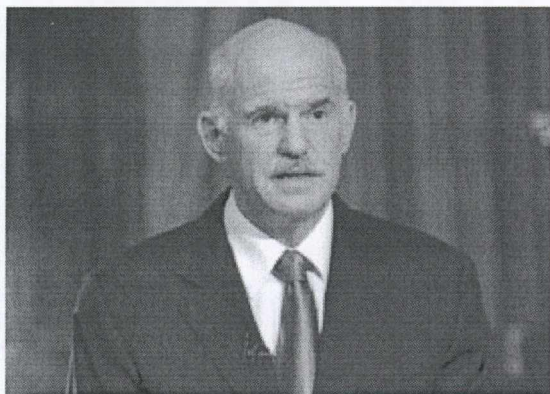


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## EU leaders battle to save Greece deal

By Quentin Peel in Berlin, Richard Milne in London and Kerin Hope in Athens



European political leaders held emergency talks on Tuesday as the Greek political crisis threatened to sink a deal agreed last week in Brussels to bail out the debt-burdened eurozone nation.

Stocks slumped and bond yields soared after George Papandreou stunned markets, fellow European leaders and most Greeks, including his own finance minister, by calling a referendum on the Greek bail-out.

Mr Papandreou's grip on power appeared to be slipping on Tuesday, with his socialist party on the brink of revolt over his referendum proposal.

The Greek prime minister faced a fierce barrage of criticism before a three-day confidence debate in parliament intended to endorse the motion. He was due to chair an emergency cabinet session on Tuesday evening.

Angela Merkel, German chancellor, and Nicolas Sarkozy, French president, said they were determined to implement fully the European Union's rescue measures after a telephone call between the two leaders.

They spoke to agree a common response to Mr Papandreou's surprise announcement on Monday that he would put the deal agreed at last week's summit to a referendum.

Mr Sarkozy's office said after the telephone talks: "France and Germany are determined to ensure, with their European partners, the full implementation in the quickest time frame, [of] the decisions adopted at the summit, which are today more important than ever."

Officials in Berlin made it very clear after the conversation that the offer on the table for Greece was "the best offer we can make them."

"We think, as do the French, that it is more important than ever to swiftly implement the decisions of the summit," a senior official said.

Mr Sarkozy and Ms Merkel will hold an emergency meeting with Greece on Wednesday before the start of the Cannes summit of the Group of 20 leading economies to push for a quick implementation of the Greek bail-out deal, Mr Sarkozy's office said on Tuesday.

Although there is some sympathy in Berlin for the political dilemma facing Mr Papandreou, Ms Merkel is understood to be dismayed at not having received any advance warning of the Greek prime minister's decision.

European Union officials had earlier battled to make sense of the referendum announcement, which appears to have blindsided fellow eurozone leaders and EU officials, who were preparing to meet on Thursday at the G20 summit. Officials expressed frustration and disbelief at Mr Papandreou's gambit.

The Dutch Labour party said it would not support last week's summit deal if the Greeks insisted on a referendum, threatening to derail a Dutch parliamentary vote on Tuesday night to rubber-stamp the agreement.

Banks took a particularly heavy beating in the stock market sell-off as the proposed referendum intensified investor fears of a messy debt default by Athens.

Germany's Dax-30 index was down 6 per cent by early afternoon, French shares slid 5 per cent and the euro fell 1.6 per cent. US markets opened lower with the Dow Jones Industrial Average off 2.2 per cent.

Société Générale plummeted 17 per cent, while Intesa Sanpaolo and BNP Paribas dropped 14 per cent.

In a worrying sign, Italy – viewed by many investors as the crucial country for the fate of the euro – saw the premium it pays to borrow over Germany hit a euro-era record and a level that saw no way back for Portugal and Ireland. This came despite heavy buying of Italian debt by the European Central Bank.

“The whole thing looks like a complete disaster. It raises the real prospect of a disorderly default,” said Gary Jenkins, head of fixed income at Evolution Securities in London.

The Greek premier also raised the stakes by announcing a parliamentary vote of confidence in his government this week to endorse the referendum plan. The debate, led by political party leaders, will start on Wednesday with a vote set for midnight on Friday.

Antonis Samaras, leader of the Greek opposition New Democracy party, called on Tuesday for snap elections, telling Karolos Papoulias, the president: “We have a historic responsibility to do what is necessary so that the future of the country and Europe is not placed at risk.”

He told reporters afterwards that elections were a “national imperative.

“In his effort to save his position, Mr Papandreou has posed a dilemma of division and blackmail that endangers our future and even our place in Europe,” he said.

- No date has been set for the referendum, which would have to be approved by Mr Papoulias – provided the socialists win Friday's vote.

The premier's move also dismayed Athens bankers, who said it could delay preparations for Greek and foreign investors to take a 50 per cent haircut on their holdings of Greek bonds, reducing the country's debt by €100bn (\$137bn) as part of the bail-out deal.

Banks reaffirmed their commitment to work on a voluntary deal that will see them suffer 50 per cent losses on their Greek debt portfolios.

Signs that the prolonged stress of the situation was also taking a physical toll on key figures in the Greek drama came with the news that Evangelos Venizelos, finance minister, was in hospital suffering from "stress" and stomach pains. The finance ministry said Mr Venizelos visited a clinic early on Tuesday and was expected to be released in the afternoon. His pain subsided shortly after he arrived, it said.

*Additional reporting by Joshua Chaffin in Brussels, Scheherazade Daneshkhu in Paris, Matt Steinglass in Amsterdam and Jamie Chisholm in London*

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