Big numbers, big trouble

€300bn size of Greek debt in December 2009. Credit rating cut to BBB

50,000 take to streets of Athens in March 2010 over austerity measures

€110bn three-year bailout for Greece on May 2, 2010; can go to €250bn

€123bn in loan guarantees approved by Germany on May 7, 2010

$1.19 Euro falls to lowest rate against dollar in 4 years on June 7, 2010

Chorus of consternation tells Europe's dithering leaders to do something

Bundesbank chief joins calls for bold steps to bring the eurozone back from the brink, writes **Charles Bremner**

With the single currency drawing closer to the rocks and alarm calls from Washington, the Continent's dithering leaders faced a chorus of consternation yesterday over their failure to act to avert a potential historic disaster.

In Rome, Berlin and Paris, the founding nations of the European "project", influential voices demanded an end to the muddling and hesitation that in 16 months has left the 17-nation eurozone at the mercy of the markets. Two former British Labour ministers — Lord Mandelson and Alistair Darling — also denounced the lack of leadership.

An ominous warning came from Jens Weidmann, Governor of the Bundesbank, who challenged the politicians to get a grip on events. In his most outspoken comments since taking over the central bank this summer, he said that Europe would take a dangerous road if its politicians did not decide clearly between the options of greater integration or accepting the verdict of the markets.

"I am saying that politicians have to choose between two models. One model has self-reliant members who do not support the others and are disciplined by the market, the other model is deeper political integration. There is no middle path," he said in an interview with Spiegel Online.

The words were diplomatic, but coming from the guardian of the temple of German monetary rigour they were a sharp rebuke to Chancellor Angela Merkel to strike a clear line, however much she faces opposition from within her own centre-right coalition and the public.

Germany was the main target of yesterday's warning from the International Monetary Fund to Europe to put its house in order.

There were few signs of that happening as Greece continued to wrangle with the IMF and its European protectors over the terms of the next €8 billion (£7 billion) which it needs to stave off state bankruptcy within a month.

As the driver of Europe's economic locomotive, Ms Merkel is under the greatest pressure to show the vision that her predecessors invoked to save the Union at moments of crisis.

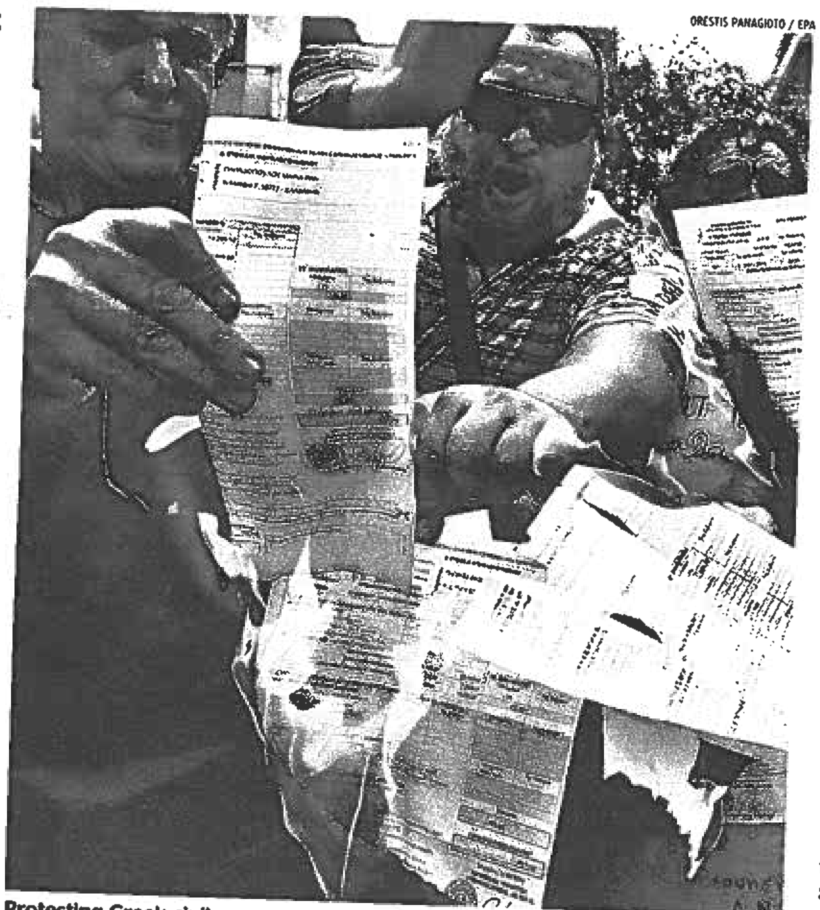
In Paris, Jacques Delors, the former EU Commission president who fostered the Maastricht treaty and the single currency, lamented the vacuum of 2011. "I am sad about this lack of European leadership but, to be intellectually honest, it was easier in my time," Mr Delors told *The Times*. "The context was different."

