FINANCIAL TIMES

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Oil shifts country's centre of gravity

EU sets deadline to tackle debt crisis

Leaders to meet in 2 weeks to agree deal

Decision on Greek bail-out to be included

By Peter Spiegel in Brussels

European Union leaders have given themselves a deadline of two weeks to agree a deal to tackle the eurozone debt crisis, a grand bargain senior officials said would include a final decision on Greece's bail-out and a strategy to recapitalise the region's banks.

Herman Van Rompuy, the European Council president, said EU leaders would meet on October 23 to "finalise our comprehensive strategy", allowing them to present a plan at the G20 summit on November 3-4.

The eurozone has come under pressure from Washington and London to get to grips with its sovereign debt crisis by early next month or risk plunging the global economy into turmoil.

Greece remains the most contentious issue, according to European officials, with a German-led group of creditor countries pushing to revise the second €109bn ($149bn) Greek bail-out to include deeper "haircuts" for Greek bondholders – a plan resisted by France and others worried it could spread panic through the financial system.

Both sides have agreed to wait for a detailed report from the so-called "troika" of international lenders to Greece before deciding how to proceed, officials said. Troika negotiators are expected to wrap up their talks in Athens today, but a complete evaluation of Greek finances is unlikely to be finalised until the middle of next week, forcing EU leaders to delay Monday's planned summit until October 23.

Despite the remaining hurdles, the euro saw its biggest one-day gain against the dollar in more than a year as hopes rose that policymakers had committed themselves to tackling the crisis. The euro rose more than 2 per cent against the dollar, while the FTSE Eurofirst 300 rose 1.6 per cent.

However, there were further signs of strain in bank funding markets. Three-month euribor rates, the traditional gauge of unsecured interbank lending in euros, inched higher, suggesting worries over the health of banks was still preventing institutions from lending to each other.

Just hours after France and Belgium agreed to break up Dexia, whose inability to raise short-term funding brought it close to collapse, Austria's Erste announced it had fallen victim to the recent turbulence. The Austrian banking group said it would lose as much as €800m this year and write down €180m in eurozone sovereign debt.

Senior European officials insisted they were close to a bank recapitalisation plan after Paris softened its demand any Europe-wide strategy be run through the eurozone's €440bn rescue fund.

Additional reporting by Patrick Jenkins and David Oakley in London

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www.ft.com/bankingpodcast

Coptics mourn Cairo's Christians bury their dead

A mourner sits among the coffins of some of the Coptic Christians killed during clashes with Egyptian security forces in Cairo on Sunday which left 25 people dead, ahead of a mass funeral procession yesterday Cairo killings, Page 6; Editorial Comment, Page 8 AFP

China to boost stakes in largest banks

By Simon Rabinovitch in Beijing

The Chinese government will boost its stakes in the country's largest banks as it attempts to shore up financial stocks and restore investor confidence.

Central Huijin, the domestic arm of China's sovereign wealth fund, will buy shares in Agricultural Bank of China, Bank of China, China Construction Bank and Industrial and Commercial Bank of China, the official Xinhua news agency said.

Xinhua said that Huijin's purchases – its first such public intervention since a similar move at the onset of the financial crisis three years ago – would "support the healthy operations and development of key state-owned financial institutions and stabilise the share prices of state-owned commercial banks".

Monday's announcement came too late for the Chinese stock market, which had closed earlier at a 30-month low, but had an immediate effect on late trading in Hong Kong. ICBC's Hong Kong-listed shares, which had been down 3 per cent, rallied to close up 1 per cent.

Analysts said the sharp rebound could have partly reflected short covering. Chinese bank shares have fallen 30 per cent over recent months.

Sanjay Jain, a Chinese bank analyst with Credit Suisse, said: "They [Huijin] are trying to signal to the market that they feel confident.

"And of course valuations are depressed, so it's not a bad idea to buy at these levels for a long-term strategic investor."

Chinese growth has so far held up well, but the European debt crisis and fears of a double-dip recession in the US have cast a shadow over the country's economic prospects.

With inflation running near three-year highs and debt levels swollen by heavy spending, economists doubt that Beijing can launch another big stimulus, as it did when the global financial crisis struck in 2008.

Beijing also allowed the renminbi to record its biggest one-day gain in years on Monday. It rose 0.6 per cent against the dollar, squeezing traders who have been betting that the currency will weaken in tandem with a slowing economy.

The motivation for the sudden appreciation appeared to be diplomatic. The US Senate is set to vote on Tuesday on legislation that would punish China for deliberately undervaluing the renminbi.

