World News

SIMELA PANTZARTZI/EUROPEAN PRESSPHOTO AGENCY

Protesters, some throwing fire bombs, clashed with the police in Athens on Friday as Greek workers held a second general strike against the latest round of austerity measures.

Day of turmoil for Greek coalition

ATHENS

Prime minister warns of default 'chaos' as 5 quit cabinet in protest

BY NIKI KITSANTONIS

Political turmoil deepened here Friday as Prime Minister Lucas D. Papademos threatened to eject from his fragile interim coalition government any ministers who objected to the country's new austerity deal with foreign creditors.

"It goes without saying that whoever disagrees and does not vote for the new program cannot stay in the government," he said in a televised speech to his cabinet after the resignation of several ministers and their deputies.

A tumultuous day inside Parliament was matched on the streets outside, where protesters throwing fire bombs clashed with the police and Greek workers walked off the job in the second general strike this week to protest new austerity measures the country must take to avert a disastrous default next month.

Adding to the anxiety surrounding negotiations over a bailout for Greece, the leader of the smallest of three parties in the governing coalition said he would vote against an austerity package that Greek lawmakers had agreed to Thursday after marathon negotiations.

"The creditors are asking for 40 years of submission," the politician, Georgios Karatzaferis, who heads the rightist Popular Orthodox Rally party, said. "Greece will not give itself up."

Mr. Karatzaferis's party controls only 16 seats in Parliament, however, not enough to scuttle the deal if most of the other members of the coalition, the Socialists and New Democracy, support it. It would take a huge back bench rebellion for the vote to fail, as the two largest parties still have 236 legislators in the 300-member house.

Five of the four dozen members of the cabinet resigned Friday in disagreement with the creditors' plan. The highest-ranking was Deputy Foreign Minister Mariliza Xenogiannakopoulou, a Socialist.

"They are trying to impose measures that will make the recession worse and drive the country to despair," Ms. Xenogiannakopoulou said in a letter. She said she would vote against the plan in Parliament.

In his speech, Mr. Papademos said his highest priority was guaranteeing Greece's solvency. He said that the new economic program was the product of tough negotiations with creditors and would eventually bring the country back to growth. The prime minister said it was time for the cabinet to show "historic responsibility" in a difficult time.

"The endurance of the government is being tested. And it is clear that not everyone can endure this burden," he said in an apparent reference to the two ministers and four deputy ministers who had resigned Thursday and Friday.

According to local news media outlets, Mr. Papademos plans to announce a new cabinet Monday, a move that put in doubt a parliamentary vote on the new measures scheduled for Sunday.

Mr. Papademos went to some lengths to explain in his speech the repercussions of a disorderly default.

"It would create conditions of uncontrolled economic chaos and a social explosion," he said. "The state would be unable to pay wages and pensions, and cover basic operational costs such as those of hospitals and schools."

Imports of basic goods like fuel and medicine might become prohibitively expensive, he said, and businesses would close down en masse.

"The living standard of Greeks would collapse and the country would be dragged into a spiral of recession, instability, unemployment and misery," he said. "All these developments would lead, sooner or later, to Greece's exit from the euro zone."

The ~~general~~ strike came a day after the government reached a provisional deal ~~with the so-called troika of~~ foreign lenders — the European Commission, the European Central Bank and the International Monetary Fund — on the terms of a new loan program. Mr. Papademos's government pledged to cut private-sector wages by more than 20 percent, lay off thousands of civil servants and slash public spending.

But skeptical creditors have demanded additional cuts to cover a $430 million shortfall created by the refusal of political leaders to slash supplemental pensions, as well parliamentary approval and written commitments to the terms of the deal from the leaders of the three parties in Mr. Papademos's coalition, before additional financing is released.

"Unfortunately, the euro group did not take a final, positive decision," Finance Minister Evangelos Venizelos said in the early hours of Friday after a grueling summit meeting with euro zone peers in Brussels. "Many countries expressed objections, based on the fact that we did not fully complete the list of additional measures required to meet our targets for 2012." But he urged Greeks to support the additional measures demanded by the lenders.

