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# Athens rescued, but fears won't die

LONDON

## Financial backers blink, but it's still unclear how Greece can pay off debt

BY LANDON THOMAS JR.

Greece has dodged a default with its last-minute bailout deal — for now. But longer-term doubts about its ability to repay its staggering debts remain, raising questions about whether even more rescue money will eventually be needed.

European leaders are to sign off on

*NEWS ANALYSIS*

Greece's second bailout of around €130 billion, or $172 billion, at their summit meeting in Brussels next week — subject to Greece's taking immediate steps to put the deep structural changes they agreed to into effect.

Greece must also persuade, if not actually force, its private-sector bondholders to accept a higher than expected loss of more than 70 percent on their holdings to reduce Greece's debt stock by the targeted amount of €100 billion.

It is uncertain, however, if another round of austerity can bring Greece to a point where it generates enough revenue to pay off its obligations — even if the private-sector debt deal goes through — and return to the market on its own.

European leaders hailed the last-minute steps, which included a reduction in interest rates on loans from Greece's first rescue in 2010 and European central banks' forgoing profit on their holdings of Greek bonds, that allowed the deal to satisfy a mandate set by the International Monetary Fund that Greece's debt come down to 120.5 percent of gross domestic product by 2020.

In recent weeks, the fund had circulated a confidential study of Greece's long-term debt prospects that argued that reduced growth and the inability of Greece to implement needed changes could swell the country's debt to 178 percent of G.D.P. by 2015 and still leave it at 160 percent of G.D.P. by 2020.

That being the case, the fund would not be able to lend Greece any more money, raising the prospect that default was the only option for the country.

But analysts point out that the very practice of trying to analyze what a country's debt will be eight years on is in itself flawed — as the I.M.F. itself has accepted in a recent report that explained how it missed debt explosions in Greece, Ireland and Iceland.

And they question how, in a matter of months, Greece's debt outlook in 2020 can change so quickly — going from 120 percent of G.D.P. last October to a worst-case outlook of 160 percent and now back down again to 120 percent.

"This whole debt sustainability analysis is a joke," said Charles Wyplosz, an international economist and critic of the I.M.F.'s ability to properly assess the long-term debt prospects of countries it lends to.

By forcing Greece to push through more austerity measures to reach this opaque target, Mr. Wyplosz argues, growth suffers all the more, making the debt to G.D.P. goal even harder to achieve.

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BRUSSELS

## Putting out one brush fire while girding for other flare-ups in euro zone

BY STEPHEN CASTLE

A second huge bailout in two years may have staved off bankruptcy for Greece, but for Europe's finance ministers it did something even more important: bought the euro zone valuable time.

During all-night talks that ran until Tuesday morning, ministers, officials and bankers pulled off a €130 billion, or $172 billion, deal designed to avert the alarming prospect of a disorderly default in Greece.

And for Greece's euro zone partners, the agreement provides crucial weeks to build a credible firewall to protect the bigger economies of the euro currency bloc, and to put in place new economic policies in Italy and Spain.

With little confidence in Greece's ability to deliver on the austerity measures its lawmakers have approved, European officials are moving swiftly to the task of bolstering their bailout fund for the euro.

If the debt crisis can be contained to Greece, which represents around 2 percent of the combined euro zone economy, then the currency is generally thought to have good prospects of recovery.

Olli Rehn, the European commissioner for economic and monetary affairs, addressed the concerns about contagion on Tuesday after the meetings ended.

"Firewalls are being strengthened," he said. "We had a good discussion last night and today in this regard, and I expect decisions from the leaders of the E.U. in the summit of March 1st and 2nd."

Mr. Rehn said he favored a system that would combine the firepower of the new, permanent €500 billion European Stability Mechanism with the money still left in the coffers of the temporary European Financial Stability Facility — likely to be around €140 billion after the second Greek bailout.

So far Germany, with the biggest euro zone economy, has given no sign that it will agree to such a plan, but pressure is mounting.