The government, through Huijin, is already the majority shareholder in all the country's main banks.

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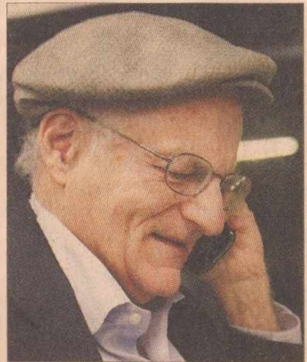
Nobel winners



Two economists known for their work on integrating expectations more sensibly into models of the economy have won the 2011 economics prize in memory of Alfred Nobel. The Royal Swedish Academy of Sciences awarded the Nobel Prize to professors Thomas Sargent (above), of New York University, and Christopher Sims, of Princeton University, for their independent "empirical research on cause and effect in the macroeconomy".

Report, Page 5

Key US investor group calls for News Corp vote against Murdochs

Backlash follows UK phone hacking scandal

By Ben Fenton and Kate Burgess in London and David Gelles in New York

There was further embarrassment for News Corp's board on Monday when the biggest investor advisory group in the US recommended shareholders vote against the re-election of 13 of the media company's 15 directors, including Rupert Murdoch, chairman and chief executive.

The ISS advisory group said that the phone hacking scandal at News Corp's London-based newspaper group had "laid bare a striking lack of stewardship and failure of independence" by the board that had led to enormous financial and reputational costs to shareholders.

News Corp's annual shareholder meeting is in Los Angeles on October 21.

ISS recommended that shareholders vote against the re-election of Mr Murdoch, his sons James, the deputy chief operating officer, and Lachlan, as well as the chief operating officer Chase Carey and all but two of the remaining directors, including non-executives such as Sir Rod Eddington, former chief executive of British Airways, and José María Aznar, the former prime minister of Spain. Only Joel Klein and James Breyer, both new directors, won a recommendation of support.

ISS also recommended a vote against the executive compensation motion on the meeting's agenda on the grounds that it might not be appropriate for Rupert Murdoch to be awarded a $12.1m bonus, compared with the $4.4m he took in 2010, given the magnitude of the phone hacking scandal.

Glass Lewis, the US investor advisers, last week recommended a vote against the three Murdochs and four other directors, while the Local Authority Pension Fund Forum in the UK advised its members to oppose the re-election of Rupert and James Murdoch.

Yet the protests are likely to be an embarrassment rather than a threat to the board's structure. News Corp uses a dual-class share structure that allows the Murdoch family to control almost 40 per cent of the voting rights, despite holding just 12 per cent of total equity.

Another 7 per cent of voting shares are held by Prince Al Waleed bin Talal of Saudi Arabia, a close ally of Mr Murdoch.

Sixteen people have so far been arrested in the phone hacking scandal, including Rebekah Wade and Andy Coulson, two former editors of the News of the World.

World Markets

STOCK MARKETS

	Oct 10	prev	%chg
S&P 500	1189.28	1155.46	+2.93
Nasdaq Comp	2555.47	2479.35	+3.07
Dow Jones Ind	11380.35	11103.12	+2.50
FTSEurofirst 300	963.89	947.63	+1.72
Euro Stoxx 50	2320.8	2269.19	+2.27
FTSE 100	5399.0	5303.4	+1.80
FTSE All-Share UK	2783.97	2734.98	+1.79
CAC 40	3161.47	3095.56	+2.13
Xetra Dax	5847.29	5675.7	+3.02
Nikkei	(c)	8605.62	-
Hang Seng	17711.06	17707.01	+0.02
FTSE All World $	(u)	187.93	-

CURRENCIES

	Oct 10	prev		Oct 10	prev
$ per €	1.366	1.349	€ per $	0.732	0.741
$ per £	1.567	1.562	£ per $	0.638	0.640
£ per €	0.871	0.864	€ per £	1.148	1.157
¥ per $	76.7	76.8	¥ per €	104.8	103.6
¥ per £	120.2	119.9	£ index	79.2	79.6
$ index	78.8	79.3	€ index	94.12	93.42
SFr per €	1.234	1.235	SFr per £	1.417	1.429

COMMODITIES

	Oct 10	prev	chg
Oil WTI $ Nov	85.41	82.98	2.43
Oil Brent $ Nov	108.95	105.88	3.07
Gold $	1,664.75	1,652.00	12.75

