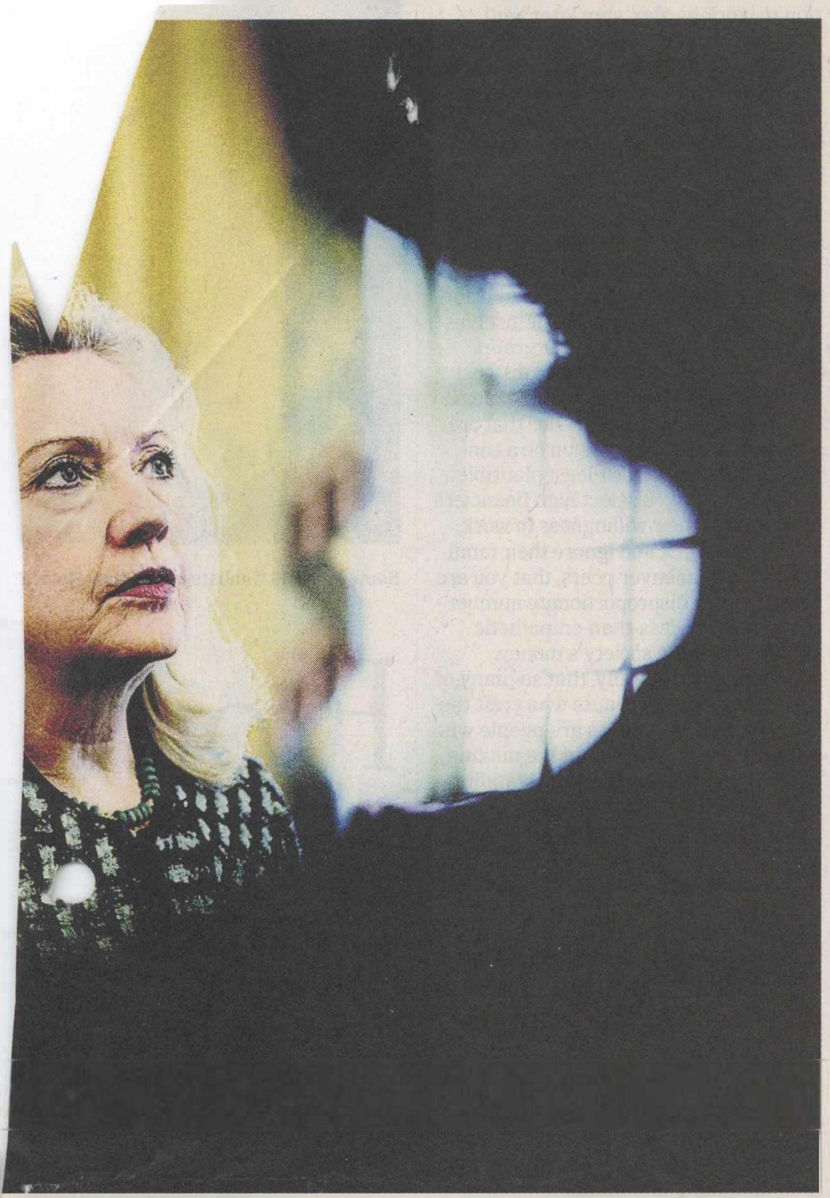

JESSICA DIMMOCK FOR THE NEW YORK TIMES

guiding tenets is how the United States can best deploy the asset of its "global leadership."

Europeans step toward centralizing bank control

BRUSSELS

New coalition pushes Germany to bend on funding of bailouts

BY STEVEN ERLANGER, PAUL GEITNER AND JAMES KANTER

European leaders went a surprising distance Friday toward restoring confidence in the viability of the euro, taking a big step toward economic integration and easing market pressure on Spain and Italy as what appeared to be a new coalition of forces pushed Germany to bend.

At the latest all-night summit meeting since the beginning of the long euro crisis, the leaders made a breakthrough toward more central control over their banking system, a crucial aspect to the stability of their common currency. They also moved swiftly to grant their bailout funds more flexibility to come to the rescue of Spain and potentially Italy, the fourth- and third-largest economies respectively in the euro zone, because they are too big to fail.