Christine Lagarde, managing director of the International Monetary Fund, said early Tuesday that the fund's contribution to the Greek bailout would depend on whether or not the euro zone could finance a sizable firewall. If this is

*EURO ZONE, PAGE 17*

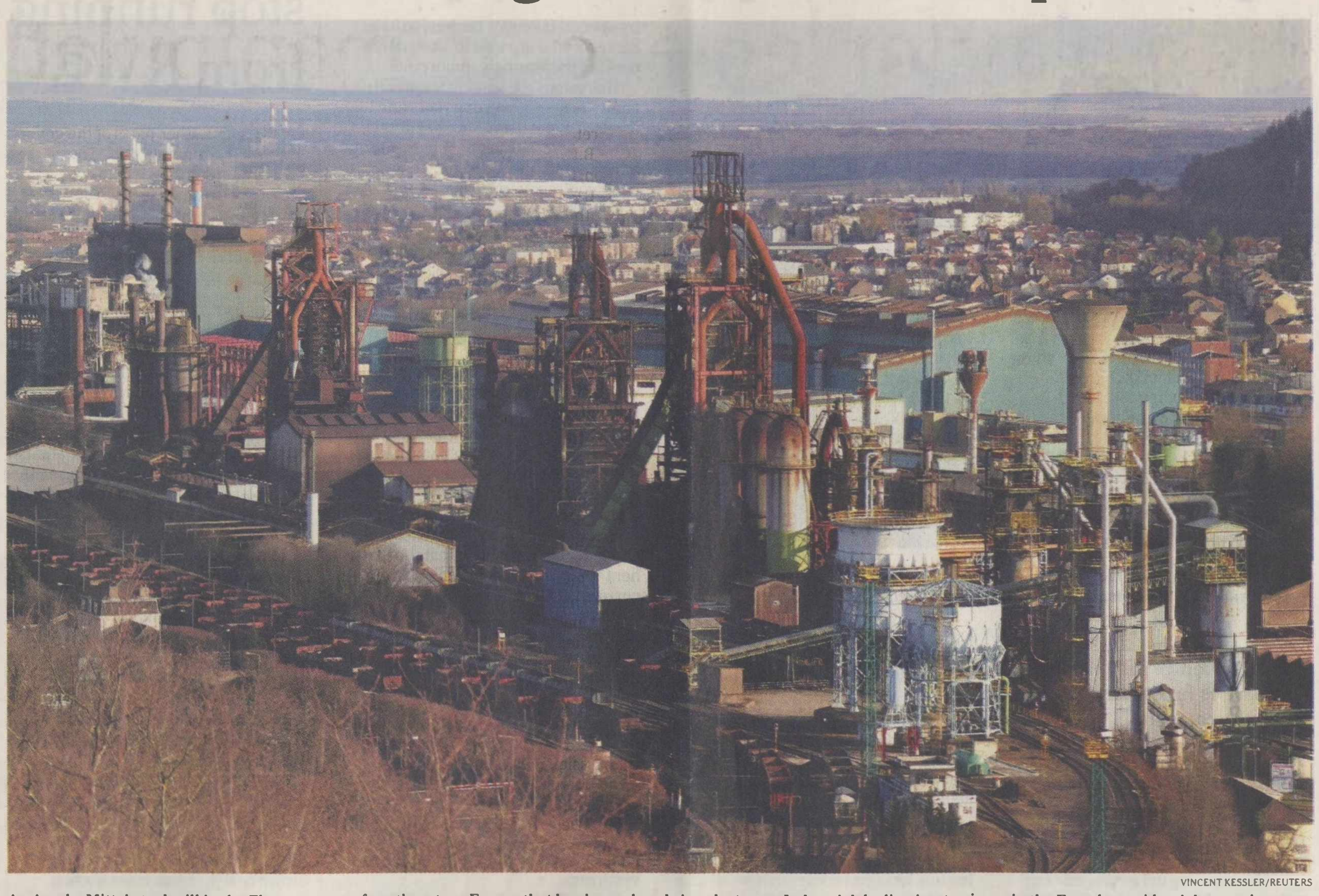
THANASSIS STAVRAKIS/AP

**RESCUE LOGIC DOESN'T ADD UP FOR GREEKS** Even though Greece averted default, many Greeks see little sense in the hard-won bailout deal defended by Evangelos Venizelos, the finance minister. *PAGE 17*

# Dying steel sector takes big role in French politics

FLORANGE, FRANCE

BY LEIGH THOMAS
*REUTERS*



VINCENT KESSLER/REUTERS

An ArcelorMittal steel mill in the Florange area of northeastern France that has been closed since last year. Industrial decline is a top issue in the French presidential campaign.

No smoke billows from the colossal Florange steel mill in northeastern France and only a skeleton crew tends to its upkeep, yet the plant has become a battleground in the country's presidential campaign.

