E.U. postpones decision on how to deal with crisis

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FRANKFURT

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Germany and France, still at odds over a plan for a more forceful response to the sovereign debt crisis, put off a decision-making summit meeting for several days amid signs that the complexities of European politics may preclude the kind of all-encompassing resolution that markets crave.

In a statement, a spokesman for Angela Merkel, the German chancellor, said that a summit meeting planned for this weekend would be used to examine proposals to strengthen banks, increase the clout of the euro bailout fund, and better coordinate euro area economic policy.

But a decision will not come until a second summit meeting to be held no later than Wednesday, the statement by a government spokesman, Steffen Seibert, said. The French government issued a nearly identical statement.

The last-minute delay reinforced fears that European leaders are still far from containing a crisis that has become a threat to the world economy. "The politicians have been trying to solve the crisis, but a consistent effort has been missing," Andreas Dombret, a member of the board of the German Bundesbank, told an audience in Berlin on Thursday, in an unusually sharp criticism by a central banker of his political counterparts.

Analysts agree that a comprehensive

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EURO SEEMS TO SPLIT, NOT UNITE, EUROPE
The crisis can be traced to imbalances between north and south, rich and poor, export- and service-led nations. *PAGE 3*

ONE DEAD AS GREEKS VOTE IN MORE CUTS
A protester died Thursday, just hours before the Greek Parliament approved more austerity measures. *PAGE 3*

CRITICISM OF SPANISH CENTRAL BANK
The bank is accused of being too slow to address the consequences of a collapse in the real estate market. *PAGE 15*

Leaders unable to come together on plan

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crisis package would include further debt relief for Greece, a more convincing bailout fund for the overindebted countries, and some means of removing doubts about the creditworthiness of Italy and Spain.

It would also include a plan to address the underlying causes of the crisis, namely the lack of any effective way to enforce budgetary discipline among euro members, and a plan to restore growth in countries like Greece and Portugal that have lost international competitiveness.

After all the face time that political leaders have already had this week, and plan to have starting Friday evening, the signs of disarray are unsettling. The French president, Nicolas Sarkozy, stoked expectations for progress Wednesday when he flew to Frankfurt for a brief meeting with Mrs. Merkel as his wife, Carla Bruni-Sarkozy, was giving birth to a daughter back in Paris.

The discussions this weekend will begin Friday evening with a meeting of euro area finance ministers. On Saturday, finance ministers from the European Union as a whole will meet. Mrs. Merkel and Mr. Sarkozy will also meet. On Sunday, heads of state from the Union, the European Council, will gather in the morning. Then there will be a meeting of just the 17 euro area heads of state.

... more meetings next week, the leaders drew out the suspense and created the impression they were having trouble agreeing on details.

There is broad agreement on the need to restock capital cushions at European banks so they could withstand a default by Greece. But agreeing on how much money banks should raise, and where the money should come from, is another matter.

Goldman Sachs estimated the amount at €300 billion, or $412 billion, which would have to come from capital markets, or as a last resort, taxpayers. Other estimates range as low as €100 billion and as high as €400 billion, depending on assumptions about how deep a loss banks must absorb on holdings of Greek and other government debt.

European officials, according to people involved in the discussions, are leaning toward the low estimates, which would be easier to raise but might not be enough to rebuild faith in European banks and restore their access to international money markets.

Banks are fiercely resisting attempts to make them raise more capital, which would cut into profits and expose them to government control if they cannot raise what they need from investors. There are questions whether governments have the legal authority to force recapitalization.

Meanwhile, negotiations to get banks to take bigger losses on their investments in Greek debt "are making very little progress," said a banker with knowledge of the discussions, who spoke anonymously because the talks are still ongoing.

E.U. officials hope to reduce the amount of money that Greece owes the banks so that the country, which is virtually bankrupt, might be able to get back on its feet more quickly. This summer, banks agreed to take losses estimated at about 21 percent, but with Greece's economy getting worse by the day, some policy makers now want the banks to accept losses on their holdings of Greek debt between 50 to 60 percent.

The banks have said they would only agree to take higher losses if they receive a guarantee that Greece can eventually start paying bills on its own, rather than continuing to rely on bailouts. That hurdle got higher Thursday, when the International Monetary Fund said Greece might have to rely on financial lifelines from its European partners for the next nine years.

That assessment alarms the banks, which say they do not want to continue pouring money into Greece with no hope of repayment.

But if banks do not voluntarily agree to write down more debt, a write-down may have to be forced on them, an action that would essentially entail a Greek default.

Another key point is how to address the inadequacy of the €440 billion bailout fund. Proposals that initially seemed promising, like using the fund to issue insurance on government bond issues, have quickly run aground on technical and legal issues.

"There are major structural and technical impediments to make such an experiment work in the euro area," analysts at Royal Bank of Scotland said in a note to clients.

In Berlin, Mrs. Merkel canceled a planned speech to Parliament on Friday

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because of a deadlock over proposals to leverage the bailout fund, known as the European Financial Stability Facility.

While France is driving efforts to increase the firepower of the euro bailout fund, it is in no condition to increase its own financial guarantees without risking its triple-A credit rating.

Its solution is to draw on the resources of the European Central Bank to ratchet up the spending power of the €440 billion fund. But that is opposed both by Mrs. Merkel and the departing European Central Bank president, Jean-Claude Trichet.

Discussions involving Mrs. Merkel in Frankfurt on Wednesday were described as "tense" by one official with knowledge of the talks, who noted that the German chancellor at times seemed to take an "obstructionist" stance. At one point she complained that documents relating to the bailout fund had not been translated into German, the official said.

During the Frankfurt talks both Mrs. Merkel and Mr. Trichet held firm on use of the bailout fund. José Manuel Barroso, president of the European Commission, sought to raise the pressure for a deal, saying that "if there is one aspect without which all the others will lack credibility this is indeed the need to reinforce the euro zone's fire walls."

In Brussels, officials said that the parameters of the discussion were being determined by German domestic politics and, in particular, by the need for Mrs. Merkel to gain a mandate from Parliament.

Though some policy makers have argued for a "shock and awe" approach with something like €2 trillion effectively available to the bailout fund, that now looks unrealistic.

"The question is not whether one trillion is enough," said one European diplomat who requested anonymity due to the sensitivity of the subject. "It's whether you can get to a figure of one trillion while maintaining credibility."

Stephen Castle reported from Brussels and Liz Alderman reported from Paris.