as a tool for raising private sector financing without provoking a default. But the concept posed technical problems, since the tax would have to be levied by each national government and would exclude countries that did not use the euro even if they had exposure to Greek debt.

Asked about the bank tax idea, Jean-Claude Juncker, the prime minister of Luxembourg and head of the Eurogroup, which is made up of euro zone finance ministers, said, "I don't think that there will be an agreement on that."

Matthew Saltmarsh contributed reporting from London.

Dodging and weaving on Wall Street to outrun the possibility of default

NEW YORK

BY LOUISE STORY AND JULIE CRESWELL

Lawmakers in Washington are racing to reach a deal to save the United States from defaulting on its debt, but on Wall Street, financial players are devising doomsday plans in case the clock runs out.

The companies are taking steps to reduce the risk of holding U.S. Treasury bonds or angling for ways to profit from any possible upheaval. Even if a deal is reached in Washington, some in the industry fear that the dickering has already harmed the United States' market credibility.

On Wall Street, Treasury securities function like a currency, and investors often use the bonds, which are supposed to be virtually fail-proof, as security deposits in their trading in the markets. Now, banks are sifting through their holdings and their customers' holdings to determine whether those security deposits will retain their value. In addition, mutual funds, which own billions of dollars in Treasury debt, are working on presentations to persuade their boards that they can hold the bonds even if U.S. government debt is downgraded. And hedge funds are stockpiling cash so they can buy up U.S. debt if other investors flee.

The rating agencies, which control the fateful decision as to whether the United States deserves to have its credit standing downgraded, are surveying other entities, like insurance companies and state governments, that would be affected by a U.S. default and issuing warnings that a U.S. downgrade could result in several other ratings cuts. States that might be downgraded, in turn, are trying to reassure the market that they could still pay their bills on time.

All of these contingency plans hinge on the pivotal date of Aug. 2, when the administration of President Barack Obama has said it no longer will be able to finance government obligations without raising the $14.3 trillion cap on government borrowing. If lawmakers do not act before then, it will be difficult for the Treasury to meet coming interest payments as well as obligations to government employees, vendors and programs like Social Security and Medicare.

Even though many on Wall Street believe that a default remains unlikely, the financial markets are starting to become agitated. Stock market volatility has soared, and some investors say that stock prices are falling because a U.S. default could severely raise companies' costs of doing business.

In the Treasury market, investors are starting to sell, fearing that the government will not make good on some interest payments that fall due next month. And complex financial instruments that will pay out if the United States defaults have become twice as expensive to buy as they were at the start of the year.

"The metaphor is a pile of sand," said Mark Zandi, chief economist at Moody's Analytics. "You keep putting one piece of sand on the pile, nothing happens, and then all of the sudden it just caves."

Several traders and bankers, including Mr. Zandi, said that the imminence of a possible default was already damaging the U.S. standing as the most creditworthy country in the world. The tarnished reputation may linger even if the government reaches a deal, especially if the country's books remain unbalanced. "Our aura is diminished. You know people really view the U.S. as the AAA, the gold standard, and I think we're tarnishing that," Mr. Zandi said.

The government has begun preparing for much tougher borrowing conditions since the financial crisis, shifting toward issuing longer-term debt. That was especially needed because much of the debt issued to cover the financial crisis of 2008 had a short-term maturity.

The United States still enjoys low borrowing costs — less than 3 percent on a 10-year-note — but there is fear that the theatrics around the debate will increase them. Low national borrowing costs translate into lower borrowing costs for U.S. corporations and individuals.

Deterioration of investor confidence in the United States could also hurt the value of the dollar, according to William H. Gross, co-chief investment officer of Pimco, a bond fund based in California. Mr. Gross said he believed that the dollar would become weaker because of the country's inability to deal with its growing deficit. Instead, he favors currencies in China, Canada, Brazil and Mexico. Compared with the balance sheet of the United States, he said, "their dirty shirts are much cleaner."