The plant, owned by ArcelorMittal and temporarily shut since late last year for l[illegible] of orders, symbolizes the industrial d[illegible]ne that is a top campaign issue for President Nicolas Sarkozy and his Socialist challenger, François Hollande, before the first round of voting on April 22.

Some 200 workers occupied management offices at the plant Monday to protest the closure, fearing that the mill's hulking blast furnaces might never be fired up again.

While steelworkers are heartened to see politicians finally taking the plight of their long-struggling sector seriously, they fear that unless campaign promises of change and investment translate into action, it may be too late to halt the decline.

"It's good to see people talking about industry but the politicians have a lot of catching up to do. Otherwise, we're not going to survive," said Jean-Pierre Brème, a third-generation steel worker and a foreman at Florange.

"They want to go backward, they w[illegible] to reindustrialize," he added. "[illegible]y want to go back to all the things they threw out in the past, saying it was a load of rubbish."

Mr. Sarkozy and Mr. Hollande, who is well ahead in opinion polls, are pushing rival ideas to save the manufacturing industry, with the conservative incumbent focused on structural measures like reducing labor costs, and his Socialist challenger calling for more investment and innovation.

Florange's twin blast furnaces are the last of dozens that used to smelt iron ore and coke in the Moselle valley, the heartland of steel making for three centuries that is now part of the French rust belt.

Florange has outlived other steelworks in this borderland flanking Belgium, Luxembourg and Germany thanks to hard-to-beat productivity, but high costs and persistently weak demand for the steel slabs it produces leave workers wondering whether steel making in France has a future.

With the manufacturing industry bleeding jobs and with the frequent factory shutdowns, other candidates, like the far-right leader Marine Le Pen, the centrist François Bayrou and the leftist Jean-Luc Mélenchon, have seized on the sector's plight.

The demise of plants like Florange has left France one of the least industrialized of some 40 advanced economies tracked by the Organization for Economic Cooperation and Development.

Manufacturing contributes less to gross domestic product in France than in Britain, which Mr. Sarkozy recently asserted had no industry. According to O.E.C.D. data, only Luxembourg and Greece are less industrialized.

**"You can't play football with a sack full of rocks on your back. That's the problem with social charges and labor costs."**

In Florange, workers are pinning hopes on a €600 million, or $783 million, pilot program that could halve carbon dioxide emissions and energy use while increasing output.

Politicians of all stripes back the project to transform the blast furnaces to capture carbon, but its fate is out of their hands as it depends on financing from the European Commission, which is taking its time deciding whether to back the project.

"We all love our steel industry and we don't want to see it stop," said Jean-Claude Roeder, who works at the blast furnaces. "If tomorrow we don't have the project then we'll feel that France is abandoning us, that France doesn't want a steel industry any more."

The workers at Florange know about broken promises. ArcelorMittal, the largest steel maker in the world, wound down a mill in nearby Gandrange despite Mr. Sarkozy's pledge to find a way to keep it going.

During a visit to the Gandrange site in 2008, Mr. Sarkozy promised to change the mind of Lakshmi Mittal, the chief executive of ArcelorMittal, about shutting down the site.

"What's at stake is keeping factories on our national territory," Mr. Sarkozy told a crowd of workers from the shop floor. "We cannot let our factories close."

The Gandrange plant is now closed, except for a rolling mill and a research and development center. That has made it a compulsory stop for Mr. Sarkozy's rivals.

"No politician can afford not to come here, except for the one who already came here," said Thierry Tavoso, a union representative, referring to the president.

France has lost 763,000 industrial jobs in the past 10 years, with 355,000 shed since Mr. Sarkozy took office in 2007 — figures Mr. Hollande rarely omits during his speeches about industrial policy.

The services sector has more than made up for industrial job losses that were caused partly by productivity gains, but the country has still lost competitiveness.

Industrial manufacturing generated about 23 percent of French jobs 30 years ago, but it now accounts for 12 percent, according to data compiled by Thomson Reuters Datastream.

France's share of euro zone exports has fallen to 13 percent from nearly 16 percent in a decade and its share of global exports has fallen to a mere 3 percent. The trade deficit hit a record level of nearly €70 billion in 2011.

Unit labor costs have risen nearly 17 percent over the past 10 years, while in Germany they were only marginally higher over this period, according to O.E.C.D. data.

Before the euro existed, European countries could help exports by devaluing their currency — an option no longer available to euro zone members.