INTEREST RATES

	price	yield	chg
US Gov 10 yr	100.44	2.08	0.01
UK Gov 10 yr	110.22	2.57	0.14
Ger Gov 10 yr	101.54	2.08	0.07
Jpn Gov 10 yr	100.14	0.99	-
US Gov 30 yr	114.34	3.02	0.01
Ger Gov 2 yr	100.17	0.66	0.07
	Oct 10	prev	chg
Fed Funds Eff	0.07	0.07	-
US 3m Bills	0.01	0.02	-0.02
Euro Libor 3m	1.50	1.50	0.00
UK 3m	0.92	0.92	-

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Finland	€3.80	Qatar	QR15
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India	Rup85	Slovenia	€3.50
Italy	€3.50	South Africa	R28
Jordan	JD2.25	Spain	€3.50
Kazakhstan	US$5.20	Sweden	SKr34
Kenya	Ksh330	Switzerland	SFr5.70
Kuwait	KWD1.50	Syria	US$4.74
Latvia	Lats3.60	Tunisia	Din6.50
Lebanon	LBP7000	Turkey	YTL6.75
Lithuania	Litas15	UAE	Dh15.00
Luxembourg	€3.50	Ukraine	€5.00
Macedonia	Den220		

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Dutch favour tough approach

Interview

Jan Kees de Jager
Netherlands' finance minister

Harsh enforcement demands would be meted out to those that violate budget agreements, writes Matt Steinglass

The Netherlands' popular and plain-speaking finance minister is insisting on harsh enforcement measures against countries that violate eurozone budget agreements as the price of any new agreement to save the euro.

Such measures, possibly including a top European official with the power to veto the national budgets of countries that break deficit limits, are "non-negotiable", Jan Kees de Jager said.

European leaders led by Germany's Angela Merkel and France's Nicolas Sarkozy are seeking agreement on a complete package of eurozone rescue measures before the Group of 20 industrialised and emerging nations meets on November 3-4 in Cannes.

Mr de Jager's remarks draw a line in the sand for the Netherlands, which has been the strongest advocate in the eurozone for forcing countries to accept reforms as a condition of receiving financial support.

In an interview with the Financial Times, Mr de Jager said the Netherlands would demand reforms from any countries applying for help from the eurozone's joint emergency fund, the European financial stability facility.

That could set up a conflict with France, which has suggested it would seek EFSF help if it had to recapitalise some of its banks, which are heavily exposed to Greek debt.

"In all cases, if a country asks for support from the EFSF the Netherlands says there has to be a form of conditionality – even if it is only for support to recapitalise its banks," Mr de Jager said.

He suggested countries needing EFSF help solely for bank recapitalisation might only be asked to reform their financial sector, rather than to implement austerity measures such as those demanded of Greece, Ireland and Portugal.

Mr de Jager applauded recently approved eurozone reforms putting in place tougher budget discipline, but said it was "not enough". He said some of the more interventionist measures the Netherlands wanted might require renegotiating European treaties.

> 'Sovereigns have to implement austerity measures to regain trust'
>
> **Jan Kees de Jager**
> **Finance minister**

"Treaty revision is unnecessary for perhaps 80 per cent of our proposals, but for some of our proposals it's necessary," he said.

Mr de Jager is rated the most popular politician in the Netherlands – a surprising distinction for a man who has pushed a series of eurozone rescue packages through parliament, even as Dutch voters have become increasingly angry at Europe and defensive of their own sovereignty.

Surveys show more than 60 per cent of the Dutch public oppose any further aid to Greece, while far-right and far-left parties opposed to eurozone support have gained dramatically in the polls.

But Mr de Jager and Mark Rutte, prime minister, have maintained their political capital by pushing to make eurozone aid packages tougher on beneficiaries.

They were the sharpest advocates of a haircut for private holders of Greek debt as part of the rescue package agreed on July 21 by European leaders.

Mr de Jager still defends that rescue package's private-sector involvement measures, denying they played any role in the subsequent contagion of investor fears to Spain and Italy. The minister refused to comment on widespread reports that Germany is considering a much deeper restructuring of Greek debt to market prices, meaning a haircut of perhaps 60 per cent. He said the Dutch would wait for the report of the so-called troika of international lenders on Greek budget reform measures.

With many in the eurozone calling for an increase in the size of the EFSF, Mr de Jager said the Netherlands did not exclude such a move, but it would come "at a price" – the governance reforms that his government demands as part of a comprehensive package including a credible solution for Greece, and mechanisms for propping up banks and countries.

