Business WITH REUTERS

Greece gets wary vote of confidence from Europe

BRUSSELS

But optimism hinges on its ability to meet debt payment deadlines

BY PAUL GEITNER AND NIKI KITSANTONIS

European officials signaled on Tuesday that Greece would have to renew its austerity drive before its next bailout payment is approved, but expressed confidence that the country's new government would have the funds to meet a debt payment coming due in August.

The guarded optimism came after a meeting of European finance ministers where Greece was told to come up with around €3 billion, or $3.75 billion, in new savings "in the coming weeks," before its creditors would consider easing the terms of its bailout, the country's new finance minister said Tuesday.

"They are asking that we implement the measures we have committed to for 2012," Finance Minister Yannis Stournaras told reporters in Brussels.

Mr. Stournaras said the government could suggest alternatives to the measures it had agreed to, as long as the new proposals produced the same net effect.

The Eurogroup — the finance ministers of the 17 nations using the euro — on Monday night heard a preliminary debriefing from representatives of the so-called troika, who returned to Athens last month after being away for several weeks following the inconclusive elections in May.

The European Commission vice president, Olli Rehn, said the mission — which includes officials from the commission, the European Central Bank and the International Monetary Fund — would return in 10 days or so for further work.

"In that context we will assess the real financing needs of Greece now, in

THIERRY ROGE/EPA
Yannis Stournaras pledged to apply cuts.

the short term," as well as "various possibilities" for meeting them, he said at a news conference on Tuesday. "I'm sure they will find a solution to this problem, as we have in previous rounds."

At an earlier news conference, the Eurogroup president, Jean-Claude Juncker, said the ministers would discuss adjusting the terms of Greece's bailout program in September, after the mission makes a detailed report of its findings.

Asked about a €3.2 billion Greek bond held by the European Central Bank that matures on Aug. 20, Mr. Juncker said "appropriate solutions" would be found.

At the end of June, Greece received the final installment of a €5.2 billion tranche of aid, €1 billion of funding that had been withheld following the country's inconclusive election in May. The timing and amount of the next tranche of aid from the €130 billion bailout agreed to early this year will be determined in the coming weeks, a euro zone official said.

Mr. Juncker said that Mr. Stournaras described the country's current situation during the meeting and gave "reassurances that the new Greek government will take the steps necessary to bring the Greek program back on track."

Although Greece made no requests at the meeting, its government hopes to win an extension of the deadlines for meeting its deficit-reduction targets. Spain was granted an extension on Tuesday.

"When the time comes, the issue of an extension will be raised persistently because it is only fair," Mr. Stournaras said. He noted, however, that an extension would require additional outside funding for Greece — something the parliaments of some euro zone countries might be reluctant to approve.

Meanwhile, the formation of a coalition Greek government — albeit a fragile one — appears to have calmed the nerves of savers worried about political instability.

According to bank officials, cash has been flowing back into accounts at a steady pace since the June 17 elections, with some €5 billion returning within the past two weeks. About €4 billion to €5 billion was withdrawn in the first two weeks of June, and €8.5 billion moved out of the banks in April and May, ahead of the first round of elections.

"The banks lost deposits due to all the uncertainty, but fortunately after the elections we saw the deposits returning, and at quite a satisfactory pace," the central bank governor, George Provopoulos, told President Karolos Papoulias in televised comments in Athens.

Niki Kitsantonis reported from Athens.

Spain awaits further belt-tightening steps

MADRID

Madrid has to deliver deficit cuts in return for speedy aid to its banks

BY RAPHAEL MINDER

In the early hours of Tuesday morning, Spain squeezed additional concessions from its euro currency bloc partners, both in terms of guaranteeing rescue aid for its banks and loosening Madrid's budget deficit targets.

Now, though, comes another challenge for Prime Minister Mariano Rajoy: ensuring that Spain can actually meet the relaxed deficit goals that it negotiated.

On Wednesday, Mr. Rajoy is expected to announce to Parliament yet another package of austerity measures, this time meant to lower Spain's deficit to 6.3 percent of gross domestic product, as agreed to in Brussels on Tuesday. Only four months ago, Europe had set a deficit target for Spain of 5.3 percent of G.D.P., but it has been increasingly clear that the country, deep in recession, is not going to come close to meeting that goal.

The latest round of austerity steps is expected to be a blend of spending cuts and tax increases, as well as other measures like extending the working hours of civil servants. All of which, however, could sink Spain deeper into recession, notably by stifling consumer spending.

"We are in effect talking about strangling further an economy whose slowdown has recently been worse than expected," said Jordi Fabregat, a finance professor at the Esade business school in Barcelona. "Given the seriousness of Spain's financing problems, there is no other option but to cut more, but somehow not to the point where you kill off the economy altogether."

After another marathon round of negotiations, finance ministers from the 17 euro zone member countries reached a tentative agreement early Tuesday in Brussels on the terms of Spain's banking bailout, including a guarantee to make available by the end of this month €30 billion, or $36.8 billion, of the €100 billion, or $122.6 billion, of rescue assistance that was pledged last month.

