bune

GLOBAL.NYTIMES.COM

Strict bailout for Greece may have wiggle room

77

BRUSSELS

Deteriorating economy leads lenders to signal readiness to revisit terms

BY JAMES KANTER
AND PAUL GEITNER

As Greece's political parties maneuvered to form a new government Tuesday, the country's creditors were signaling a willingness to discuss revised terms for Greece's bailout package to reflect its rapidly deteriorating economy.

The newfound willingness to talk, while probably requiring Greece to stic[illegible] long-range targets for reducing its debt and making structural changes in its economy, follows the elections Sunday in which the center-right party New Democracy, led by Antonis Samaras, won a narrow victory over the hard-left Syriza party. Syriza had demanded a complete renegotiation of the bailout deal Greece struck this year with a trio of international institutions.

The prospect that Mr. Samaras would lead the new government brought a sigh of relief in Brussels, as he had pledged to stick in principle to the bailout deal, averting an imminent and messy Greek exit from the euro zone. But Mr. Samaras has also made it clear that he will seek some concessions on the terms of the €130 billion, or $165 billion, rescue his country secured in March from the so-called troika of the European Union, the European Central Bank and the International Monetary Fund.

Discussions were expected to begin Thursday night in Luxembourg at a meeting of finance ministers from the euro zone nations, though it was not clear whom Greece would send. Also scheduled to attend are Mario Draghi, the president of the E.C.B., and Christine Lagarde, the managing director of the I.M.F.

Officials say they will not know how far off track the Greeks are from meeting the conditions for continuing to receive bailout payments until its new government is in place and a team of inspectors can return to the country.

But given the economic downturn across the euro zone and the political stalemate in Athens since May, one euro zone official said Tuesday that it was "quite logical" that Greece's early targets had been missed. The memor-

GREECE, PAGE 21

ALKIS KONSTANTINIDIS/EPA

Antonis Samaras, the New Democracy leader, said he would push for concessions.

Fears of euro breakup add to Spain's pain

SPAIN, FROM PAGE 1

banks left financial markets unimpressed, partly because the move will add to the country's debt burden. That bailout became necessary as Spain's deepening recession raised the level of mortgage defaults and pushed the proportion of bad loans held by banks to their highest level in 16 years.

Market confidence in Spain's bank rescue deal has also been undermined by the fact that its exact terms are yet to be negotiated.

"By admitting that it is no longer capable of propping up its banks, the Rajoy government has sent a message to the markets that the sovereign is in need of external support too," Nicholas Spiro, managing director of Spiro Sovereign Strategy, a consulting firm in London that assesses sovereign debt risk, wrote in a note Monday.

"In the realm of investor perceptions, Spain has crossed the Rubicon from solvency to insolvency," he said. "The markets are treating Spain's bank-focused bailout as a pregnancy: there's no such thing as a partial one."

On Tuesday, Spain sold €2.4 billion of 12-month bills at the 5.074 percent rate. It also sold €640 million of 18-month debt with a yield of 5.107, compared with 3.302 percent last month.

Madrid is also hoping to sell up to €2 billion in longer-term government securities on Thursday.

The yield on Spanish 10-year bonds, considered the benchmark for borrowing costs, slipped to 6.955 percent at the end of the European trading day Tuesday. On Monday, that yield rose as high as 7.2 percent, a record since the inception of the euro and a level seen by many — including the country's economy minister, Luis de Guindos — as unsustainable in the long term.

Investors say that with each succeeding auction, foreigners are buying less of Spain's government debt while its troubled domestic banks are buying more, a trend that will continue if worries build that at some point foreigners holding Spanish bonds may be required to take a loss.

They note, too, that Spanish debt officials have not been frequently seen making the case that outsiders should buy their bonds.

At an investor conference in London hosted Tuesday by Euromoney, debt management officials from Italy, France and the Netherlands were talking up their country's bonds. But the country most in need of a bit of outside buying support — Spain — was nowhere to be seen.