In New York, the hedge fund KLS Diversified Asset Management has been accumulating cash to take advantage of profit-making opportunities if, for instance, investors are forced to sell cheaply because of a decline in the nation's credit rating. KLS was founded in the summer of 2008, and it weathered that storm in part by having lots of cash on hand, though back then Treasury holdings were considered nearly as safe as cash. In the event of a U.S. default, KLS could make money if investors fled the market, said Harry Lengsfield, a managing partner at the firm.

JEFF SWENSEN FOR THE NYT

Deborah A. Cunningham asked if a safer haven exists than U.S. Treasury notes.

In his view, a default, while unlikely, should not be a surprise. "It's hard to argue that this case hasn't been telegraphed and people haven't been warned and warned again," he said.

One of the worst scenarios under discussion is one in which scores of insurance companies, pension funds and mutual funds have to dump their Treasury holdings, since some investors are precluded from holding assets that are rated below triple-A. "The question I think investors are going to face," said Deborah A. Cunningham, who oversees $271 billion in money market funds at Federated Investors in Pittsburgh, "is, where do they go? Do they go to foreign banks? U.S. commercial paper issuers? U.S. agencies? Is there a safer haven than Treasury securities?"

Eric Dash contributed reporting.

Interns pull their weight, and then some

Window on Wall Street

KEVIN ROOSE


MINH UONG

NEW YORK In better days, Wall Street interns were treated like royalty. But shrinking profits and a spate of recent bank layoffs are forcing interns, known as summer analysts, to adopt full-time workloads this year. Some are complaining that they have gone from pampered to pummeled.

"I worked 85 hours last week," said one Goldman Sachs summer analyst, a rising college senior who spoke on the condition of anonymity because the firm's employees are not allowed to speak to the news media.

"Waiting for more work at 11:45 pm Priceless," read one Deutsche Bank summer analyst's recent Facebook status. Several hours later, the analyst posted another update: "3 am still at the office."

Being a Wall Street intern has never been a cakewalk, but after-hours perks once made the work seem easier. In 2006, a group of JPMorgan Chase interns were driven in white Hummer limousines to a trendy nightclub, Butter. They partied for several hours before retiring to swank rooms at the Hudson Hotel, where the bank had put them up for the night.

In 2007, Lehman Brothers took its interns to a concert featuring OK Go and the Fray, and Credit Suisse gave its interns cooking classes and night cruises with open bars.

Those extravagances are gone, experts say, because of slashed entertainment budgets and increased sensitivity at banks whose reputations suffered during the financial crisis.

"Banks are trying to be a little bit more sensible," said Geoff Robinson, the founder of 7city Learning, a financial training company, and author of "The Complete Intern: Navigating the Investment Banking Maze." "If you look back three or four years at some of the perks, it's certainly more economical now."

Summer analysts at the largest New York banks, who started in mid-June, were issued smartphones, laptops and corporate charge cards immediately upon arriving. First, they are divided into groups and assigned to groups within in the bank, with some placed on desk rotations designed to expose them to different parts of the firm.

Interns spend several days at a workshop led by a financial training service like Training the Street or Adkins Matchett & Toy, where they are taught accounting basics, Excel shortcuts and the fundamentals of corporate valuation.

"Managing directors are telling interns, 'We're going to need you to step up.'"

Then the real work begins. Analysts in the investment banking divisions are said to have the longest hours, with many staying at their desks well past midnight to tweak pitch books or adjust spreadsheets.

"They are effectively treated just like analysts and associates," said Scott Rostan, the founder of Training the Street.

Unexpected turbulence in the industry this year has affected interns, who say that a lower number of full-time employees has meant more work for them. UBS and Credit Suisse have both conducted layoffs this summer, and Goldman Sachs and Morgan Stanley are planning cutbacks as well.