On news of that agreement, investors on Tuesday slightly reduced the pressure on Madrid's borrowing costs. The yield, or interest rate, on Spain's benchmark 10-year government bonds fell back to 6.73 percent on the open market, from almost 7 percent on Monday. Even that slightly lower level, though, is seen as unsustainable in the medium term.

Additional banking bailout payments are expected this year, after Spain completes further audits of its troubled banks. In return, however, Spain's banking overhaul will be subject to much tighter European monitoring. Spain's European partners are also demanding further evidence from Mr. Rajoy that he can both clean up Spain's public finances and enforce economic changes that would return Spain to the growth track.

Mr. Rajoy's conservative Popular Party was elected in November largely because voters punished the previous Socialist administration for its economic mismanagement.

Instead of fueling confidence, however, Mr. Rajoy and his team have since broken most of the economic pledges made to voters. On Wednesday, for instance, Mr. Rajoy is expected to bow to European pressure and announce an increase in the value-added tax, a form of sales tax. As recently as April, Luis de Guindos, the economy minister, insisted that raising the V.A.T. was "absolutely" off the agenda for this year, because it could choke off consumer spending.

In fact, some analysts warn of the danger of seeing a steep fall in tax revenue in the second half of 2012, on the assumption that higher taxes would reduce private spending and create further incentives for tax evasion.

"The current situation demonstrates a clear inability to collect taxes," Santiago López Díaz, an analyst in Madrid for the brokerage house Exane, wrote in a note to clients.

Budget data released last month by Madrid indicated how far off target the country was from its deficit-reduction targets. For the first five months of the year alone, the central government's budget deficit was already at 3.41 percent of G.D.P.

Even if Mr. Rajoy manages to tighten budgetary control at central government level, Spain's fiscal discipline is also dependent on 17 regional governments that account for half of the country's public spending.

Madrid has ordered regions to cut their own deficits to 1.5 percent of G.D.P. this year.

But some of the regions have instead recently warned that they were close to fiscal asphyxiation, particularly in terms of meeting their debt refinancing obligations after having their credit ratings lowered to speculative, or junk, level.

> **"We are in effect talking about strangling further an economy whose slowdown has recently been worse than expected."**

A reduced credit rating is a sign of increased risk and leads investors to demand a higher return for lending money to a government by buying its securities.

"Obviously, if the regions don't comply, the general government deficit can't be on target," Edward Hugh, an economist in Barcelona, said. Among the most vulnerable regions are Andalusia and Catalonia, which are also Spain's most populous. Mr. Hugh predicted that Madrid would have to take over budgetary control in at least one of these two regions in coming months, "which naturally will lead to even more political tensions."

The new round of austerity measures also risks setting off more social unrest in a country where almost a quarter of the work force is already unemployed.

While the surge in joblessness initially hit mostly construction workers and unskilled labor, "with the restructuring of the banking system and of the state, the job losses are now hitting the middle class hard, and there is despair and anger, particularly with the perception of socialism for the rich — the banks get rescued but nobody else," warned Luis Garicano, a professor at the London School of Economics.

"The successive plans of Spain and of Europe do not let people see any light at the end of the tunnel," he said, "and the government is doing a horrendous job at communicating what is going on, why it is doing what it is doing and what comes next."

Mr. Garicano's tunnel analogy seemed particularly appropriate Tuesday, as columns of striking coal miners reached Madrid. The so-called black march by the miners was the culmination of a monthlong protest against plans by the government to cut further energy subsidies, particularly to a coal sector that has long relied on state aid to stay afloat.

The protests have also recently led to violent clashes with security forces in Asturias, a northern region where striking miners also attempted to set up roadblocks to vent their frustration.

Among the miners who arrived in Madrid on Tuesday was Santiago Marzo, 47, who has worked for 25 years in the Ariño coal mine, in the eastern province of Teruel. He set out from his mine on June 22, since then covering about 400 kilometers, or 250 miles, on foot to reach Madrid.

"This is a financial crisis whose consequences are being paid not by the politicians and bankers but by the most vulnerable people in our society," Mr. Marzo said, as he inspected his feet for fresh blisters. "I don't see any ray of light if subsidies are cut this year and my mine closes, because I live in an area that offers zero job alternatives at the moment."

ANDREA COMAS/REUTERS
Coal miners taking a break Tuesday before completing a 400-kilometer march to protest plans to cut government energy subsidies, something that could close mines and end their jobs.

Spotlight on Barclays's leadership

LONDON

Bank's chairman grilled on corporate culture in interest rate scandal

BY MARK SCOTT AND BEN PROTESS

During a tense hearing Tuesday on the interest rate scandal that has engulfed Barclays, members of Parliament peppered the bank's chairman with questions about the lender's leadership under Robert E. Diamond Jr., the former chief executive.

