BUSINESS VALUE
SO WHAT'S YOUR M.B.A. WORTH?
PAGE 11 | SPECIAL REPORT

ibune
GLOBAL.NYTIMES.COM

# Pressure for decisive action on debt grows

FRANKFURT

## But as E.U. leaders gather for Trichet's departure, fresh efforts to cool hopes

BY JACK EWING, STEPHEN CASTLE AND RAPHAEL MINDER

Still trying to dampen expectations for a grand gesture to address the debt crisis, most of the key figures in European politics gathered in Frankfurt late Wednesday under intense pressure to deliver a decisive response.

An event to mark the end of Jean-Claude Trichet's tenure as president of the European Central Bank drew most of the main players in the debt drama to a Frankfurt opera house, and inevitably raised hopes that a deal to shore up European banks and offer Greece a way out of its debt trap was near.

Angela Merkel, the chancellor of Germany, tried to play down expectations, saying that it would not be possible "to erase the mistakes of the past in just one stroke." A European summit meeting Sunday, she said during a speech praising Mr. Trichet, will be just "one point" in "a long journey."

But the cast of characters at the event created the opposite impression. They included Christine Lagarde, president of the International Monetary Fund and Nicolas Sarkozy, the president of France, who bustled in after the speeches in praise of Mr. Trichet were over, trailed by a large entourage and looking grave.

Pressure on the leaders came not only from markets and from ratings agencies — one of which downgraded Spain — but also from Mr. Trichet. "The present calls for immediate action," he said.

Helmut Schmidt, the 92-year-old former chancellor of Germany and a living symbol of the postwar reconstruction of Europe, delivered a blunt lecture on leadership to the officials assembled in the front row, who also included Herman Van Rompuy, president of the European Council, and José Manuel Barroso, president of the European Commission.

ARNE DEDERT/EPA

**Mario Drahgi, left, will succeed Jean-Claude Trichet, right, at the E.C.B.**

After being pushed onto the stage in a wheelchair and adjusting his hearing aid, Mr. Schmidt railed in a booming voice against German critics of the euro and leaders who put their parochial interests ahead of the European project. "Anyone who considers his own nation more important than common Europe

*EURO, PAGE 20*

# Pressure mounts even as European leaders try to dampen expectations

*EURO, FROM PAGE 1*
damages the fundamental interests of his own country,'' Mr. Schmidt said, in what could be read as a rebuke to Mrs. Merkel.

Reminding listeners that Germany received a de facto debt restructuring after World War II as well as huge economic aid, Mr. Schmidt said that ''of course the strong should help the weak,'' a clear reference to Greece, which was the scene of violent demonstrations again Wednesday.

Mrs. Merkel later responded that, while Germany would do everything necessary to preserve the euro, ''we live in democracies and have to operate according to fundamental rules.''

Earlier, Mr. Barroso said the European Union was at a ''turning point'' and required decisive action from its leaders on the euro zone debt crisis. But he also tried to calm expectations ahead of a meeting of European leaders in Brussels on Sunday, warning that any agreement to end the crisis would take time to implement.

''Even if we do arrive at a political decision on everything that is on the table, which I hope we will, that doesn't necessarily mean that there will not then have to be an implementing phase,'' Mr. Barroso said. ''You cannot hope that this will be the end of all our troubles, but I very much hope that important, long-term, positions, which are important for the future of the European Union and the euro, will come about.''

Numerous open questions remained, including how to increase the financial clout of the European bailout fund and find money to recapitalize weaker banks. ''In Germany, the coalition is divided on this issue. It is not just Angela Merkel who we need to convince,'' Mr. Sarkozy told French lawmakers at a lunch meeting, according to Charles de Courson, one of the legislators present, Reuters reported.

Expectations are also building that Greek bondholders may have to accept a deeper cut in the value of the debt, or ''haircut,'' than agreed to earlier.

Adding to the urgency, Moody's Investors Service downgraded Spain's long-term sovereign rating by two notches and placed it on watch for further downgrades.

Moody's cut Spain's rating to A1 from Aa2, citing concerns over debt levels in the Spanish banks and corporations as well as broader concerns about weakening growth among countries that share the euro.

The rating agency warned that a further cut for Spain was possible if the euro debt crisis intensified. Italy and other ailing euro economies have also recently received credit rating downgrades, reflecting concerns both about their own prospects and the squabbling among European leaders over what would be a viable solution to the euro debt crisis.

Mr. Barroso's comments also reflect the difficulty in negotiations over plans to increase the firepower of the euro bailout fund, and to increase the contribution of banks to the Greek bailout, said one European official speaking on condition of anonymity. Another sensitive issue is how to raise the funds to recapitalize European banks.

According to one European official, discussions over the role of private investors are proving particularly difficult, with no consensus yet. In July the banks agreed to a 21 percent haircut on Greek debt but several finance ministers have argued that, because of changed market conditions, bank contributions need to be increased to hit that target.

Meanwhile there is a debate over whether to rework the whole deal and push for haircuts of around 50 percent. Pressure could increase when a report is completed soon by the so-called troika, made up of the International Monetary the Fund, the European Commission and the European Central Bank, which is assessing the sustainability of Greek debt.

ARNE DEDERT/EUROPEAN PRESSPHOTO AGENCY

**Olli Rehn, left, Christine Lagarde and José Manuel Barroso in Frankfurt on Wednesday.**

Asked about plans to strengthen the facility, Olli Rehn, the European commissioner for economic and monetary affairs, said in Brussels that there was no agreement yet and that this was ''very much a work in progress.''

Mr. Barroso declined to comment on the decision by Moody's to downgrade Spain but said the country might gain new protection if the bailout fund were expanded. Under an agreement struck in July, the fund will gain the power to extend aid to nations that do not require a full bailout; currently Greece, Ireland and Portugal have received international rescue packages.

Increasing the power of the European stability fund ''is precisely so that, if necessary, we can respond to situations in countries that are not currently covered by programs,'' Mr. Barroso said.

Moody's decision to downgrade Spain followed similar ones by Standard & Poor's and Fitch Ratings. Last Thursday, S.&P. lowered Spain's long-term debt rating by one notch, to AA minus from AA, because of the country's poor growth prospects and troubled banks.

The government in Madrid has pledged to lower its public deficit to 6 percent of gross domestic product this year from 9.3 percent in 2010. It has stuck to a growth forecast of 1.3 percent this year — a figure that also underpinned its 2011 budget deficit plan — even though most economists now expect Spain to post growth of about 0.7 percent this year.

Elena Salgado, the finance minister, also recently dismissed a forecast by Goldman Sachs that Spain would fall back into recession at the start of 2012.

Moody's, meanwhile, said that it expected growth next year of ''1 percent at best,'' compared with earlier expectations of 1.8 percent.

''Lower economic growth in turn will make the achievement of the ambitious fiscal targets even more challenging for Spain,'' Moody's wrote.

*Stephen Castle reported from Brussels and Raphael Minder from Madrid.*