But the meeting also marked an important shift in the diplomatic dance of the euro zone, with France, under the new Socialist president, François Hollande, breaking from the traditional lockstep with Germany. Working more in partnership with Prime Minister Mario Monti of Italy than with the German chancellor, Angela Merkel, Mr. Hollande helped isolate Germany and broker a deal for Italy and Spain that breaks a previous German taboo and makes a beginning, however small, toward pooling of liabilities.

Financial markets rallied Friday, suggesting the measures had exceeded admittedly low expectations. The head of the European Central Bank, Mario Draghi, who hasn't shied from criticizing political inaction, called himself "quite pleased with the outcome." He said: "It showed the long-term commitment to the euro by all member states of the euro area."

In return for allowing the direct recapitalization of banks by the bailout

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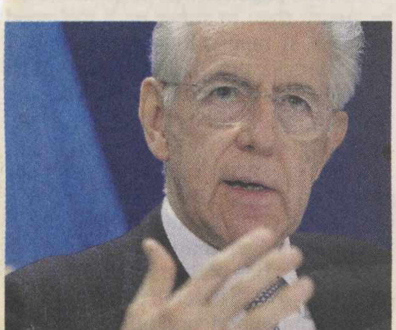
GERMANS UNEASY AT EURO C...

Deft moves by Monti turn weakness into strength

ROM...

BY RACHEL DONADIO AND NICHOLAS KULISH

Prime Minister Mario Monti went to Brussels with a plan: that Italy and Spain would block all agreements — including a growth pact that they fully supported — until European leaders allowed Europe's new bailout funds to provide more immediate support for the two countries, both suffering from unsustainable borrowing rates.



JOHN THYS/AFP

Prime Minister Monti, in Brussels on Friday, pushed for growth as well as austerity.

Using the country's weakness, in this case its huge debt, as its strength is a classic move of Italian diplomacy. But its apparent success lay in its author, Mr. Monti, an economist and a former European commissioner with impeccable academic credentials, experience in Brussels and the ear of both Chancellor Angela Merkel of Germany and President Barack Obama.

Mr. Monti was able to hel...
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is Mr. Monti, even mo...
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World News

EUROPE

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Separation is reported for ex-head of the I.M.F.

PARIS

Dominique Strauss-Kahn and Anne Sinclair have split, French tabloid says

BY ELAINE SCIOLINO AND MAÏA DE LA BAUME

She has been more than the faithful wife. She has been the fiercest of defenders.

No matter what the sin or scandal, Anne Sinclair excused, forgave and even praised her husband, Dominique Strauss-Kahn, with passion and eloquence. She was called a modern-day Joan of Arc, and she was called a fool. When feminists blasted her for standing by her man, she fired back, telling Elle magazine, "Well then, leave your husband if you want. That's your problem."

Now, just months into a new career as the editor of the French edition of The Huffington Post, and after 21 years of marriage, Ms. Sinclair may have decided to move on.

On Thursday evening, the French tabloid Closer reported that the couple had separated. Mr. Strauss-Kahn, the former head of the International Monetary Fund, and the man who could well have become president of France, had moved out of their luxury apartment on the Place des Vosges, the magazine wrote.

"Ms. Sinclair asked Mr. Strauss-Kahn to leave the apartment a month ago," Laurence Pieau, Closer's executive editor, said in a telephone interview on Friday.

She added that Mr. Strauss-Kahn had first moved into the elegant Hotel Lutétia in the Sixth Arrondissement and then to a friend's apartment across the river in the residential Sixteenth Arrondissement.

"For me, it is a definitive breakup," Ms. Pieau said. She declined to reveal her sources.

Ms. Sinclair and Mr. Strauss-Kahn wasted no time in reacting. But instead of confirming or denying their break-up, on Friday afternoon they announced that they were suing the magazine for invasion of privacy.