Mr. Sarkozy, eager to seize control of the debate, is making a late legislative push to cut social welfare charges on companies, shifting the cost to an increased value-added sales tax.

The measure, dubbed "social V.A.T.," aims to level the playing field with foreign companies that export to France by making them bear a bigger share of financing the welfare system.

"Social V.A.T. is in effect a devaluation because it reduces the burden on producers and employers, paying for it by increasing the burden on consumers," said Peter Jarrett, a senior economist at the O.E.C.D.

Mr. Hollande says that the tax will squeeze purchasing power, but industry bosses would like to go even further.

"You can't play football with a sack full of rocks on your back. That's the problem with social charges and labor costs," said Pierre Gattaz, chief executive of Radiall, a maker of electronic connectors.

While conservatives in the United States and Britain have won elections with supply-side economics, it remains to be seen if they can win over French voters more suspicious of business.

In an economy dominated by big multinational companies, Mr. Hollande wants to focus on helping small and midsize companies. He plans to set up a public investment bank to finance innovation and small companies, which would also benefit from lower corporate taxes.

France spends about 2.1 percent of its gross domestic product on research and development, compared with 2.8 percent in Germany, 2.7 percent in the United States and 1.9 percent in Britain.

Mr. Hollande also aims to tap into French people's penchant for saving by raising limits on tax-free, state-regulated savings accounts for funds to be lent to small and innovative companies.

"We will support the new digital and environmental economies because we need to be ahead of our competitors," he said at a rally in Rouen last week. "That's a strategy, an ambition that will allow our country to get ahead of the game in globalization."

# Euro zone buys time with rescue of Athens

*EURO ZONE, FROM PAGE 1*

done, she said, prospects are greater that non-European countries will help stabilize the euro zone through the I.M.F., creating a virtuous circle.

Though the bond markets have rewarded the new Italian prime minister, Mario Monti, for his ability to pass a program of economic changes, the situation in the euro zone as a whole remains fragile.

"You really don't want a Greek default before firewalls have been put in place and without having pushed through reforms in Italy," said one European official, who like many of those with knowledge of the talks was not authorized to comment for publication. "The more time for Italy and Spain, the better."

Although the meeting in Brussels lasted more than 13 hours, a deal never really seemed in doubt. Even during the opening discussion Monday afternoon, ministers made it clear that they wanted an agreement, according to another official not authorized to speak publicly. "It never looked like breaking down," he added.

But the talks were complex, with two parallel sets of negotiations going on: one among the euro zone finance ministers, another between the Greeks and their bankers. At least four times, the Greek delegation had to shuttle between representatives of the banks and the ministers.

By sunrise Tuesday, the banks agreed to increase their losses on the face value of their Greek bonds to 53.5 percent from the 50 percent they accepted in October. That is equivalent to an overall loss of more than 70 percent, according to the Institute of International Finance, which represented many of the private bondholders in the talks.

With the European Central Bank offering to give up profits on Greek bonds that it bought at a discount, and the government in Athens getting lower interest rates on its loans, the Greek economy has been pulled back from the abyss — for the time being.

**"We are realistic that some of these reforms are painful, difficult, but there is no other alternative."**

As one official said, "We have averted eurogeddon."

In the short term, the deal minimizes risks of a Greek exit from the euro zone or of a catastrophic run on Greek banks.

"No one should underestimate the huge social impact of a default," Jean Lemierre, senior advisor to the chairman at the French bank BNP Paribas and one of the bank negotiators, said Tuesday in Brussels.

But Greece faces years of austerity, unprecedented outside interference in the running of its economy and a herculean task in turning around its economy.

"We are realistic that some of these reforms are painful, difficult, but there is no other alternative," said José Manuel Barroso, the president of the European Commission, the executive branch of the European Union.

According to Joachim Fritz-Vannahme, Europe director of the Bertelsmann Foundation, a German research organization, the bailout was agreed to largely for negative reasons, rather than because it presented a plausible economic path for Greece.

The program is designed to avert contagion and was difficult to reject because, to do so now would be to admit that the euro zone had been pursuing the wrong strategy for two years, he said.

"However, there is no sustainability in view," he said, adding that Greece lacked the essential administrative capacity to implement change.

"We know there were mistakes and we made mistakes, too," Mr. Fritz-Vannahme added. "We didn't look closely enough at the moment Greece joined the euro. Then we fell asleep for 10 years."

