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Greek rescue deal or bank aid plan?

FRANKFURT

Lenders can transfer risk to E.U. and, perhaps, avert new financial crisis

BY JACK EWING

Europe's latest plan to prop up Greece seems, on closer examination, to look suspiciously like a plan to bolster European banks.

By agreeing to contribute a relatively modest amount to the rescue, the bank-

NEWS ANALYSIS

ing industry is getting something more valuable in return, analysts say. The industry is unloading much of its Greek risk onto the European Union and helping to quash fears that the sovereign debt crisis could morph into a second financial crisis.

The agreement reached in Brussels last week may anger anyone who thinks that banks have already gotten enough taxpayer favors. But the European sovereign debt crisis has always been as much about banks as it has been about Greece. If the deal helps restore confidence, weaker institutions would be able to borrow on money markets again, so they no longer would be dependent on the European Central Bank for financing.

"I think this is a good use of resources," said Carl B. Weinberg, chief economist at High Frequency Economics in Valhalla, New York. "This prevents the hit from becoming so large that it paralyzes the banking system."

The irony, of course, is that Chancellor Angela Merkel of Germany went to Brussels last week vowing to ma banks pay their share of the cost of a ing Greece. She inadvertently seems have done them a favor instead.

The plan agreed to by Ms. Merkel ai other leaders calls for banks to volunta ily swap some of their Greek bonds f more solid paper backed by collater Though the swap is technically volu tary, Moody's Investors Service warn Monday that such action would be cc sidered a default by Greece. Moody also downgraded Greece another thr notches to just one level above a defau grade. But Moody's also said that t plan would benefit Europe "by conta ing the contagion risk that would lik have followed a disorderly payment fault on existing Greek debt."

The debt swap endorsed by Europe leaders last Thursday will cost bai and other investors €54 billion, or nea $78 billion, according to estimates by Institute of International Finance, industry group that represented bar and insurance companies in negc ations with European governments.

That sounds like a lot of money, but Mr. Weinberg pointed out, a week a banks were staring at the possibili that Greece would slide into a disorder default, with losses in the range of €20 billion, not to mention untold collatera damage. "Compared to a €200 billion hit this looks to me like a really good deal," Mr. Weinberg said. In any case, he said, the cost to banks could turn out to be much lower than €54 billion.

Financial institutions still have substantial exposure to Greece, said Charles H. Dallara, managing director of the Institute of International Finance, who played a key role in the negotiations. The organization estimates that private-sector bond investors still have €200 billion at risk in the form of future interest payments by Greece. In addition, only about one-third of the new paper that Greece creditors will get is

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GREEK CREDIT RATING CUT BY MOODY'S
The bailout plan was interpreted to mean losses to private investors. *PAGE 14*