Supporters of Mohamed Morsi praying in Tahrir Square Sunday before election results were announced. Mr. Morsi of the Muslim Brotherhood won 51.7 percent of the vote.

25/6/2012

In Europe, new summit expected to fall short

FRANKFURT

Without action to bolster promises, markets will penalize weak economies

BY JACK EWING

If the past is any guide, E.U. leaders will leave their summit meeting this week waving promises to weave the euro zone more tightly together. They are likely to back a plan to finance infrastructure projects in distressed countries.

But unless the usual expressions of resolve are bolstered by concrete action, or at least a binding timetable, financial markets will most likely continue to penalize Spain and other troubled countries by pushing up their borrowing costs to levels that will eventually prove to be unaffordable.

"We know by experience that recent summits have generated expectations that were not met by decisions," Joaquín Almunia, vice president of the European Commission, said in Frankfurt last week. "We at the European Commission hope that this time will be different."

The ideal outcome of the meeting in Brussels on Thursday and Friday, according to a growing chorus of central bankers and foreign leaders, would be deliberate movement toward a euro zone in which countries would backstop one another's banks and bonds, while also policing one another's spending.

On Sunday, the Bank for International Settlements, a clearinghouse for central banks whose board includes Ben S. Bernanke, the chairman of the Federal Reserve, became the latest institution to urge euro zone leaders to establish a banking union, including stronger measures to guarantee deposits and prevent bank runs. The International Monetary Fund and the European Central Bank have made similar pleas.

European leaders are not blind to the dangers that the euro zone faces.

Wolfgang Schäuble, the German finance minister, who is known as an advocate of a stronger European central government, said during an interview published Sunday that Germany might

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GROUP CALLS FOR BOLD ANTI-CRISIS STEPS
The Bank for International Settlements said central banks could not cope with the euro zone crisis alone. PAGE 17

HEALTH ISSUES ADD TO GREECE'S BURDEN
Ailments will keep Greece's two top officials from attending a crucial meeting on the country's bailout. PAGE 3

Another E.U. summit that is likely to fall short of hopes

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need to hold a referendum on a new constitution within several years, to make it easier for the country to cede budgetary authority. "In some important political areas, we need to transfer more jurisdiction to Brussels, so that not every decision can be blocked by any member state," Mr. Schäuble told the magazine Der Spiegel.

But European leaders are not expected to achieve anything dramatic at the summit meeting this week because they have not been able to break the fundamental deadlock between northern countries, led by Germany, and southern countries like Spain and Italy and their ally, France.

Some leaders, including Mario Monti, the prime minister of Italy, want to coopt Germany's stellar credit rating to lower their own borrowing costs. The German chancellor, Angela Merkel, has the backing of her country's central bank and of most of the German public in refusing to allow that without also having a bigger say in how the Italians and others spend the money.

During a meeting in Rome on Friday, the leaders of France, Germany, Italy and Spain provided a glimpse of what might be expected from the broader E.U. summit meeting this week. The four leaders agreed to a €130 billion, or $163 billion, growth pact, which would mostly redirect existing funds. It would also create so-called project bonds, with the euro zone providing credit to private companies for infrastructure projects and to create jobs.

Although helpful, the plan, which is expected to be formalized this week, does not address the underlying weaknesses in the architecture of the euro zone.

"The outcome of the summit," Commerzbank economists said in a note to clients, "will only be to produce an economic stimulus program which will have at best a limited effect."

The days leading up to the summit meeting will most likely be tense, adding to the feeling that European leaders are running out of time. Spain's borrowing costs continued their steep climb last week and, without decisive action for the region, are bound to be punished in the week ahead.

"The very survival of the euro is under threat," Athanasios Orphanides, who until late May was a member of the governing council of the European Central Bank, said in Frankfurt last week.

In the next few days, Greece's new government will seek to satisfy voters' expectations that it will renegotiate the austerity measures imposed by international lenders. Spain, meanwhile, is expected to begin negotiating with European officials on the terms of a bailout of its banks, which need about €62 billion in fresh capital, according to audit reports last week.

Spain illustrates how the relationship between banks and government can be dysfunctional, and why many people advocate a banking union. After European leaders committed €100 billion to recapitalize Spanish banks this month, market relief lasted only a few hours. Investors realized that the Spanish government was still liable for the cost of the bailout. The additional burden made Spain look even less creditworthy than before.

A banking union would go a long way toward insulating countries from the troubles of their banks and vice versa, advocates of such a union say.

While it is widely accepted that it would take years to forge the euro zone into a unified entity with some of the federal aspects of the United States, elements of a banking union could be put into place quickly, said Mr. Orphanides, who previously served as a senior adviser to the Federal Reserve.

For example, countries could agree to impose a levy on banks that would be used to create a central deposit guarantee fund, roughly analogous to the Federal Deposit Insurance Corp. in the United States. The fund might reassure depositors and stop the slow-motion bank runs that are already under way in Greece and that are developing in Spain. "Solutions exist if there is the political will to use them," Mr. Orphanides said at a conference at the University of Frankfurt.

The deposit guarantee fund would be part of a banking union. Mario Draghi, president of the European Central Bank, is expected to make such a banking union the centerpiece of a vision for the euro zone that he is drafting with three other leaders who, like him, have responsibilities that reach beyond national borders. Also working on that draft are Herman Van Rompuy, president of the European Council; José Manuel Barroso, president of the European Commission; and Jean-Claude Juncker, head of the group of euro zone finance ministers.

ANDREW MEDICHINI/AP

The Spanish prime minister, Mariano Rajoy, is among leaders pushing for change.

But the political obstacles to a common deposit guarantee fund and other cornerstones of a banking union remain high. Such a union would require a regulatory agency for European banks that has real power. Political leaders continue to be reluctant to give up control of their country's banks, which they can use to steer financing to pet projects.

Germany, meanwhile, remains wary of any plan that would require it to pay the largest amount. The Bundesbank, Germany's powerful central bank, has expressed doubts about whether a banking union is possible without tighter political integration of euro zone countries.

"For sure it is not a quick fix," Andreas Dombret, a member of the executive board of the Bundesbank, said in an interview. He added that it would be important to keep an eye on constitutional issues. The highest court in Germany, for instance, has been wary of measures that commit German money without legislative approval.

Germany is also unlikely to budge in its refusal to pool euro zone debt, at least until there is a fiscal union in place that would allow euro zone countries to veto excessive spending. Mr. Monti has proposed using European bailout funds to intervene in debt markets and cap borrowing costs, but from the start, Germany deemed the idea destined for failure.

European leaders headed to Brussels this week will undoubtedly want to accomplish something. Perhaps they will endorse the idea of putting the European Central Bank in charge of bank regulation, one step toward a banking union. They will most likely ratify the growth pact that Mr. Monti, Ms. Merkel, President François Hollande of France and Prime Minister Mariano Rajoy of Spain agreed to Friday. But the spending outlined last week is not nearly enough to solve the crisis, economists at Commerzbank say.

That being the case, European leaders are not likely this week to shake their reputation for doing too little, too late.