While public sentiment was unclear, there was no doubt where the country's major unions stood. They called the strike on Thursday immediately after government officials announced the deal with creditors. Unions' protest rallies were expected to continue over the weekend and on the day of the vote, when the crowds are expected to be largest.

The strike on Friday and Saturday was ~~intended~~ to suspend ~~most public transportation services~~, though flights will operate normally. Ferries will remain in ports and train services will be suspended. An urban rail service will run a limited service to allow protesters to join protest rallies.

Government offices, schools and courts will close, and hospitals will be left to operate with emergency staff. Unionists and the leaders of leftist opposition parties have appealed to austerity-weary Greeks to fight the new barrage of cuts and not "bow their heads" to foreign creditors.

Mr. Karatzaferis called on Mr. Papademos to reshuffle his government and replace Socialist ministers with technocrats. He also accused creditors of trying to "deprive Greece of the last trace of national sovereignty" and expressed frustration with German officials, who have taken a hard line in the negotiations.

"Greece cannot survive outside the E.U.," he said, "but it can do without a German jackboot."

Both the Greek austerity measure and a write-down of Greek debt by private investors must be finalized in the coming weeks to ensure the release of rescue financing so that Greece can pay a $19 billion bond that matures on March 20 and avoid a default that would shake the euro zone.

GLOBAL.NYTIMES.COM

If measured by mistrust, Greece in a class by itself

BRUSSELS

BY STEPHEN CASTLE

At the same meeting where Greece's latest economic plans were greeted with bl[illegible] skepticism, a television microphone accidentally recorded a very different exchange between a minister from Germany and a colleague from another bailout recipient, Portugal.

If Lisbon, which faces an austerity-driven economic slump similar to Greece's, needed to ease its bailout terms, "we would be ready to do it," said the German finance minister, Wolfgang Schäuble.

"That's much appreciated," replied his counterpart from Portugal, Vitor Gaspar.

The conversation, broadcast on the private Portuguese network TVI, illustrated a stark fact as the euro zone's debt crisis enters its third year: While Portugal, Ireland and other countries may be struggling, Greece has found itself in a category of its own — a nation the rest of Europe no longer trusts.

The gathering Thursday night of finan[illegible]ministers from the 17-nation euro zon[illegible]gether with leaders of the European Central Bank and the International Monetary Fund, was supposed to bless a much-delayed agreement among Greek politicians on austerity measures required to win a new bailout of €130 billion, or $171 billion.

Instead, the ministers made it plain that they did not believe the figures, saying that Greece needed to find €325 million extra in savings before the bailout was signed off on, hopefully next Wednesday.

The Greek Parliament and main political parties will have to endorse the austerity measures. And if Greece gets its new bailout, the money may be paid into a special account that would cover debt repayments before any money was released to general government spending.

According to some unofficial estimates, up to 70 percent of Greece's bailout money might be spent this way.

The rebuff from euro zone ministers was greeted with violence on the streets of Athens during a general strike Friday, while five politicians resigned, plunging the government into a new crisis before the pivotal vote in Parliament on Sunday.

After a period of relative calm, finan-

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GREEK LEADER STANDS FIRM AMID TURMOIL
Lucas D. Papademos threatened to eject from his coalition any ministers who objected to the austerity deal. *PAGE 3*

SPAIN ADOPTS CHANGES TO LABOR CODE
Spain on Friday adopted labor code changes that make firing workers easier and encourage youth hiring. *PAGE 11*

Greece struggles to overcome mistrust

EURO, FROM PAGE 1

cial markets and the euro fell. The Euro Stoxx 50 index, a barometer of euro zone blue-chips, fell 1.65 percent, while the FTSE 100 index in London fell 0.73 percent. In New York, the Standard & Poor's 500 index was down 0.92 percent by midafternoon. The euro declined to $1.31[illegible] from $1.3286 late Thursday in New York.

The failure to reach a final deal and the disorder in Athens have "been an excuse to deflate some of the Greek-related optimism in the market," Gary Baker, an equity strategist at Bank of America Securities Merrill Lynch in London, said, though he cautioned against reading too much into the market moves.