Still, investors appeared more optimistic Tuesday, as major European stock indexes rose broadly. The Euro Stoxx 50 index of euro zone blue chips gained nearly 2 percent, and the FTSE 100 in London added 1.7 percent. The DAX in Frankfurt rose 1.8 percent and the IBEX in Madrid jumped 2.7 percent.

In the United States, stocks were rising in afternoon trading on hopes that the U.S. Federal Reserve, beginning a two-day policy meeting, might agree on some form of financial stimulus.

The euro was up 0.9 percent, at $1.2694.

After the June 9 European rescue deal for Spanish banks, Mr. Rajoy had initially argued that Spain had secured highly favorable terms, insisting that the deal should not be compared with previous euro zone bailouts and that it would not affect the country's public finances.

Since then, however, Mr. Rajoy has had to change his stance, as Spain's borrowing costs have spiked again amid concerns about how the European emergency lending would affect the country's already rising debt.

Separately, Moody's Investors Service, the credit ratings agency, cut Spain's rating last Wednesday by three notches, bringing it close to speculative, or junk, status, also citing concerns over Spain's debt.

"In the realm of investor perceptions, Spain has crossed the Rubicon from solvency to insolvency."

As a result, Mr. Rajoy has been trying, so far unsuccessfully, to persuade his European counterparts to agree that the rescue financing will be paid directly to Spanish banks, so as not to affect Madrid's debt. The tussling over the terms of the bank rescue has raised concerns among investors that Spain would eventually need a broader, and significantly larger, sovereign debt bailout.

The worries have also been compounded by concerns about the size of the bank rescue. While Madrid initially suggested that it would not require the full €100 billion offered by Europe, it is awaiting the results of audit stress tests by two consulting firms, due on Thursday.

Meanwhile, four leading accounting firms are examining the 14 largest Spanish banks. Their findings are scheduled to be released by July 31, but could be delayed by a few months to give them more time to comb through the loan books of the banks.

Raphael Minder reported from Alicante, Spain. Landon Thomas Jr. contributed reporting from London.

EMILIO MORENATTI/THE ASSOCIATED PRESS

Striking coal miners in northern Spain firing handmade rockets at the police Tuesday in a protest against cuts to mining subsidies.

Facebook points finger at Nasdaq in I.P.O. suits

NEW YORK

BY PETER J. HENNING AND STEVEN M. DAVIDOFF

Facebook is struggling to refriend investors after its botched initial public offering last month brought about a deluge of more than 40 lawsuits.

In response, the company filed a legal brief last Thursday asking to consolidate most of the cases filed in U.S. and state courts in New York and California against the company, its directors and underwriters and Nasdaq into one proceeding. By putting all the lawsuits together before a single judge, Facebook can try to get a handle on the unwieldy mass of legal claims.

While this motion is standard when there are multiple lawsuits, the content is far from typical. The company seems to be using the motion to address some of the negative publicity cast on it about the I.P.O. by arguing that it had disclosed everything it should have to investors and that the party really responsible for the precipitous drop in its share price was Nasdaq.

Facebook's motion was filed under a U.S. law that permits a temporary transfer of cases filed in different districts that involve common issues to one court for pretrial management.

Facebook asserts in its brief that there are common issues in all the cases about what caused investor losses from the I.P.O., mainly some combination of Facebook's disclosures or Nasdaq's trading glitches. And all of the events took place on a single day, with most witnesses and documents located in New York. Thus, the company asks that the cases related to the I.P.O. be moved to New York.

Facebook's motion is likely to be granted, helping to avoid the potential for conflicting decisions by different judges. Consolidation would also keep its costs down by allowing the company's lawyers to take a coordinated approach to the fact-finding process, rather than facing multiple depositions and document demands.

What is good for Facebook may not be quite as beneficial to Nasdaq, however. The exchange is not a party to Facebook's request for consolidation and may well oppose the motion to have cases naming it as a defendant thrown together with lawsuits against the company and its underwriters over flawed disclosure.

Facebook goes out of its way in its brief to cast Nasdaq as the villain of this saga.