Signs of marital strain have been there for some time.

At first, Ms. Sinclair, a former television anchor and the heiress to an art fortune, was in lock step with Mr. Strauss-Kahn after he was charged with sexually assaulting a maid in a New York hotel in May last year and forced to abandon his quest for the French presidency. The criminal charges were later

"For me, it is a definitive breakup." 2

dismissed; the presidency went instead to François Hollande, who snatched the Socialist Party's nomination once Mr. Strauss-Kahn was out of the running.

Last January, months after the Strauss-Kahns returned to Paris in September, Ms. Sinclair stepped into a new professional life working for her friend Arianna Huffington, with an office and staff in the offices of Le Monde.

At a news conference launching the site, her makeup was impeccable, her voice confident, her gaze focused on certain photographers. She was no longer wearing her wedding ring. There was no mention of Mr. Strauss-Kahn.

"This is a chance for me," said Ms. Sinclair. "The Huffington Post gave me a chance."

Meanwhile, Mr. Strauss-Kahn was unemployed, spending much of his time at home. Then, in March, he was charged with alleged involvement in a prostitution ring centered in the northern French city of Lille. The police are also investigating allegations that he sexually assaulted a Belgian prostitute at a hotel in Washington in 2010.

He was suddenly a pariah, shunned by friends and political colleagues. A former Socialist prime minister, Michel Rocard, called him sick. Mr. Strauss-Kahn, Mr. Rocard said, "obviously has a mental illness, trouble controlling his impulses."

French tabloids have for months speculated about strains on the couple and a possible split. Mr. Strauss-Kahn and Ms. Sinclair were last seen in public in April, when the two attended a party in Paris. She appeared alone this month at a film premiere in Paris.

A serious new book, "Les Strauss-Kahn," by the veteran Le Monde journalists Raphaëlle Bacqué and Ariane Chemin, investigates their life as a couple, and has been a runaway best seller.

The clearest signal of a split was done in very subtle code, when Ms. Sinclair appeared solo on the cover of Paris Match two weeks ago. Inside, Mr. Strauss-Kahn was photographed looking depressed.

Theirs is a story "about a political couple and an uncommon couple, a couple that has been solid, a couple with two people who became political pariahs, a couple no one wanted to be associated with," Ms. Chemin said. "For many people, their couple is a mystery."

Germans uneasy at Merkel's concession

BERLIN

BY MELISSA EDDY

Ever since Angela Merkel pledged in the early days of the euro crisis that Germans' savings would be safe, people in Europe's leading economy have largely believed their chancellor would defend their pocketbooks from weaker partners on the Continent.

Yet Ms. Merkel's agreement in Brussels to allow bailout funds to be tapped more easily and used to help ailing banks without requiring the involvement of national governments, opened her to a shower of criticism in her homeland. Many feel the chancellor and the government have overstepped their bounds by pushing bailout packages and other measures through Parliament since that pledge in 2008.

The chancellor rushed back to Berlin from Brussels late Friday to attend a vote in Parliament to ratify the newly created European Stability Mechanism, a permanent bailout fund, in order to allow it to go into effect. Another vote Friday was to ratify the European fiscal treaty that ensures tighter budgetary control over individual Euro zone governments. The treaty has become a rallying cry for her demands for more austerity.

Speaking ahead of the vote, Ms. Merkel told lawmakers that passage would send "an important signal of decisiveness and solidarity" to Europe and abroad.

"With these treaties, we take an irreversible step toward a sustainable stability union," the chancellor said.

It is precisely such steps that have many Germans feeling uneasy. Several hundred gathered on a lawn outside Parliament ahead of the vote demanding that it be postponed and decrying that it would cost them their rights.

"As a German citizen I feel as though I have been completely passed by," said Wigbert Baumann, who had traveled with a group from the southern city of Würzburg to demonstrate.

Such sentiment reflects the extreme challenge that Ms. Merkel faces in trying to meet the needs of her voters and Germany's partners within the European Union and abroad, who often view her as reluctant to take swift action.