"Managing directors are telling interns, 'We're going to need you to step up,'" said one bank recruiter, who spoke anonymously because she was not authorized to speak to the news media.

Anticipating an uptick in deal activity, some banks assembled larger intern classes this year, according to Patricia Rose, director of career services at the University of Pennsylvania. Several firms have more than 500 New York-based summer analysts this year, compared with about 400 last year. And demand at top-flight colleges for the positions is up.

"It's the best way to land a permanent position, it's prestigious, and there's a steep learning curve, so you come away having been quickly trained and assigned meaningful work," Ms. Rose said.

For their long hours, Wall Street interns are rewarded handsomely. New York-based summer analysts in Goldman Sachs's investment banking division earn a first-year analyst's annual salary of $70,000, prorated to the 10 weeks they work, plus a housing stipend of $2,000. That works out to about $15,000 in total compensation for the summer.

Summer analysts at the New York offices of BlackRock, the asset management firm, are paid a prorated salary that works out to around $33 per hour. They also earn time and a half for overtime exceeding 40 hours per week, according to a company spokeswoman.

But the real prize is an end-of-summer job offer. Most banks stock their full-time ranks with former interns, and the pressure to foster loyalty during a 10-week summer is palpable. This year, Goldman Sachs summer analysts have been addressed by executives like David A. Viniar, the firm's chief financial officer, and Gary D. Cohn, the firm's president. One Goldman intern reported sharing a silent elevator ride with Lloyd C. Blankfein, the firm's chief executive.

"It's a delicate dance," said Mr. Robinson of 7city Learning. "The banks are assessing them, and these kids are assessing what the banks are doing."

But there is also potential for costly mistakes. This summer, a group of young Morgan Stanley employees was disciplined for rowdy behavior and noise complaints at Mercedes House, a New York apartment building where the firm houses interns and new hires. One first-year analyst was fired, according to a person with knowledge of the incident.

Morgan Stanley declined to comment.

For interns who survive the summer, the payoffs can be big. Top performers are given offers in August or September for full-time positions that begin after graduation, freeing them from the stress of a senior-year job search.

Ms. Rose, the Penn career services director, said that the rigors of a Wall Street internship also gave students a competitive advantage when they returned to school for the autumn semester.

"If you have to work 20 hours straight, coming back and having a few hours of class seems much easier," she said.

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Hungarians hostage to Swiss franc

Inside the Markets

GERGELY SZAKACS
REUTERS

BUDAPEST Sharp gains in the Swiss franc are bringing new pain to Central European borrowers who have foreign currency loans. The trend could slow the region's economic recovery and prompt new budget cuts in the most deeply affected country, Hungary.

Fears over the spreading euro zone crisis have pushed the Hungarian forint and the Polish zloty to record lows against the Swiss franc this month, driving up payments for those struggling under the burden of franc loans.

With 4.83 trillion forints, or $25.9 billion, in franc loans, Hungary has the highest level of foreign currency lending in emerging Europe.

And at 238.38 forints per franc, the exchange rate is almost a third more expensive than the 160 forint average level at which the loans were made.

That has had an impact on disposable income, an effect that will translate into weaker growth and could push the government of Prime Minister Viktor Orban to pursue deeper budget cuts or miss its goals for reducing the deficit.

Peter Attard Montalto, an economist at Nomura International, said the strong franc had already lopped half a percentage point off Hungarian growth this year. That could put the government's growth target, 3.1 percent, out of reach. A further 10 percent rise in the value of the franc could curb gross domestic product by nine-tenths of a point, Mr. Montalto said.

He added that a drop in retail sales reflected a decline in consumption as income was transferred to monthly foreign-currency interest payments on mortgages. "That is only likely to get worse," he said.

Mr. Orban's government imposed a ban on foreclosures last year to prevent what he has called "the hyenas of the property market" from evicting thousands of people who had fallen behind on their mortgage payments.