The G20 meeting in Cannes will focus on how to restart global growth. Some, including the US, have called for renewed stimulus measures from economically healthy countries such as the Netherlands, but Mr de Jager waved such proposals away.

"Sovereigns have to implement austerity measures to regain trust," he said.

"The negative effects of investors questioning whether or not governments will be able to pay back all their debts is much worse than a little bit less economic growth."

Eurozone banks, Page 9
Lex, Page 12

Plain speaking: Jan Kees de Jager (left) says enforcement measures are non-negotiable AFP

Self-imposed deadline puts squeeze on Paris and Berlin

GLOBAL INSIGHT

Quentin Peel
in Berlin

There are two ways of interpreting the decision by Angela Merkel, German chancellor, and Nicolas Sarkozy, France's president, to set a tight deadline for finding a "comprehensive package" to tackle the eurozone crisis.

The official line, as Mr Sarkozy insisted on Sunday night in Berlin, is that they agree on the plan, but still need time to work out the details – behind closed doors. They have just two weeks before a delayed EU summit on October 23.

The more likely view is that they still have an awful lot of negotiating to do if they are to narrow the gaps between them on vital questions, from the timing of any Greek default to who pays for recapitalising weak banks.

Seen from the outside, the Franco-German relationship often looks like the two dominant powers in the EU ganging up to tell their partners how to behave. From the inside, the impression is of two mutually mistrustful governments struggling to reconcile profound differences.

Before the two leaders began their meeting in the chancellery, a German official said there was "still some space between us". Judging by the platitudes Ms Merkel and Mr Sarkozy delivered at their press conference, it was an understatement.

Since the Greek debt crisis broke at the end of 2009, triggering contagion through the debt markets of the 17-nation eurozone, France and Germany have instinctively sought different solutions. Finding common ground has been a constant battle.

Berlin worries about the "moral hazard" of bailing out chronic debtors, such as Greece and now, most disturbingly, Italy – the largest European debtor.

Germany has focused on finding long-term solutions to ensure such a crisis cannot recur, often at the expense of aggravating short-term turmoil in the financial markets. Berlin wants new rules to impose discipline, even if it means rewriting EU treaties.

In Paris, Mr Sarkozy has been more concerned about contagion, and more willing to bail out the countries Germany calls budgetary "sinners". Behind that worry is a fear that France might itself lose its triple A status in the bond markets.

Both governments insist they cannot contemplate a Greek default, for fear of contagion. But in Berlin, many believe such an outcome may be inevitable, and should be faced sooner rather than later. In France, it is something to be delayed at all costs – certainly until after presidential elections next May. French banks would take a bigger hit than German banks.

Domestic politics are a constant complicating factor. The decision on Sunday – to agree a comprehensive package before the summit of the G20 leading economies in Cannes on November 3-4 – was a concession to Mr Sarkozy. He needs a successful summit to boost his ailing campaign for re-election as president.

Ms Merkel also wants a good summit: for Berlin, the worst outcome would be a transatlantic squabble over failure to deal with the eurozone crisis. But she faces domestic criticism over the cost of guaranteeing bail-outs, not least in the ranks of her own coalition.

Recapitalising German banks would be unpopular and expensive, but it is easier to sell than bailing out eurozone debtors. Berlin is adamant that

> From the inside, the impression is of two governments struggling to settle their differences

each country should look after its own banks, whereas France, conscious of its triple A rating, wants the €440bn European financial stability facility – the eurozone rescue fund – to come to the rescue. The two are still fighting over the EFSF guidelines that will set conditions for paying out cash.

Both countries are willing to "leverage" the EFSF to increase its firepower, but Germany will not contemplate using the European Central Bank to provide finance. The ECB is also dead set against being used.

Berlin also wants Greek bondholders to take a bigger writedown than the 21 per cent they face under the plan for "private sector involvement" agreed in July. Indeed, if the PSI deal is finalised, and Greece then defaults, German taxpayers would face a bigger hit than the banks, very embarrassing for the government that insisted on PSI.

Yet, for French banks, the PSI deal is a very good one, and they are fighting to keep it. They will need a bigger recapitalisation if they fail.

Only by setting a very tight and politically imperative deadline can the two sides hope to find common ground again.

'Game changer' needed to end crisis, warns ECB newcomer

Jörg Asmussen

By Ralph Atkins in Frankfurt

Europe urgently needs a "credible" solution for Greece's debt woes, the next recruit to the European Central Bank's executive has warned, indicating he would impose a bigger burden on private Greek bondholders despite past ECB objections.