Even among its architects there is little confidence that the bailout will succeed. "In the economic modeling there is the possibility that it can work," one European official said. "But nobody is convinced that the Greeks will deliver on it." But if Greece later fails, then at least Europe would have tried its best, the official added.

Another official was more blunt. "The laws of economics have almost been suspended," he said. "Economics are being wheeled out just to defend the politics."

## Lisbon can't stop festival

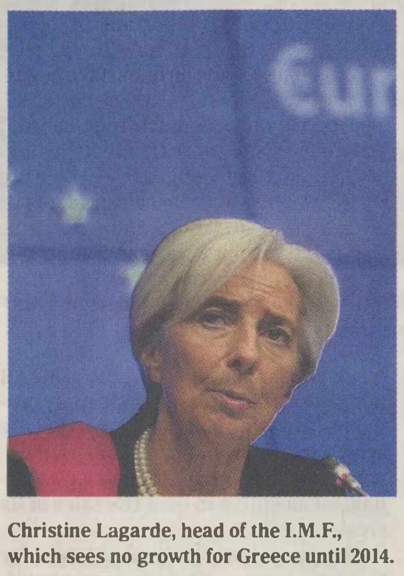
Portuguese workers on Tuesday rejected the government's appeal that they stay at their jobs during Carnival, one of their most beloved holidays, The Associated Press reported from Lisbon.

The government's attempt to make people work more by scrapping the traditional holiday fell flat. Offices stood empty and banks were shuttered. Well over half of workers stayed home, local media estimated. Instead, tens thousands of people, many dressed in colorful handmade costumes, attended traditional street parades featuring elaborate floats, samba music and dancing.

Government ministers, lawmakers and the head of state worked normally.

# Doubt over Greece's future persists

*GREECE, FROM PAGE 1*




Christine Lagarde, head of the I.M.F., which sees no growth for Greece until 2014.

Better, he said, to accept from the outset that the debt cannot be repaid and wr[illegible] down a larger share of the countr[illegible] financial obligations rather than mpose more growth-stunting meaures on the country

"We need policies that return Greece the growth path, not more austerity," r. Wyplosz said.

Forecasting growth in an economy at by the end of 2012 will have shrunk se to 20 percent in four years is no sy task. Most economists expect wth to contract 5 percent this year, the I.M.F. is forecasting no growth 2013, followed by growth of 2.3 perand 2.9 percent in the subsequent years.

ut with Greece's traditional growth ine — the government — effectively lined in the coming years, it is unif the country's small export sewhich represents about 20 percent D.P., can pick up the slack, as has the case in the more open Irish omy.

without growth, it will be nearly sible to generate the surplus the y needs to start paying down its

the moment, though, Greece's fibackers appear to have blinked. hough many now argue that the al system is better prepared for a default, the fear that such an Greece would prompt investors ect the same in Portugal and was in the end too powerful to me.

thens, officials from the three inonal lenders — the European ission, the European Central and the I.M.F., expressed a cauoptimism that the agreement, as it may be, may at least reaseeks that the country will not go pt in coming days and leave the

threats, uttered not just by but by European leaders as well past weeks, have been a primary behind Greece's economic collate. Over the past two years, ave pulled €40 billion or so from ks, and this loss of confidence the economy into a tailspin, sinking close to 7 percent last year.

If just a small portion of those lost deposits is funneled back into the economy, a tentative recovery might ensue.

But Greece's financial backers also warned that while Greece might well pass the laws to enact these changes, actually turning law into practice whereby taxes are collected, public enterprises sold, wages cut and civil servants laid off is by no means guaranteed.

**"Passing laws in Parliament means nothing. It's the implementation that counts."**

"Passing laws in Parliament means nothing," said one official from the lenders who declined to be identified. "It's the implementation that counts, what actually happens on the ground."

Reflecting Europe's lack of trust in Greece following through with the overhauls, the number of staff from the European Commission monitoring Greece will be increased and a system is to be put in place whereby government funds will be used first for paying off debt.

In every way, the bailout represents an unprecedented encroachment by the European Union into domestic affairs of a sovereign state, with Greece being expected to submit weekly and monthly reports on virtually every aspect of its budgetary regime to its partners in Europe.

For those who see the root cause of Greece's ills in the reckless spending of its politicians, this increased scrutiny is reason to cheer.