It has since lifted that moratorium in a deal with banks that also offers fixed conversion rates at 180 forints per franc — a quarter cheaper than today's levels — but allows the difference to accrue in new forint loans guaranteed by the state.

Government austerity measures, high levels of unemployment and weak bank lending have already depressed loan demand in the eastern part of the European Union as the area battles to rein in deficits and sustain confidence in the face of a worsening debt crisis in the euro zone.

Hungary was not alone in seeing companies and households borrow in foreign currencies, mostly in francs, to get lower interest rates during the boom years that ended in 2008. About a third of Polish private debt is also in foreign currencies.

The strategy has largely paid off for euro-denominated debt. Despite global market shocks from the turmoil surrounding Greece and Italy, emerging European currencies have held up well against the euro. The forint has even risen about 3 percent against the euro since January to lead gains in the region.

But the general view on the franc is that as long as the euro zone remains mired in crisis, and concerns over global growth linger, there will be no return to levels below 200 forints.

A sustained exchange rate at current levels of around 230 forints to the franc could curb households' disposable income by 120 billion to 130 billion forints, according to Zsolt Kondrat, an analyst at MKB, a bank headquartered in Budapest.

Fears over the euro zone crisis have driven up payments for those with franc loans.

That will pose little risk to the budget this year because of the government's effective renationalization of $14 billion in private pension assets, a special tax on banks and other mostly foreign-owned sectors, and other steps expected to produce a surplus equal to about 2 percent of gross domestic product. But it could threaten the government's goal of cutting its budget deficit to 2.5 percent of G.D.P. next year and to 2.2 percent by 2013.

Mr. Kondrat said that even the government's conservative estimate of 3.1 percent growth in 2011 "looks optimistic, which would mean a lower G.D.P. base for planning next year."

"Further steps may be necessary next year on top of a spending freeze and the 550 billion forints of savings plans announced so far, because these measures may not fully produce the expected improvement," Mr. Kondrat said.

For Hungary, the good news is that any capital needs for its banks are manageable, even under a stress scenario, in light of a commitment by its banks' foreign owners to a 300 billion forint capital reserve fund.

But the ratio of nonperforming loans, forecast at up to 15 percent by the end of the year, could rise further at today's franc levels, dragging on profitability in the heavily taxed financial sector and further hampering lending. Quarterly foreclosure quotas will allow banks to sell some of the more than 130,000 homes put up as collateral behind bad loans. But it means that the cleanup of tainted lending portfolios will also be slow.

N.Y. Times Co. reports 2nd-quarter loss

NEW YORK

Drop in print advertising takes shine from good news in digital offerings

BY JEREMY W. PETERS

The New York Times Co. reported an overall second-quarter loss Thursday as print advertising continued to struggle, dragging down growth in online advertising.

The net loss of $119.7 million was caused in part by a noncash write-down of $161.3 million to reflect the declining value of its Regional Media Group, which includes newspapers like The Sarasota Herald-Tribune in Florida, The Tuscaloosa News in Alabama and The Press Democrat in Santa Rosa, California. The per-share loss translated into 81 cents, compared with a profit of 21 cents a share, or $32 million, in the period a year earlier.

Excluding onetime items and severance costs, the company's operating profit in the quarter was $82.9 million, compared with $92.6 million in the period a year earlier.

Revenue declined 2.2 percent, to $576.7 million, from $589.6 million, in large part because of a 4 percent decrease in advertising. The company said a 2.6 percent increase in online advertising revenue partly offset a 6.4 percent decline in print advertising. Operating costs declined by nearly 1 percent, to $525.2 million, in the quarter, the company said.

The company did see encouraging growth in subscriptions to The New York Times's digital editions, a sign that consumers were responding favorably to a business gamble that few U.S. newspaper companies have been willing to make.

Since March, when the newspaper introduced its paid model, The Times has signed up 224,000 paying subscribers to NYTimes.com in addition to 57,000 others who pay to receive The Times on e-readers like the Barnes & Noble Nook and the Amazon Kindle.