Political analysts largely viewed the willingness to bend to the demands of the Italian and Spanish prime ministers, Mario Monti and Mariano Rajoy, as an indication of her understanding that she could not simply oppose every proposal coming from her partners.

"She realized that she could not just keep saying 'no,'" said Tanja Börzel, of Berlin's Free University.

Others noted that Ms. Merkel stuck by her main principles of ensuring that any financial grants would come with guarantees and by laying the groundwork for a Europe-wide banking regulator.

But the German media showed no sympathy. "For the first time in more than two years of the euro crisis, European countries did not listen to Germany's commands in a decisive moment," wrote Nikolaus Blome, in a commentary for the mass circulation Bild daily.

The online edition of Der Spiegel titled its lead story on the negotiations "The Night that Merkel Lost," pointing out that she was unable to hold fast to her long vowed "nein."

Lawmakers were also unsettled by the terms of the new agreement. The budgetary committee in Parliament called an emergency session and Ms. Merkel's coalition partners, the pro-business Free

ADAM BERRY/AFP

Many Germans say the chancellor and her government allies, including Wolfgang Schäuble, have overstepped their bounds.

Democrats, insisted on having her address their caucus, before the vote.

Over the past weeks, the chancellor had laid the groundwork with the opposition and the governors of Germany's 16 states, who make up Parliament's upper house, holding meetings that she described as "constructive, if not always easy," to ensure the two-thirds majority in both houses needed to steel the measures against potential challenges before the country's constitutional court.

"Passage of such comprehensive measures would have been unthinkable only two months ago," the chancellor told lawmakers.

Indeed, that relentless pace is leading to a growing uneasiness among Germans who feel that they will ultimately have to pay for the measures.

"What bothers me is the way this has even been organized, on the last day before the summer break, in a late night session," said Swen Gerards, who attended the protest outside Parliament.

JOCK FISTICK/BLOOMBERG NEWS

Chancellor Angela Merkel of Germany at the European summit meeting Friday. The media were quick to call her deal with other leaders a retreat from her previous, tough position.

Germany bends on bailout funds

EURO, FROM PAGE 1

funds, Germany won agreement on a single banking supervisory agency with the E.C.B. playing a central role — bringing it closer to the powers of the U.S. Federal Reserve.

Agreement on the bank authority was "the major breakthrough" of the night and a key step "to break the vicious circle between banks and sovereigns," said the European Council president, Herman Van Rompuy. While the long euro crisis has been centered on excessive government debt, European banks have been weakened by their portfolios of government bonds, made worse in Spain, as in Ireland, by a property bubble that burst.

Spain has asked for a bailout of up to €100 billion, or $126 billion, for its banks, but objected to that new debt being added to its national debt, rather than directed to the banks themselves. Investors agreed, pushing Spanish and, in a ripple effect, Italian debt toward unsustainable levels. Italy's total debt is about 120 percent of gross domestic product, second only to Greece in the euro zone.

The new deal will let the bailout funds loan directly to Spanish banks — although not until the new central bank supervisor is established — probably by the end of the year. Spain also would not get a lot of onerous new conditions because it, like Italy, is making serious strides to fix its government and cut its deficit. Also important to investors, in the case of Spain, the bailout fund will not have seniority in getting paid back in case of default.

"We have taken decisions unthinkable just some months ago," said José Manuel Barroso, the president of the European Commission.

Whatever its accomplishments, this summit meeting, like the rest, was incremental and did not deal with all the fundamental issues and problems of the euro zone — the structural imbalances, the limits on the central bank, the lack of a lender of last resort, the deep concern among many investors that the Europeans do not stand full-square behind the currency. For all the attention and anxiety around the Greek election, Greece was barely mentioned here.

A number of analysts took a somewhat skeptical view of the results, particularly on sharing debt and banking regulation, saying market euphoria was likely to be short-lived.

"In a nutshell, we think that the Europeans have cracked open more doors than we thought, but they still have a lot on their plate," said Gilles Moëc, an economist at Deutsche Bank in London.