In describing the events that occurred in New York, the company cited: trading errors caused by Nasdaq throughout the first day of the I.P.O., on May 18; the market's reaction to the uncertainty created by those errors; Nasdaq's announcement of a claims submission deadline at noon on the second trading day, May 21, that reportedly prompted a selloff of Facebook shares; alleged efforts by one of the lead underwriters to stabilize the share price after Nasdaq's errors; the public apology and admissions issued by Nasdaq's chief executive; and Nasdaq's offer of compensation to investors who suffered losses.

There is no mention in that list of anything that Facebook might have done wrong. Instead, Facebook's brief points the finger squarely at Nasdaq as the primary cause of the share price drop. It claims that the trading failures created a negative perception of the company when investors could not sell their shares and that it effectively urged them to sell at a loss, leading to a stampede out of the stock in the days after the I.P.O.

Facebook did not even have to mention Nasdaq to consolidate the securities law cases because they have the same basic allegations. But by trying to bring Nasdaq into its litigation, the company is foreshadowing a strategy of going for the jugular.

The motion highlights the thorny customer problem facing Nasdaq. Does it defend against these suits by fighting consolidation and risk angering Facebook? Or just go along with consolidation for now?

This is a delicate issue because Nasdaq wants to keep the company's listing while preserving its legal position, so the response to the motion will have to be artfully drafted.

While the cases arise from the I.P.O., different legal arguments can be raised that may preclude consolidating the Nasdaq cases.

The Nasdaq cases are based in large part on state law, unlike the federal securities claims. Nasdaq also has a number of protections in its contracts with the brokerage firms it dealt with that may well be a basis to dismiss claims from the trading problems on May 18, an argument that would not be available to Facebook.

Wiggle room emerges in Greece's bailout

GREECE, FROM PAGE 1

andum signed by Greece and its creditors must be "changeable" to reflect evolving conditions, "otherwise it would be stupid," said the official, who spoke on condition of anonymity ahead of the private talks.

Conny Lotze, an I.M.F. spokeswoman, said such adjustments were not unusual for countries that had received financial bailouts. "These economic programs are not static," she said. "They do get adjusted."

The lengthy agenda of the Luxembourg meeting will also include an update on the precarious condition of Spanish banks, an I.M.F. economic review of the euro area and a report on the situation in Cyprus, which may have to seek its own European bailout agreement if it cannot secure a rescue loan from Russia.

The political stalemate combined with the recession makes it likely Athens has missed its bailout targets.

The European official who discussed the possibility of revising Greece's bailout terms indicated that flexibility could be shown in how the country used new taxes or in the additional spending cuts that might be required to bring the country's debt down to a sustainable level by 2020.

By last month, for example, the government in Athens was supposed to have identified €11.7 billion in preliminary additional savings to meet budget targets for 2013 and 2014. Mainly because of the political turmoil, that has yet to be done.

The cuts, to be adopted over the next two years, were to have focused mainly on social, health care and military spending as well as reductions of government payrolls. But the euro zone official said that rethinking those cut would probably be one subject of talks over the summer.

With Mr. Draghi and Ms. Lagarde — frequent critics of inaction by euro zone governments — both present in Luxembourg, there could be spirited debate over the conditions and timetables set for Greece on making economic reforms, which are to include opening up closed professions, improving tax collection and selling state-owned assets.

Germany has continued to show little enthusiasm for granting Greece flexibility on the main terms of its bailout agreement. At a news conference Tuesday at the Group of 20 meeting in Mexico, the German chancellor, Angela Merkel, said she had spoken with Ms. Lagarde on Monday and urged her to move quickly once a Greek government was formed.

"It's very clear that the reforms that were agreed to in the past are the right steps and that they therefore also have to be implemented," Ms. Merkel said. "Now I'm waiting for the troika's report."

Amadeu Altafaj, a spokesman for the European Commission, insisted Tuesday that the memorandum covering the Greek bailout agreement would not be rewritten. But he also indicated some flexibility might be possible once a new government was formed and the lenders' inspectors could return to the country.

