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PAGE 16 | SPORTS

50

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Aid plan emerges for Europe's banks

BRUSSELS

Proposals are devised as Greece clears a major hurdle to gain new funds

BY STEPHEN CASTLE AND NIKI KITSANTONIS

Far-reaching efforts to strengthen European banks began to take shape Tuesday just as Greece cleared a major hurdle that would allow it to avert a disorderly default on its debt.

With the European Commission scheduled on Wednesday to release proposals to recapitalize Europe's banks, France announced its own detailed plans aimed at protecting its most vulnerable financial institutions.

Alain Juppé, the French foreign minister, told the National Assembly that leading French banks like BNP Paribas, Crédit Agricole and Société Générale, which are deeply exposed to the sovereign debt of Greece and other South European countries, will move to increase their capital reserves, initially by using their own revenue or through the financial markets. Money from the government would be drawn upon only as ''a last resort,'' he said, according to Reuters.

But Mr. Juppé said that move, which was agreed upon with Germany during talks on Sunday, means the banks' best buffers against losses — so called core Tier 1 capital — would increase to 9 percent or higher by 2013 from 7 percent.

It remained unclear whether any of that money might be drawn from the proposed euro zone bailout fund rather than directly from French government funds.

The issue is particularly sensitive in France because of fears that the country could lose its triple-A credit rating if it had to inject billions of euros into its banks. That would be a huge political setback for President Nicolas Sarkozy of France, who faces election next year.

The French announcement on intervention comes as the euro zone enters a critical countdown, with investors in financial markets expecting a European Union summit meeting on Oct. 23 and the leaders of the Group of 20 leading economies to endorse major decisions to help resolve the European debt crisis.

Meanwhile, lawmakers in Slovakia were scrambling Tuesday to avert an embarrassing and potentially costly setback over the vote on the expansion of the euro rescue fund, after the prime minister tied the fate of her government to the legislation through a confidence vote.

As the vote approached, however, a government official, who spoke in return for anonymity because of the delicate nature of the issue, said that government coalition partners so far had not reached a compromise agreement.

The €440 billion, or $601 billion, euro zone rescue fund, approved by the 16 other members of the euro currency zone, was entwined with the domestic politics of Slovakia, the small former Soviet bloc country. Officials in Brussels were counting on a political solution, but weighing the possibility of some kind of messy way to circumvent the problem if Slovakia failed to pass the measure in time.

In Brussels, Jean-Claude Trichet, the departing president of the European Central Bank, underlined the urgent task confronting European leaders, who have consistently failed to rise to a growing challenge.

''Sovereign stress has moved from smaller economies to some of the larger countries,'' Mr. Trichet told European lawmakers. ''The crisis is systemic and must be tackled decisively.''

''The high interconnectedness in the E.U. financial system has led to a rapidly rising risk of significant contagion,'' Mr. Trichet added. ''It threatens financial stability in the E.U. as a whole and adversely impacts the real economy in Europe and beyond.''

EURO, PAGE 19

European bank plan takes shape

EURO, FROM PAGE 1

The French bank recapitalization plan is expected to compliment proposals from the European Commission, whose president, José Manuel Barroso, announced that he would make proposals Wednesday aimed at protecting Europe's banks from potential losses from the sovereign debt that they hold from Greece, Portugal, Italy and Spain.

Like the French-German plan, the European proposals are likely to emphasize that taxpayer money will be used only as a last resort.

Meanwhile, in Athens there was a breakthrough in negotiations over Greece's efforts to get its public finances under control to qualify for vital international aid. Representatives from the International Monetary Fund, the European Commission and the European Central Bank said that Greece's next slice of loans, totaling €8 billion, would most likely be disbursed in early November following approval from euro zone finance ministers and the I.M.F.

The statement from the representatives of the so-called troika ends weeks of stalemate between the Greek government and its international lenders, and concludes a period of brinkmanship that intensified last week when European finance ministers postponed a decision on whether to approve the loan.

Now, after lengthy negotiations, the declaration Tuesday paves the way for the release of enough money for Athens to pay its bills and postpone any unplanned default or restructuring of its debts.

The troika will have to submit a full report for approval by euro zone finance ministers, who will gather before the Oct. 23 European summit meeting, and by the I.M.F. board, which is expected to meet in early November.

But the declaration Tuesday suggests that Athens has overcome the biggest remaining obstacle to receiving the funds, since it amounts to an agreement that Greece can meet its financial obligations if it continues tough austerity measures through 2014.

Uncertainty was heightened this month when the Greek government said it would miss its deficit targets for 2011. Most of that slippage was attributed to the unexpectedly severe recession, which has depressed economic activity and reduced tax receipts.

PETROS GIANNAKOURIS/THE ASSOCIATED PRESS

A protest Tuesday by government workers in Athens. Thousands of civil service posts, which account for one in five Greek jobs, would be eliminated under austerity plans.

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But the troika concluded that the difference can be made up in 2012 under measures already announced by the Greek government. Additional efforts may have to be made in 2013 and 2014.

Noting that the Greek government had achieved "a major reduction in the deficit," the troika said that Greece's deficit target for 2011 was nevertheless "no longer within reach." The budget deficit target was revised to 8.5 percent of gross domestic product from 7.6 percent last month.

Additional measures announced by the government in recent weeks, including a new property tax and fresh cuts to public sector salaries and pensions, should be sufficient for Greece to meet the deficit target for 2012 of €14.9 billion without the need for any new austerity, the officials said. But they suggested that fresh measures for 2013 and 2014 should focus on cutting costs in the public sector.

"To ensure a further reduction in the deficit in a socially acceptable manner and to set the stage for a recovery to take hold, it is essential that the authorities put more emphasis on structural reforms in the public sector and the economy more broadly," the statement said.

New cutbacks in the public sector, including plans for thousands of layoffs, have fueled a wave of protests by civil servants who account for one in five Greek workers. On Tuesday, civil servants protesting the government's austerity drive blocked the general accounting office as well as several ministries. They are planning a two-day walkout next Tuesday and Wednesday.

The Greek finance minister, Evangelos Venizelos, said Tuesday that despite a growing wave of social unrest, the government would do everything necessary to meet its commitments to foreign creditors.

"What we need to do is follow through with what we promised to do by the end of October and we will," he said on the private television channel Mega.

The troika's statement noted that the success of the government's program would depend on "mobilizing adequate financing from private sector involvement." It suggested that this was on track.

Niki Kitsantonis reported from Athens.