In a research note, BNP Paribas wrote that "there was no mention of either a deposit guarantee scheme or a bank resolution authority, the other key aspects of a banking union." And while the bank said that agreement on using bailout funds to purchase debt was a positive development, it also noted that "the details are rather lacking" and warned that "could temper the initial market enthusiasm."

Mr. Monti, who emerged a winner from the summit meeting, said that Italy had no plans now to seek help from the bailout funds, but might in the future.

He and the Spanish prime minister, Mariano Rajoy, held up agreement at the meeting until the early hours of Friday until they got a deal on the use of the bailout funds. Some of the leaders resented what they felt was blackmail on the part of Italy and Spain, but others saw it as hard-nosed negotiating tactics by Mr. Monti, a former European commissioner and highly respected economist.

The Irish prime minister, Enda Kenny, described the agreement as "a seismic shift in European policy," having won a promise that Ireland's bailout

"The Europeans have cracked open more doors than we thought, but they still have a lot on their plate."

for its collapsed banking sector could be adjusted as well.

Mr. Hollande, while speaking on Friday of "no winners and no losers," clearly supported Italy and Spain, no doubt concerned that France itself, with its total debt now approaching 90 percent of G.D.P., might be next in line if the markets tired of speculating on Spain and Italy.

It was bad enough that Germany should lose its semifinal soccer match to Italy Thursday night, but some suggested that Ms. Merkel had also lost to Mr. Monti here.

Although the chancellor stuck by her argument that none of the basic principles demanded by Germany had been violated, the media were quick to call the deal a retreat from her previously tough position. "Merkel caves in," wrote the influential, mass-circulation newspaper Bild in its online edition.

Ms. Merkel said that the leaders had worked to ease the current crisis with existing mechanisms and that Germany had only agreed to more flexible use of the bailout funds in return for centralized banking supervision under the E.C.B.

Yet she received criticism from some in her own party and from members of the opposition Social Democrats, who argued that allowing banks to tap directly into the bailout funds brought Germany closer to a common sharing of debt.

Still, her skill at diverting this meeting from discussing more sweeping issues like euro bonds should not be underestimated, said Holger Schmieding, a London-based economist at Germany's Berenberg Bank.

"That Monti, Rajoy and Hollande are now happily selling this as a victory says a lot about the diplomatic skills of Ms. Merkel," he said.

The leaders also spent some time discussing a longer-term road map toward closer European fiscal and political integration. They authorized Mr. Van Rompuy to create a more detailed proposal by their next regularly scheduled summit meeting in October.

Melissa Eddy contributed from Berlin.

Deft move by Monti returns Italy to diplomatic map

ITALY, FROM PAGE 1

many in the European drama.

By pushing for growth in addition to austerity, for dramatic shorter-term measures to help shore up Italy and Spain as well as the longer-term integration favored by Germany, Mr. Monti has become a force to reckon with for the Northern European bloc. After years when former Prime Minister Silvio Berlusconi was ridiculed by European peers, Mr. Monti has put Italy back on the diplomatic map.

"He has strengthened not only his own position but Italy's place in the European concert," said Richard Woyke, professor of European politics at the University of Munster. "At a time when the German-French axis is no longer functioning as it was, at a time when Ms. Merkel has lost support for her policy of uncompromising saving, the moment was opportune for Italy to return to its position and he took advantage," he added.

While diplomatically emphasizing the collaborative process, Mr. Monti was — naturally — inclined to pronounce the summit meeting a success. "I think it's a constructive and realistic and credible step forward," he said in a telephone interview on Friday. "The construction of Europe is done of many successive achievements like this one."

Diplomats said that since Mr. Monti played host to a discordant mini-summit meeting in Rome last Friday with Ms. Merkel, Mr. Hollande and Prime Minister Mariano Rajoy of Spain, they understood that Italy would arrive in Brussels prepared to play hardball.