Home-delivery orders also ticked up, helping to slow the rate of decline in print circulation revenue. Over all, the company's circulation revenue for the quarter was flat at $234.9 million, reflecting the print declines and the introductory 99-cent rate for digital subscriptions.

Circulation revenue was up 1.6 percent at The New York Times Media Group, which includes the International Herald Tribune, but down 5.4 percent at the New England Media Group, which includes The Boston Globe, and down 1.7 percent at the regional newspapers.

As the introductory rate expires and more customers begin paying the full price, which starts at $15 every four weeks, The Times expects to see more of a benefit to its bottom line.

"The digital subscription model is a long-term effort, and its full impact on revenues will be more evident over the course of the year as we progress past the early stages of the plan," said Janet L. Robinson, the chief executive.

Ms. Robinson added that the digital subscriptions would provide the company "with a significant new revenue stream in the second half of this year."

Morgan Stanley posts bigger loss than expected

NEW YORK

Lingering cost of crisis overshadows gains in all of its major businesses

BY KEVIN ROOSE

Despite showing improvement in its major divisions, the U.S. investment house Morgan Stanley on Thursday reported a loss of $558 million for the second quarter, as it continued to deal with the aftereffects of the financial crisis.

The loss stems from a deal struck this year with Mitsubishi UFJ Financial Group, which had provided a much-needed cash infusion in the depths of the disaster. With the new agreement, Morgan Stanley freed itself of a costly continuing burden but was saddled with a $1.7 billion one-time charge in the quarter.

Morgan Stanley posted a loss equivalent to 38 cents a share. Still, the results were significantly better than a loss of 61 cents a share expected by analysts.

More important, Morgan Stanley's underlying businesses all reported gains, and it posted revenue of $9.3 billion, up 17 percent from the first quarter. It was the first time since 2008 that Morgan Stanley's quarterly revenue had exceeded that Goldman Sachs.

"While global markets remained challenging this quarter, the firm delivered higher year-over-year revenues across our three major business segments," James P. Gorman, Morgan Stanley's chief executive, said in a statement.

Morgan Stanley's largest business, Institutional Securities, got a significant lift from underwriting and deal-making activity. The technology banking team, for example, has won coveted underwriting spots on the year's hottest technology offerings, including LinkedIn, Groupon and Zynga. Underwriting revenue increased 57 percent in the period, to $940 million.

Morgan Stanley has also been involved in some big mergers and acquisitions in recent months. It represented BJ's Wholesale in its deal to sell itself to a group of private equity firms for $2.8 billion. It also worked with Capital One Financial, which bought the U.S. online banking group of ING for $9 billion. For the quarter, advisory revenue jumped 85 percent, to $533 million.

Morgan Stanley Smith Barney, the bank's global wealth management division, continued to be a steady performer, posting net revenue of $3.5 billion this quarter, compared with $3 billion a year earlier. Mr. Gorman tapped Gregory J. Fleming to run the division in January as part of a move to beef up less-risky arms and make the bank's bottom line less susceptible to market swings.

The bank also took steps this year to improve its asset management arm, which is also run by Mr. Fleming and which has historically been a sore spot for Morgan Stanley.

For the first time since 2008, Morgan Stanley's quarterly revenue topped that of Goldman Sachs.

This quarter, the division posted net revenue of $645 million, an increase of 57 percent from a year earlier. The increase primarily reflected gains in the bank's real estate investments and higher results in its core asset management groups.

Step forward in DNA sequencing

NEW YORK

Semiconductors speed process, but cost is high and some results dubious

BY NICHOLAS WADE


CHRISTOPHER CAPOZZIELLO FOR THE NEW YORK TIMES

Jonathan Rothberg with his decoder. Its promise rests on its potential to be improved.

The inventor of a new machine that decodes DNA with semiconductors has used it to sequence the genome of Gordon Moore, co-founder of Intel, a leading chip maker.