"This is long-term good news. We have eliminated the possibility that Greece blows up Europe," said Jason Manolopoulos, a hedge fund manager based in Athens and author of "Greece's Odious Debt." "Finally it looks as if Greek politicians will be reined in from more excessive spending."

But it will be the success, or lack thereof, of the private-sector portion of the deal that will largely determine whether Greece gets the financial breathing room it so desperately needs.

For the numbers to work, analysts say that 88 percent of bondholders must agree to the debt swap — a tall order given than more than €30 billion is held by hedge funds, asset managers and other private entities that, unlike the large European banks, are not inclined to succumb to government pressure.

Recognizing that private-sector investors will not embrace an arrangement that gives them 30-year bonds that pay only a 2 percent interest rate through 2015 (the average rate over the bond's duration is 3.6 percent), the Greek government will pass a law this week that attaches collective action clauses to Greek bonds, a step that forces even holdouts to accept the terms of the deal.

Crucially, the new bonds will be governed by English law, unlike the old ones, and will thus carry more legal protection for creditors if Greece has to default on these new securities.

If bond investors have the same doubts that Europe and the I.M.F. have had concerning Greece's capacity to pay down its debts, they may opt to participate in the transaction, even though they will have to take a hefty loss.

That, at least, is what Greece and its financial backers are hoping for.

# On the street, rescue logic mystifies ordinary Greeks

ATHENS

BY RACHEL DONADIO

The European Union may have signed off Tuesday on a sweeping new arrangement to help avert a Greek default and stabilize the euro, but here on the streets of Athens, many see no end to their country's woes.

The deal was reached amid a growing air of stalemate and concern. Greece's foreign lenders say they do not believe that the new austerity measures that the Greek Parliament passed last week — including pension cuts and a 22 percent reduction in the private-sector benchmark minimum wage — will actually be implemented, at least not before national elections to be held as soon as April.

Others are concerned that in the fine print of the 400-plus-page document, which lawmakers had a weekend to read and sign, Greece relinquished fundamental parts of its sovereignty to its foreign lenders: the European Commission, European Central Bank and the International Monetary Fund.

"This is the first time ever that a European and probably an O.E.C.D. state abdicates its rights of immunity over all its assets to its lenders," said Louka Katseli, an independent and former lawmaker for the Socialist Party. She was one of several independents who voted against the loan agreement along with 43 lawmakers from the two largest parties.

Ms. Katseli, an economist who was labor minister in the government of Prime Minister George A. Papandreou until she left in a cabinet shuffle last June, was also upset that under the terms of the new deal, Greece's lenders will have the right to seize the gold reserves in the Bank of Greece and future bonds issued will be governed under English law and in Luxembourg courts, conditions more favorable to creditors.

While their country's fate is decided in abstract, high-level negotiations in Brussels, Berlin and Paris as much as in Athens, many Greeks have begun to feel that the debt write-down and the new bailout money, which will go largely to pay off creditors, is aimed more at saving the banks than the country.

"They don't want to kill us but keep us down on our knees so we can keep paying them indefinitely," said Eva Kyriadou, 55, as she stood in a square in central Athens where the smell of tear gas and the smashed facades from violent riots last week were still in evidence.

On Tuesday, Evangelos Venizelos, the finance minister, said the new debt deal was "the most significant deal in Greece's postwar history" and had "averted a nightmare scenario."

Under its terms, Greece's private lenders will agree to write down €100 billion, or $132 billion, of Greek public debt and take a loss of more than 70 percent in exchange for longer-term bonds.

"I wonder what would be happening today in Greece, in the euro zone and in the global economy if a deal had not been reached, what prospects there would be for banks, for savings, for the wages of Greeks," Mr. Venizelos said.

But many Greeks were not buying it. "In my simple mind, it seems crazy," said Dionysius Tsoukalas, 35, serving at a coffee bar. "They took off €100 billion but now we took a new loan for €130 billion. Why would we do that? It's crazy."

Privately, Greek and European officials said they did not believe that Greece's increasingly weak political class would have the will or the time to implement the new austerity measures, which they said required complex legal expertise and cooperation between ministries in a state that lags in administrative capacity.

Greek politicians, meanwhile, are fighting for what little political capital they have left after two years of austerity that have drained them of popular support. Growing political instability is another wild card. Opinion polls say that the center-right New Democracy party is leading in the polls, but that, combined, leftist parties opposed to the loan accord would get 43 percent of the vote.

*Niki Kitsantonis and Dimitris Bounias contributed reporting.*