These diplomats, speaking on condition of anonymity, said the summit meeting reached an impasse late on Thursday evening when Mr. Monti and Mr. Rajoy said there could be no agreement on a growth pact without accord on a much broader range of issues, including short-term measures to shore up the Italian and Spanish economies.

What followed were 45 minutes of serious doubt over the outcome of the summit meeting, the diplomats said. A number of leaders were angered at being held hostage, possibly through the weekend, by the show of brinkmanship.

Some leaders also felt they were being blackmailed into bowing to Mr. Monti's demands, with the specter of Mr. Berlusconi returning if Mr. Monti were to lose, or leave, office. (Mr. Berlusconi has recently tried to undermine the Monti government, although his own party is participating in it.)

For his part, Mr. Monti said that Italy — whose borrowing rates touched 6.2

"It's a constructive and realistic and credible step forward."

percent last week, while Spain's touched 7 percent — knew that Europe needed to produce results, not vague resolutions, to show financial markets that someone was in charge.

"The turbulent situation within the euro zone was not only disturbing in itself but was seen by public opinion and seen by the markets as perhaps the main hindrance to growth," Mr. Monti said. "I thought it was a bit unrealistic to launch a big package on growth, which we wholeheartedly supported, while not sending out to the markets in two days of euro summit a clear signal of financial stabilization."

In his efforts to prod Germany to do yet more to shore up the euro, Mr. Monti has some powerful friends. He and Mr. Obama have spoken multiple times in recent weeks. "Since my first meeting with the White House in February, his very deep and growing interest in European and euro zone matters in a sense made of the two of us rather regular interlocutors," Mr. Monti said.

Ms. Merkel has a better rapport with Mr. Monti than she does with Mr. Hollande, and as a scientist she also respects his expertise, analysts said. In the wake of the summit meeting, Ms. Merkel made clear that she sought Mr. Monti's counsel as the negotiations wore on.

"Yesterday I definitely must have stepped off to the side with Mario Monti around 10 times," she said on Friday. "We were constantly talking about specific formulations and then also a little bit about football" — a sly reference to the 2-1 defeat Italy dealt Germany in the semifinals of the Euro 2012.

Mr. Monti said he wanted to convey "this sense of deeply cooperative dialogue with Germany, with Merkel."

Analysts said that if Ms. Merkel — who by focusing on the bank bailout funds avoided discussion of euro bonds or other instruments that would commit Germany to much greater financial help for the rest of Europe — were going to concede to anyone, Mr. Monti was the best candidate. "When Monti asserts himself, Merkel loses less face because as an economist his words have great weight," said Günther Pallaver, a political scientist at the University of Innsbruck.

The outcome of the summit meeting has not gone over so well in Germany.

"He's a big danger for her," said Bert Van Roosebeke head of the department of financial markets regulation, at the Center for European Policy in Freiburg, of Ms. Merkel and Mr. Monti. "He's respected in Germany, this professorial type of guy, and then this respected guy is openly criticizing Ms. Merkel's policies in the euro crisis."

There are also questions about whether the accord in Brussels would go far enough to help bring down Italy's borrowing costs.

"This fund is simply too small to have an adequate mechanism," said Tito Boeri, an economics professor at Milan's Bocconi University. "It only has €82 billion, it can't operate like a bank, it doesn't have a bank license. So it would find itself in great difficulty to intervene if it has to."

And while Mr. Monti has grown on the European stage, at home he has a difficult mandate. Italians are upset that Mr. Monti's government raised taxes, especially property taxes, and the retirement age. If his government is not able to identify billions more in spending cuts — a process expected to begin next week — it has said it will raise value-added tax to 23 percent this autumn from the current 20 percent, a move that could have a further recessionary effect.

But analysts in Italy said Mr. Monti's success in Brussels was bound to help him stay in power. "With this result behind him, it's out of the question that the government will end before its mandate in April," said Mr. Boeri, the economist. "He has helped Europe. Now let's hope he has he has more time to contribute to Italy."

Nicholas Kulish reported from Berlin. James Kanter and Paul Geitner contributed reporting from Brussels.