Speaking to the European parliament, Jörg Asmussen urged a revised bail-out package for Greece to put its public finances back on a sustainable basis accompanied by "firewalls" to beef up eurozone banks' finances and prevent contagion across the 17-country monetary union.

A "game changer" was needed to resolve the eurozone crisis and prevent a further loss of credibility by its political leaders, Mr Asmussen said. His comments reflect the position of the German government, where Mr Asmussen is a senior official in the finance ministry. Wolfgang Schäuble, finance minister and Mr Asmussen's boss, has floated the idea of increasing the "haircut" taken by private Greek bondholders from the notional 21 per cent agreed in July.

Mr Asmussen said on Monday it was too early to discuss how big a revised "haircut" might be. But his remarks departed from the official position of the ECB, which initially opposed private sector involvement in the bail-out of Greece because of the signals it would send to investors. The ECB thinks its worries have been vindicated after seeing the crisis spread to embrace Italy and Spain.

Jean-Claude Trichet, ECB president, has made clear that eurozone governments need to take responsibility for the consequences of their plans for Greece. Last week he said: "I believe it is fully their responsibility to manage. We ourselves said there should be no default, no credit event and we also asked them to take a certain number of measures to protect us, the ECB."

In the event of rating agencies declaring Greece to have defaulted, the ECB would not be able to accept its government's bonds as collateral in its liquidity-providing operations. Without help from other states, that would almost certainly lead to a collapse of the country's banking system.

Mr Asmussen's nomination to the ECB's executive board was backed on Monday by the European parliament's economic and monetary affairs committee. He will succeed Jürgen Stark, who last month announced his resignation.

● ECB purchases of eurozone government bonds fell to €2.3bn last week, the lowest since the programme was reactivated in August. The drop reflects the ECB's plan to use the programme as little as possible.

Premier in quit threat over EU fund

Slovakia

By Jan Cienski in Warsaw and Peter Spiegel in Brussels

Slovakia's prime minister on Monday threatened to resign in a last-ditch attempt to persuade a junior coalition partner to back additional powers for the eurozone's €440bn bail-out fund.

Iveta Radicova said she was willing to tie approval of enhancements to the European financial stability facility to a confidence motion ahead of a crucial vote in the Slovak parliament today. Officials told the Slovak news agency that she was also prepared to step down if her coalition failed to approve the EFSF.

Slovakia and Malta are the last two eurozone countries to agree to give the EFSF new powers to recapitalise banks and buy up sovereign bonds – new tools deemed essential for the eurozone's efforts to solve its sovereign debt crisis. The powers must be approved by all 17 eurozone governments before they come into force.

Talks aimed at breaking the political deadlock broke down on Monday evening. Parliamentary approval is being blocked by the libertarian Freedom and Solidarity party. Richard Sulik, its leader, has made clear his distaste for a bail-out he feels will be costly to Slovakia, the second-poorest member of the eurozone, and end up helping wealthier Greece, a country he says is bankrupt and unable to repay any aid.

Speaking before Monday's meeting of the four-party coalition, Mr Sulik said his party had not shifted its long-standing opposition to the EFSF and that he would not feel responsible if the government fell. Without his 21 MPs, the coalition does not have enough votes in the 150-seat parliament to vote through the EFSF extension.

"A responsible decision is now needed on how to proceed next," said Ms Radicova, leader of the centre-right coalition. If she fails to secure Mr Sulik's support, the government could turn for help to Robert Fico, the leader of the leftwing opposition SMER party, who has said he would support EFSF, but at the price of the government dissolving itself.

The parties will meet again today in an effort to rally enough votes to approve the EFSF.

In spite of the political drama in Bratislava, European Union officials appeared sanguine about the consequences on the eurozone's firefighting efforts. One official said he hoped that a last-minute appeal by EU leaders would be enough to persuade recalcitrants in the Slovak parliament to fall into line.

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Warsaw urged to enact radical reforms

Tusk's second term

By Jan Cienski in Warsaw

Poland faces a rising chorus of demands to tackle painful economic reforms after the ruling party secured a second term in Sunday's general elections.

Donald Tusk's centrist Civic Platform party won 39 per cent of the vote, while the rightwing opposition Law and Justice party took 30 per cent, making Mr Tusk the first premier to win a second four-year term since the end of communism in 1989.

If the prime minister decides to continue his coalition with the rural Polish People's party, which took just over 8 per cent of the vote, the government would have 234 seats in the 460-member lower house of parliament – enough to rule without a third partner.

