Time to act on Greek debt deal grows short

BRUSSELS

As E.U. ministers push for accord, they receive warning on economy

BY JAMES KANTER

European Union officials kept up the pressure Tuesday for a quick deal on refinancing Greek private debt while urging political leaders to turn their attention to stimulating growth, amid signs that an economic recovery will take longer than anticipated.

At the close of a two-day meeting of finance ministers in Brussels, Olli Rehn, the E.U. commissioner for economic and monetary affairs, suggested that time was running out on an agreement between creditors and the government in Athens that is aimed at lowering Greece's debt burden to a sustainable level.

"It is certainly preferable to achieve an agreement in the coming days" and "preferable to do so in January rather than in February," Mr. Rehn said.

Greece must pare debt to levels where the country can conclude a bailout with the European Union and the International Monetary Fund that would enable it to repay loans coming due in March and, officials hope, allow Athens to finance its needs through 2013. Without such a package, Greece faces the prospect of a chaotic default that would further destabilize the euro zone.

Mr. Rehn also warned that the wider economic situation in Europe remained bleak, and that "a return to recovery and positive growth is likely to be postponed to the second half of this year."

Early Tuesday, E.U. ministers backed efforts by Greece to keep the interest rate on newly issued bonds below 4 percent. That is less than what bondholders want in exchange for their existing Greek debt securities. Evangelos Venizelos, the Greek finance minister, said he expected his country "to close the deal with the private sector in the next few days."

But Wolfgang Schäuble, the German finance minister, warned that "we are still some way" from a deal between the private creditors and Athens. Mr. Schäuble also raised concerns about the commitment of Greek political parties

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to changes that could remedy the country's fiscal situation and enable it to pay its debts over the long term, particularly as elections drew near.

Under current circumstances, "it would be irresponsible for me as finance minister to sign" a deal with Greece on further aid, Mr. Schäuble said.

With the future of Greece's finances still unclear, European officials sought to refocus leaders' attention on addressing the wider economic slowdown.

As Mr. Rehn was delivering his warning about weak growth, José Manuel Barroso, the president of the European Commission, urged government leaders who will meet next week in Brussels to investigate "concrete measures to stimulate growth and employment."

Such measures are essential to "create the conditions necessary for hope in the future of Europe and also a better life for all our citizens," Mr. Barroso said.

The two-day meeting in Brussels that ended Tuesday afternoon did bring progress on shoring up the euro zone.

Finance ministers took further steps toward establishing a new, permanent bailout fund, the European Stability Mechanism, as the I.M.F. has urged. That fund could be operating by July once member states give it final backing.

One of the main obstacles to establishing the fund was cleared late Monday when ministers found a way to ease the concerns in Finland, one of the contributing nations, that it would not incur additional liabilities without prior consent.

Leaders still are tussling over whether the fund should have €750 billion to €1 trillion, or $977 billion to $1.3 trillion, at its disposal. Mr. Schäuble has suggested that €500 billion is sufficient.

Finance ministers also reached a deal on how much power regulators should have over the clearinghouses that handle over-the-counter derivatives.

Britain, which zealously protects its financial industry in the City of London, appeared satisfied that the rules would not be used to pressure clearing firms based in Britain to move part of their business to the euro zone.

"I'm hopeful we will have an agreement," said Michel Barnier, the E.U. internal market commissioner, who underlined the importance of regulation. Clearinghouses "must not become the next financial institutions to become too big to fail," he said.

The rules still must be voted on by the European Parliament and given final approval by E.U. member governments before they can take effect.

I.M.F. warns of growing risks from euro crisis

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day in Berlin that, "The longer we wait, the worse it will get. The only solution is to move forward together." She called on global leaders to help bolster the I.M.F.'s resources and on Europe to bolster its own. "The world must find the political will to do what it knows must be done."

In the updates of its World Economic Outlook, Global Financial Stability Report and Fiscal Monitor, the fund said that "risks to stability have increased, despite various policy steps to contain the euro area debt crisis and banking problems."

The I.M.F. cited continued high financing costs for European countries and weakness in European banks as two risks that had the capability to intensify one another and lead to "sizable contractions" in economic activity.

Other risks include investor fear over the debts of big countries like the United States and Japan, a "hard landing" in emerging economies and spiraling oil prices as the European Union and United States confront Iran.

The fund cut its growth forecasts for every region in the world, as well as for trade and commodity prices. The fund now estimates that Europe will experience a mild 0.1 percent contraction this year, with a sharper contraction of 0.5 percent among the 17 members of the euro zone and deeper recessions in Italy and Spain. It also cut its estimate of global trade volumes.

The I.M.F. did not change its growth forecast for the United States. Speaking with reporters, Olivier Blanchard, the fund's chief economist, said the "good and bad news" about the American economy were "more or less canceling each other" out: The country's economic growth is now self-sustaining, but a Europe in recession and a slowdown in emerging-markets promise to weigh on the United States in 2012.

The fund also issued a stark warning about the safety of the U.S. financial system, saying that "potential spillovers" from the euro area crisis might "include direct exposures of U.S. banks to euro area banks, or the sale of U.S. assets by European banks."

In recent months, U.S. regulators and policy makers have played down such risks, pointing to sharply reduced exposure to Europe among money-market funds and investment banks.

The I.M.F. also warned that the United States might turn to austerity budgeting too soon, imperiling its own

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recovery. Carlo Cottarelli, the director of the fund's fiscal affairs department, cited such premature fiscal tightening as a "concrete risk." He noted that the steep, automatic budget cuts put into place by Congress last year would lead to the biggest hit to spending "in four decades." He called for a more "gradual decline in the deficit."

The same advice applies to the rest of the world, the fund said. Mr. Cottarelli warned that "both too little and too much adjustment will be bad for growth." The main risk is that too many countries will cut their budgets too deeply, too soon, sapping demand from the still-weak global economy.

The fund also noted pervasive weaknesses in Europe's banking system, given its exposure to European sovereign debt.

Mr. Viñals, director of the I.M.F.'s monetary and capital markets department, acknowledged that bond yields had declined in Europe in recent weeks. But he warned that further reductions in borrowing costs "should not be taken for granted, as some sovereign debt markets remain under stress and bank funding markets are on life support by the European Central Bank."

Banks should continue to deleverage, the fund said, or reduce the size of their loan books relative to capital. But they should do so by raising funds, rather than reducing credit and thus damping economic activity.

Euro zone grew in January

The euro zone may escape recession with a surprise upturn in the service sector this month, but surveys released Tuesday showed that the overall economy of the 17-country bloc was struggling to gain traction outside of Germany and France, Reuters reported from London.

Markit's purchasing managers' index, a reliable indicator of broad economic performance, showed that the euro zone economy grew in January for the first time since August. If sustained, the data point to no growth in the first quarter, but no contraction, either, the firm said.

Germany's service sector expanded at its fastest pace in seven months in January, far faster than expected, while manufacturing business grew for the first time in four months, according to the purchasing managers' survey. The French service sector grew at its fastest pace since August, but manufacturing shrank for the sixth straight month.