"I'm sure the troika will be keen to go to Athens and map out the situation," Mr. Altafaj said, "to discuss with the Greek authorities what the best means of implementing the program agreed upon by the Greek government with its partners is going to be."

One possible source of tension within the euro group could be if Greece were given deadline extensions, which would result in the country needing more money to finance a longer payback schedule for its loans.

In a report Monday, Mujtaba Rahman, an analyst at the Eurasia Group, estimated the additional financing gap to be €20 billion to €30 billion.

A request for more money for Greece would almost certainly go down badly not only in Germany but also in other Northern European countries like Finland and especially the Netherlands, where anti-European parties on the far left and far right have been gaining support ahead of a general election in September.

The political sensitivities could mean that any revised agreement would be put off until a new Dutch government is formed, dragging out the uncertainty.

Ministers also are expected to review the results of two independent audits to be released Thursday on the health of Spanish banks, reports that the government in Madrid has said it will use to determine the exact amount of assistance to request. On June 9, the Eurogroup of finance ministers agreed to make up to €100 billion available to Madrid to recapitalize its struggling banks.

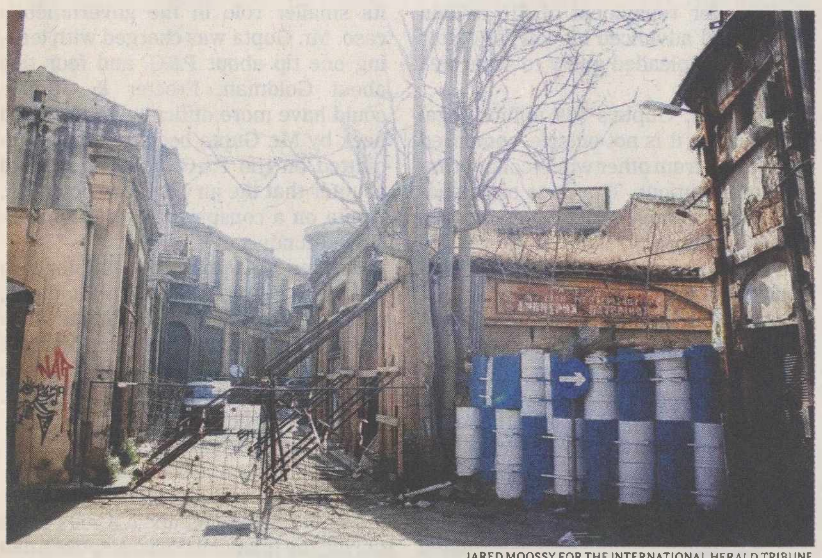
The announcement that European money was on call for Spanish banks, though, has done little to improve market sentiment toward Spain, in large part because the loans would only add to the debt burden of the cash-strapped Spanish government.

European officials insist, however, that a direct injection of capital into the banks themselves is impossible under current rules. In theory, the board of the new bailout fund, the European Stability Mechanism, could change those rules. But that fund is not expected to open for business until July 9 at the earliest, because the treaty establishing it has not yet been fully ratified.

Meanwhile, Cyprus faces a June 30 regulatory deadline to find €1.8 billion to recapitalize its second-largest bank, Cyprus Popular Bank, which was hurt by its exposure to Greek debt. The country has been discussing a loan from Russia or tapping E.U. rescue funds, and the Cypriot finance minister, Vassos Shiarly, said Tuesday that he was optimistic financing would be found in time.

Italy, which is combating the cost of paying the rising returns that investors demand to hold its debt rather than benchmark German bonds, could also be in focus at the ministers' meeting this week.

But there is unlikely to be any enthusiasm for an Italian suggestion: To establish a semi-automatic way for the E.C.B. or the E.S.M. bailout fund to intervene in the bond market when the interest rate spreads of euro zone bonds rise by a specified amount over benchmark German bonds, which tend to carry the region's lowest rates.



JARED MOOSSY FOR THE INTERNATIONAL HERALD TRIBUNE

A border wall in Nicosia. Cyprus will also be discussed at the meeting Thursday of European finance ministers, as the country's banks are heavily exposed to Greek debt.