It is not in the interest of the euro zone or of Greece to see the country default, and all parties are hoping that the Greek Parliament will approve the deal on Sunday.

Even if that happens, there is work to be done. A deal with the European Central Bank to help ease Greece's debt burden by giving up profits on its holdings of Greek bonds has not yet been struck. In Berlin, Mr. Schäuble, briefing lawmakers, said that current plans would leave Greece's debt as high as 136 percent of gross domestic product by 2020, as opposed to 120 percent foreseen in the country's second bailout, Bloomberg News reported.

Behind closed doors in Brussels the lack of trust was evident, and it is this that may have put the entire bailout at risk.

In one of several tough exchanges, the Greek finance minister, Evangelos Venizelos, was taken to task by Mr. Schäuble for having failed to begin the required negotiations with labor unions to enable the minimum wage to be reduced. Mr. Venizelos had been reluctant to do that before knowing the bailout would be approved; his European partners saw this as time-wasting, according to one official briefed on the talks but not authorized to describe confidential discussions.

Ministers vented their frustration in public as well. "We cannot live with a system where promises are made and repeated and repeated and implementation measures are from time to time too weak," said Jean-Claude Juncker of Luxembourg, who chairs meetings of the 17 euro zone finance ministers.

"The Netherlands and some other countries have outlined a lot of demands which should be clarified," added Jan Kees de Jager, the Dutch finance minister. "It is the implementation that we have seen lacking, so we did ask a series of critical questions."

Worries that the Greek public administration is both bloated and chronically weak appear to have been borne out. The process of selling off state assets has been so slow that Greece is to be given longer to raise the €50 billion it once said it would use to pay down its debt. Now the plan is to produce €19 billion from initial state asset sales by the deadline of 2015, with the remaining €31 billion to be produced later.

ALEXANDROS VLACHOS/EUROPEAN PRESSPHOTO AGENCY

The Greek finance minister, Evangelos Venizelos, arriving for a crucial cabinet meeting Friday in the Parliament in Athens.

On Thursday the country's deputy finance minister, Pantelis Economou, said that the state had issued penalties worth €8.6 billion for tax evasion and other offenses during the past two years. But according to Kathimerini, a daily newspaper, only 1 percent of the €8.6 billion has been collected, meaning that less than €100 million made it to public coffers.

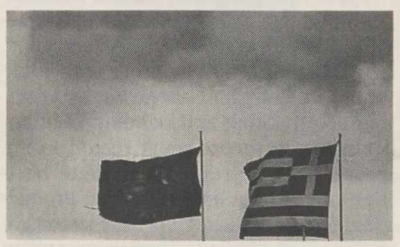
For their part, Greek officials believe they have been placed in an impossible position by the so-called troika of international lenders — the European Commission, European Central Bank and International Monetary Fund — that is administering the bailouts.

Demands keep changing and the program is a "moving target" as Greece is pushed deeper into recession, said one European official who, like many involved in the talks, was not authorized to speak publicly.

With the plans reviewed every three months, and with the economic outlook deteriorating steadily, Greece was being asked for ever tougher measures to hit its targets. And elected politicians were finding it an impossible sell.

"How much can you do in three months?" asked one Greek official.

Failure by the international community to confront the unsustainability of Greece's debt burden has led to a somewhat chaotic bailout process. For example, private investors in Greek bonds



YANNIS BEHRAKIS/ REUTERS

A Greek flag and an E.U. flag flying atop the Greek Ministry of Foreign Affairs.

were initially told they would be repaid in full, then asked to accept losses of 21 percent, which subsequently rose to 50 percent and may now amount to 70 percent.

In Italy, the arrival of a technocratic prime minister, Mario Monti, has helped restore confidence in the country's ability to pull itself out of its crisis. But a change at the top has failed to work the same magic in Greece, where Lucas D. Papademos, a former vice president of the European Central Bank, is a caretaker leader.