The inventor, Jonathan Rothberg of Ion Torrent Systems in Guilford, Connecticut, is one of several individuals pursuing the goal of a $1,000 human genome, which he said he could reach by 2013 because his machine was rapidly being improved.

"Gordon Moore worked out all the tricks that gave us modern semiconductors, so he should be the first person to be sequenced on a semiconductor," Dr. Rothberg said.

At $49,000, the new DNA decoding device is cheaper than or comparable to its many rivals. Its promise rests on the potential of its novel technology to be improved more quickly than those of machines based on existing techniques.

Manufacturers are racing to bring DNA sequencing costs down to the point where a human genome can be decoded for $1,000, the sum at which enthusiasts say genome sequencing could become a routine part of medical practice.

But the sequencing of Dr. Moore's genome also emphasizes how far technology has run ahead of the ability to interpret the information it generates.

Dr. Moore's genome has a genetic variant that denotes a "56 percent chance of brown eyes," one that indicates a "typical amount of freckling" and another that confers "moderately higher odds of smelling asparagus in one's urine," Dr. Rothberg and his colleagues reported Wednesday in the journal Nature.

There are also two genetic variants in Dr. Moore's genome said to be associated with "increased risk of mental retardation" — a risk evidently never realized. The clinical value of this genomic information would seem to be close to nil.

Dr. Rothberg said he agreed that few genes right now yielded useful genetic information and that it would be a 10- to 15-year quest to really understand the human genome. For the moment his machine is specialized for analyzing much smaller amounts of information, like the handful of genes highly active in cancer.

The Ion Torrent machine requires only two hours to sequence DNA, although sample preparation takes longer. The first two genomes of the deadly E. coli bacteria that swept Europe in the spring were decoded on the company's machines. The earliest DNA sequencing method depended on radioactivity to mark the four different units that make up genetic material, but as the system was mechanized, engineers switched to fluorescent chemicals. The new device is the first commercial system to decode DNA directly on a semiconductor chip and to work by detecting a voltage change, rather than light.

The race is on to decode a human's genes for $1,000, an important price point for a mass market.

About 1.2 million miniature wells are etched into the surface of the chip and filled with beads holding the DNA strands to be sequenced. A detector in the floor of the well senses the acidity of the solution in each well, which rises each time a new unit is added to the DNA strands on the bead. The cycle is repeated every few seconds until each unit in the DNA strand has been identified.

Several years ago, Dr. Rothberg invented another DNA decoder, the 454, which was used to sequence the genome of James Watson, the co-discoverer of the structure of DNA. Dr. Rothberg said he was describing how the machine had "read" Dr. Watson's DNA to his young son Noah, who had asked why he had not invented a machine to read minds.

Dr. Rothberg said he began his research with the idea of making a semiconductor chip that could detect an electrical signal moving across a slice of neural tissue. He then realized the device he had developed was more suited to sequencing DNA.

George Church, a genome technologist at Harvard Medical School in Boston, said he estimated the cost to sequence Dr. Moore's genome at $2 million. That is an improvement on the $5.7 million it cost in 2008 to sequence Dr. Watson's genome on the 454 machine, but not nearly as good as the $3,700 spent by Complete Genomics to sequence Dr. Church's genome and others in 2009.

Dr. Rothberg said he had already reduced the price of his chips to $99 from $250, and could sequence Dr. Moore's genome today for about $200,000. Because of Moore's Law — that the number of transistors placeable on a chip doubles about every two years — further reductions in the cost of the DNA sequencing chip are inevitable, Dr. Rothberg said.

Stephan Schuster, a genome biologist at the Pennsylvania State University, said his two Ion Torrent machines were "outstanding" and enabled a project that would previously have taken two months to be completed in five days.

There is now "a race to the death as to who can sequence faster and cheaper, always with the goal of human resequencing in mind," Dr. Schuster said.