WORLD NEWS

Deal on aid to Greece is within reach, Germans say

BRUSSELS

BY JAMES KANTER

With Greek financing held up once again, Germany's leaders moved swiftly on Wednesday to reassure the government in Athens that long-delayed emergency aid would soon be forthcoming.

Chancellor Angela Merkel said she believed that an agreement on a solution could be reached next week.

"One doesn't know for sure, but there are chances to get a solution on Monday," when the next meeting of euro zone ministers is scheduled, Ms. Merkel said in the German Parliament.

Wolfgang Schäuble, the German finance minister, said he was confident that an agreement could be reached once "technical questions" had been clarified.

Euro zone finance ministers and international officials ended their latest meeting on Greece early Wednesday after failing to reach a breakthrough on Greek aid despite nearly 12 hours of intensive closed-door talks.

It was the second week in a row they reached such an impasse, highlighting deep divisions among them on how to find the money to keep the Greek economy afloat and prevent contagion in the euro zone even as the country's debt prospects worsen.

Greece is seeking to unlock a €31.5 billion, or $40.4 billion, installment of loans from an international bailout program.

If ministers do reach a deal, Greece is likely to get a larger amount of about €44 billion because two additional installments are due by the end of the year under the program. The current program, worth €130 billion, has been frozen since June, when creditors determined that Greece was failing to meet the conditions of the bailout.

While there is little immediate threat that creditors will deny further aid to the government in Athens, finding a formula to turn the spigot back on has proved intensely difficult, particularly for Germany, where Ms. Merkel is seeking to avoid announcing losses on German loans or major new financing commitments to Greece ahead of her re-election campaign next year.

That has left the euro zone's leadership and officials from the International Monetary Fund attending a seemingly endless series of late-night meetings.

"The fund knows they can't push the big creditor nations like Germany to cough up enough money for a systemic fix for Greece given the German election cycle and because such a fix also would meet strong opposition from powerful parliamentary committees in countries like Finland," said Mujtaba Rahman, a Europe analyst at the Eurasia Group. "So instead the fund is pushing creditor nations like Germany as far as possible on everything else. The fund wants to be as aggressive as it can be without actually demanding creditor nations take haircuts on their loans."

On Tuesday night, ministers examined options including lowering interest rates on Greek debt, lengthening the deadlines for repayments, and allowing Greece to

"There are chances to get a solution on Monday."

buy back its bonds at a steep discount.

Once lenders agree on a solution for Greece, the measure will still have to be debated and passed by German lawmakers. Mr. Schäuble said on Monday that the German Parliament could put the issue to a vote by the end of next week if an agreement was reached Monday.

But the holdup immediately prompted the Greek prime minister, Antonis Samaras, to insist that Athens had already carried out promised reforms and should receive its bailout money.

"Greece did what it had to do and what it had pledged to do," Mr. Samaras said. "Our partners, and the I.M.F., must now assume their responsibilities."

"Whatever the technical difficulties involved in finding a solution, they do not justify any negligence or delay," said Mr. Samaras, who canceled a trip to Qatar to attend the next meeting on Monday.

The holdup also prompted renewed criticism of Mr. Samaras and of Greece's foreign bailout by Alexis Tsipras, the leader of the leftist opposition party Syriza, which is leading in opinion polls.

"Samaras has become an integral part of the pre-election campaign of Ms. Merkel, who does not want to admit to the German people before German elections that she has made serious mistakes, that she is to blame for the oncoming recession and that a haircut is necessary for Greece's debt," Mr. Tsipras said in a televised statement, referring to the German chancellor.

The meeting broke up on Wednesday morning with Greece's biggest creditors like Germany at loggerheads with the I.M.F. over how much extra financing to provide in the next four years, and over whether Greece's towering debt must be reduced to 120 percent of gross domestic product by the end of the decade.

Melissa Eddy contributed reporting from Berlin and Niki Kitsantonis from Athens.

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The need to put Greece back on track

Greece needs a positive shock. It didn't get one at the Eurogroup meeting this week. While a deal may be struck when finance ministers reconvene next week, it risks being an unsatisfactory compromise. The International Monetary Fund, which is demanding a proper plan to make the debt of Athens sustainable, should stand its ground.

The Greek government, the Eurogroup and the I.M.F. all have roughly the same view about how Athens's debt will evolve. It will peak at around 190 percent of gross domestic product in 2014 before falling to 140 percent to 150 percent of G.D.P. in 2020 as growth kicks in.

But such forecasts depend on growth actually returning — and that is far from given. True, Greek competitiveness is improving as labor costs have fallen substantially. The economy's liquidity should also improve once Athens receives the next €44 billion, or $56 billion, installment of bailout cash, which will be used mainly to recapitalize zombie banks and shrink the government's pile of unpaid bills.

But durable G.D.P. growth requires a return of confidence. And that will be tough so long as Greece carries such a heavy debt load. The Eurogroup has been discussing ways to cut the debt-to-G.D.P. ratio to 120 percent by 2020, including interest rate holidays on official debt and the use of the European Central Bank's profits on Greek bonds to buy back private-sector debt at a discount. Given Germany's unwillingness to accept a haircut on its loans to Greece before its elections next year, such a package is probably the best currently available.

But every element must be tuned to the maximum. What is more, the Eurogroup should promise a real reduction on the debt held by its members in a couple of years, provided Athens stays on track with overhauls.

Jean-Claude Juncker, head of the Eurogroup, said this week: "Greece has delivered. Now it is up to us." That means coming up with a plan that restores confidence rather than condemns Athens to perpetual debt purgatory. Solving the problem isn't just in the interest of Greeks; it is in the interest of the entire euro zone. HUGO DIXON

There are risks in Merkel's spendthrift turn

Less costly public health care, extended pension entitlements, and generous new social security benefits all add up to a multibillion-euro bill for the government's budget. We are not talking about Greece, but rather Germany, in spite of Chancellor Angela Merkel's crusade for austerity. Ms. Merkel, who likes to lecture her peers on the unavoidable necessity to live within one's means, is spending money freely to get prospective voters on her side before parliamentary elections next year.

The budget numbers help hide this, because cyclical factors are temporarily curbing government spending and driving up tax revenue. For instance, artificially low Bund yields caused by the euro crisis are lowering the public interest rate burden by about €20 billion, or $26 billion — the equivalent of 0.8 percent of gross domestic product — a year. On top of this, the strong decline in unemployment has shrunk benefit spending. But these temporary effects will peter out. Meanwhile, her coalition is increasing structural spending, which is here to stay.

In principle, this should not be bad news. Within the euro zone, there is arguably a need for smaller German current account surpluses to help more troubled countries rebalance.

However, the problem is also how the German government spends the money. In the Merkel budget, the measures will cost the taxpayers without raising domestic demand in a meaningful way. Some of the new social benefits will even damage Germany's growth potential.

Starting next year, the government will pay young mothers staying at home and caring for their newborns up to €150 a month. This will cost taxpayers up to €1.4 billion a year and is a disincentive to work. This will weaken Germany's potential G.D.P. growth, already at a meager 1.1 percent a year.

Neither Germany nor its partners can afford for the euro zone's strongest economy to squander its financial resources that way. Merkel should spend more, but in a smarter way. OLAF STORBECK

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