Appearing before a parliamentary committee, Marcus Agius, who has resigned as chairman of Barclays but will remain until a new chief executive has been found, was repeatedly asked why senior executives did not know about the manipulation of the London interbank offered rate, or Libor.

"The culture at Barclays came from the top, it came from top executives," said Andrew Tyrie, the Conservative who is chairman of the parliamentary committee.

Barclays reached a $450 million settlement with the U.S. and British authorities late last month regarding actions by some of the bank's traders and senior executives to manipulate the rate, which dictates what borrowers are charged for things like mortgages and business loans.

Politicians in London and Washington are questioning whether regulators allowed banks to report false interest rates before the 2008 financial crisis and after. On Monday, the U.S. Congress stepped into the fray, requesting information about the role of the Federal Reserve Bank of New York.

During the hearing Tuesday, committee members focused on a letter sent this year by Adair Turner, chairman of the British regulator, the Financial Services Authority, to Mr. Ag[illegible]hat raised concerns about some of the bank's recent practices, including an effort to avoid paying around £500 million, or $774 million, in corporate taxes.

"Barclays often seems to be seeking to gain advantage through the use of complex structures, or through regulatory approaches which are at the aggressive end of interpretation of the relevant rules and regulations," Mr. Turner wrote in April.

Mr. Agius said that Mr. Turner's letter had highlighted the bank's "strained" relationship with the agency. "What that letter is saying is that we overdid it," Mr. Agius told the committee.

The officials also asked whether Mr. Diamond had been completely forthcoming during his testimony to the same committee last week. During his testimony, Mr. Diamond placed some of the blame for the rate manipulation scandal on regulators, who he said had be[illegible]old about the problems but had not moved to stop it.

Mr. Agius, who was told about the U.S. and British investigations into Barclays's Libor activities in April 2010, said the bank's board did not make decisions involving the setting of the rate. Instead, Libor issues were left to lower-level executives, he testified.

When asked what it said about senior managers who did not question decisions to lower Libor submissions during the financial crisis, Mr. Agius responded that the bank handled many difficult situations after the collapse of Lehman Brothers in 2008. "I think it reflects the extraordinary times," he added.

At the beginning of his testimony, Mr.

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SIMON DAWSON/BLOOMBERG NEWS
Marcus Agius of Barclays after appearing before a parliamentary panel on Tuesday.

REUTERS BREAKINGVIEWS
The Bank of England twisted arms to oust the chief of Barclays, but now needs to catch up on rate regulation. *PAGE 18*

Oslo intervenes to avert lockout of oil workers

LONDON

Strikers are ordered back to work, and case will be sent to arbitration

BY STANLEY REED

Minutes before the Norwegian oil industry planned to lock out thousands of striking workers on Monday, the government stepped in, ordering the offshore employees back to work and sending the dispute to binding arbitration.

The intervention by the Norwegian government ended a threat that had already begun to rattle global oil markets. The Norwegian oil industry had warned that it would begin the lockout of 6,500 offshore oil workers at 12:01 a.m. Tuesday.

Norway is the largest producer of oil and natural gas in Western Europe, and a large-scale shutdown could have caused an upturn in world petroleum prices, which have been softening lately because of slack demand. The news sent oil prices down Tuesday, with benchmark Brent crude declining $1.50 per barrel to $98.80 by midday in Europe.

Offshore oil workers began a strike on June 24 over retirement and pension concerns, causing the shutdown of some Norwegian fields. The Norwegian Oil Industry Association, which represents petroleum companies, had warned the workers that if they did not end the strike the industry would lock out all workers, shutting down all of Norway's production.

But the Norwegian minister of labor, Hanne Bjurstrom, summoned the two sides to a meeting in her office just 30 minutes before the lockout was to begin. The minister told the parties she was imposing compulsory arbitration to resolve the dispute and ordered the unions back to work.

"The government considers this as required to avert the great social consequences of the threatened lockout," the Labor Ministry said in a statement on its Web site.

The decision was an apparent victory for the oil industry.

"The industry asked for compulsory arbitration and got it," Leif Sande, president of Industri Energi, one of three striking unions, said about the order. "That is not according to democratic rules."

The strike has already reduced Norwegian oil production by 15 percent and natural gas production by 7 percent. The country's offshore industry produces about 1.6 million barrels of oil per day, or about 2 percent of world supplies.

Oil prices had risen on the threat of a lockout, but the biggest impact would have been on the natural gas market. Norway produces about 3 percent of the global supply of natural gas. Within Europe, Norway accounts for about 26 percent of Europe's natural gas supplies.

The Norwegian unions are seeking to lower the retirement age for offshore oil workers to 62 from 65. Employees in the country's oil and natural gas sector are already among the best paid in the world, making an average of $157,000 a year, according to the national industry association. And while offshore laborers work only about 16 weeks a year, they cite tough conditions in their call for a lower retirement age.

Mr. Sande, the Industri Energi labor official, said that the unions had proposed paying the early retirement costs out of $40 million they had already set aside for that purpose. "What we are asking the employers is to allow us to use our own money to pay pensions," he said.