"Monti is trusted by European partners," said one European minister. "Papademos has a much more difficult situation. In Italy the situation is not good, but it is more manageable. In Greece you see how difficult it is just to bring three political parties together to agree measures."

While Portugal's economic predicament is close to that of Greece, one senior E.U. official argued that the Portuguese, at least, had a functioning administration.

"It is increasingly understood that Greece is a very unique case," added a European diplomat. "It is not holding up to its commitments. In Ireland, Portugal, Spain and Italy things are not rosy, but they are in a different class."

David Jolly contributed reporting from Paris.

Bank recapitalization in Europe is on track

LONDON

BY MARK SCOTT

European banks will find out in early March whether regulators support their plans to shore up their balance sheets.

The financial institutions, including Deutsche Bank of Germany and Société Générale of France, have to raise a combined €115 billion, or $153 billion, in capital by June to increase their core Tier 1 ratios, a measure of a bank's ability to weather financial shocks, to 9 percent.

So far, their plans are on track. European banks — excluding Greek institutions undergoing restructuring and three other European firms that face similar reorganization — submitted strategies that would raise approximately €98 billion by June, 26 percent more than what the authorities had ssked for.

Roughly €75 billion will come from banks' retained earnings, the rejiggering of their bond holdings and so-called rights offerings, which allow existing shareholders to buy new stock in a company at a discounted price, according to a statement from the European Banking Authority released late Thursday. The remaining €23 billion is to be raised through reductions in banks' risk-weighted assets.

The banking authority said that firms' recapitalization plans would reduce lending to Europe's economy by less than 1 percent. The authorities are concerned that institutions may cut back on financing to the Continent's companies at a time when many euro zone countries are on the brink of recession.

The announcement that banks are moving toward the new regulatory requirements is likely to ease the strain of Europe's financial sector. After regular checks on firms' balance sheets since 2010, the banking authority said Thursday that the next so-called stress test on institutions' capital reserves would take place in 2013.

The European Banking Authority said that the figures were preliminary and that national authorities would update institutions on their specific plans in March. European financial institutions submitted their plans in late January.

Financial institutions in Europe have been busy improving their balance sheets. They raised at least €41 billion in new capital as of the fourth quarter of last year, according to estimates by Citigroup. The bank's analysts expect European institutions to raise a further €25 billion by June 2012 through so-called retained earnings, a category that includes reductions in employee bonuses and cuts to overall bank lending.

Italian firms downgraded

Standard & Poor's on Friday downgraded the credit ratings of 34 Italian financial firms, citing concerns about their ability to obtain external financing after the country's credit rating was reduced last month, Bloomberg News reported from New York.

Italy's credit rating was cut two levels to BBB+ from an A on Jan. 13 as S.&P. said European leaders' struggle to contain the region's debt crisis would complicate the country's efforts to finance borrowings. S.&P. revised its banking industry country risk assessment, known as Bicra, for Italy to Group 4 from Group 3, citing mounting risks.

Deal averts new trial in Bear Stearns fraud case

NEW YORK

BY PETER LATTMAN

The U.S. Securities and Exchange Commission has reached a settlement with two former Bear Stearns hedge fund managers that will avert a second trial over accusations that they misled investors as the mortgage market was crumbling.

The deal, which is subject to court approval, could be announced Monday, said two people with direct knowledge of the matter, who requested anonymity because they were not authorized to discuss it publicly.

The trial had been set to begin Monday in U.S. District Court in the Brooklyn borough of New York. The former Bear executives, Ralph R. Cioffi and

During his State of the Union address last month, President Barack Obama announced the formation of a multi-agency financial crimes unit to prosecute mortgage-related fraud cases.

Robert S. Khuzami, the head of enforcement for the S.E.C., has said that the commission has already issued scores of subpoenas, analyzed more than 25 million pages of documents and interviewed scores of witnesses involved in the mortgage securities market.

"These mortgage products suffered unprecedented losses, and the pain and loss that followed is known all too well," said Mr. Khuzami, speaking about the new unit at a news conference last month. "The job of the S.E.C. and my fellow law enforcement colleagues is to hold accountable those