The result was positively received by financial markets, with the zloty gaining against the euro, dollar and Swiss franc, while the Warsaw stock exchange's blue-chip WIG20 index closed up 3 per cent.

Poland was the only EU economy not to fall into recession in 2009 and the country was an early advocate of changing from stimulus to fiscal tightening.

As a result, the budget deficit peaked last year at 7.9 per cent of gross domestic product and is expected to fall to 5.6 per cent this year. Public debt is also beginning to fall.

Mr Tusk was reluctant to undertake radical reforms that might upset the political stability that was a key part of his promise to voters. Because of that, many economists feel Poland still has to move on issues such as raising the retirement age, reforming a state-subsidised farmers' pension system and rationalising public spending.

Donald Tusk: premier's poll win well received by markets

In a note issued after the election, Fitch, the rating agency, said it "believes the incoming Polish government needs to reassess the country's fiscal consolidation plan in light of slower growth". Although the agencies are pushing for more radical action, there is little sign the new government will comply.

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How to stabilise the eurozone's banks – and satisfy voters

Jessica Einhorn

Leaders across Europe are struggling this week with the urgent challenge to use the European financial stability facility (EFSF) to stabilise the banking system, strengthen the broader sovereign bond market, and permit orderly default for Greece. Following the forced break-up of the Franco-Belgian bank Dexia, there are increasing calls for recapitalisation of banks and support for sovereign debt across markets. The worry is that the EFSF funds will not stretch that far and additional funds will take too much time. An efficient solution would aim to stabilise the banks by ringfencing the sovereign debt on their balance sheets – making it possible for countries that need to reschedule to do so.

Europe's leaders are trying to mimic the approaches used in the credit meltdown that followed the collapse of the securitised mortgage market. In designing a solution to the current crisis, they must instead take advantage of two characteristics of euro-denominated sovereign bonds: small number of issuers and the special treatment they all receive under banking regulations.

Most important, unimpaired sovereign debt requires no capital from a bank under present rules. Thus, banks could hold this debt to maturity with no effect on their lending capacity, so long as it is serviced. Moreover, bank accounting rules generally differentiate between a trading book, which must be marked to market, and assets, which will be held to maturity and need not be marked to reflect the broader market price. These characteristics could underpin a new approach to stabilising the banking system by insulating it from exposure to a small group of sovereign issuers.

The solution would be to use funds from the EFSF in a government-negotiated agreement under which eurozone countries would guarantee interest and principal for bank-held sovereign debt that was voluntarily

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extended by the banks to, say, a 10 year maturity, and placed in a "hold to maturity" account. This approach (fine tuned by the experts) would apply only to debt outstanding and on the books when the EFSF was approved. In its simplest form, the banks would hold the guaranteed bonds at full value for 10 years.

Using 10-year guarantees has the advantage of leveraging the EFSF funds over a long drawdown period, so avoiding having to return to all member countries for another painful round of authorisation. It has several other advantages over support based on bond markets.

By ringfencing the old debt on the banks' balance sheets, rescheduling other market debt would be possible. Countries would not rush to reschedule or default because their debt would be held by their own citizens who rely on their savings. But where rescheduling became preferable to self-defeating fiscal austerity, it would be possible without causing a credit freeze. In addition, with much of the debt effectively taken out of the markets, the overhang for sovereigns facing liquidity (not solvency) issues would be greatly reduced. Market access should expand.

With old debt well insulated, government regulators would also be free to assign more realistic and prudent risk weightings to new issues of sovereign debt. One approach would be to categorise sovereign debt by the debt to gross domestic product ratio of the issuing countries (suitably defined). A simple scale of, perhaps, three categories of debt, would introduce capital requirements on banks for holdings of highly indebted sovereigns. This would be both good banking and a useful incentive to countries to restore fiscal balance over time. It would, finally, validate the different spreads across euro-denominated debt, priced for the credit of the issuer.

Finally, I believe that some of the political animus, which is undermining European co-operation, would dissipate if creditor countries (particularly Germany) were explicit with their citizens about their objectives. After the past few years, no citizenry loves its bankers. But taking action to support the banking system to promote growth seems an easier sell than taking on debts to prop up profligate neighbours.

Using funds to cover impairments over the long term, while permitting restructuring of debt in the more diversified marketplace, would be good finance, good economics and good politics.

The writer is dean of SAIS at Johns Hopkins University and a former managing director of the World Bank