Europe has succumbed to individualism and it fears globalisation, but it was nevertheless up to its leaders to rise to the moment, said the man who presided over Brussels for a decade up to 1995. "I say today to the Germans, 'We have a moral responsibility. The euro is on the brink of the abyss. A step towards federalism is to be desired'."

Alluding to former Chancellor Helmut Kohl and the late President Mitterrand of France, the progenitors of the single currency, Mr Delors added: "Each time Europe moved forwards, it had men and women who had a vision, leaders capable of taking risks."

Ms Merkel has been mortified by the historical comparisons, not least from Mr Kohl, 81, who this month criticised his successor and party colleague. "For the past few years, Germany has ceased being a predictable factor, whether domestically or externally," he said. "We have to watch out that we don't gamble everything away. We urgently have to restore the old dependability."

In Italy, whose credit rating was downgraded yesterday by the Standard & Poor's agency, the scandal-stricken leadership of Silvio Berlusconi came under attack from Emma Marcegaglia, president of the powerful Confindustria business federation. "There is no more time. Either the Government is able by tomorrow, or next week, to come up with a series of grave, serious, even unpopular measures, or I


ORESTIS PANAGIOTO / EPA
Protesting Greek civil servants burn government notices of a new income surtax

Unwilling or unable to rise to the challenge

Analysis David Wighton

The IMF's forecasts for the world's advanced economies are gloomy enough. Growth of just 1.6 per cent for this year would be little more than half the rate achieved last year. Worse still, the IMF warns that even this bleak forecast relies on some pretty sunny assumptions.

The first is that eurozone governments are able to contain the euro crisis to peripheral countries. The Standard & Poor's downgrade of Italy's credit rating is a reminder that this is far from certain unless eurozone governments, particularly Berlin, show the sort of leadership that has been sorely lacking so far. The wrangling over a small portion of the Greek bailout hardly instils confidence that they are up to the bigger challenge.

The second assumption is that the White House and Congress manage to hammer out a sensible budget deal. Given the political grandstanding, this can scarcely be taken for granted.

As for the third assumption – that the ups and down in global financial markets don't get worse – frankly, who knows? But the inability of eurozone governments to get their acts together has understandably spooked investors.

If the assumptions are not met, the IMF warns that global growth will be "much lower" than its forecasts.

Christine Lagarde, the head of the IMF, has been increasingly outspoken about the risks governments are taking with their economies. But the inaction in the eurozone suggests that the message is not getting through. So the rhetoric has been stepped up.

Ms Lagarde's recent warning that European banks needed more capital brought an angry response from eurozone leaders. But the IMF yesterday insisted that eurozone banks must be made stronger to maintain growth and to reduce risks of "vicious feedback loops" between low growth, financially challenged governments and weak banks.

The IMF has also edged closer to calling for George Osborne to slow down the pace of deficit reduction. As finance officials from around the globe gather in Washington, the IMF states that without strong and co-ordinated action the advanced economies could face "a decade of lost growth".


Serious times: Merkel, Sarkozy and Berlusconi

The failure of leadership

'Churchill-ometer' leadership quotient

Alarm signal

Nicolas Sarkozy

Sarkozy enters the election season – presidential voting begins next April – facing a disappointed country. He had promised success and thrusting policies. Instead growth has stalled and every utterance on the euro crisis seems to address distant objectives, such as a federal economic government, rather than the immediate task of getting down the 9 per cent unemployment rate. His austerity programmes hit the citizenry but not the bloated State. The markets smell France's – and Sarko's – weakness as well as the heavy exposure to crumbling Spain and Italy

3/10

Household spending, previously the driver of the French economy, dropped steeply in the second quarter of the year

IMF growth forecast

1.7% 2011 2012 1.4%

José Luis Rodríguez Zapatero

More driven than driving, Zapatero is struggling with striking public sector workers, almost flat growth, an enduring property slump and the anger of a young generation that is experiencing the highest youth unemployment in Europe. Widely seen as a lame duck, Zapatero has failed to convince his people that his austerity budget is essential to prevent euro decay spreading from Greece.

3/10

The unemployment rate is soaring to almost 21 per cent

IMF growth forecast

0.8% 1.1%

Inside today
Will the ECB end up needing a bailout too?
Leading article, page 2
Foreign currency rip-off
Business, page 31

Online today
Video Watch footage on the eurozone crisis
thetimes.co.uk/europe

€25bn austerity package approved by Italy on July 29, 2010

€85bn international package bails out Ireland on November 28, 2010

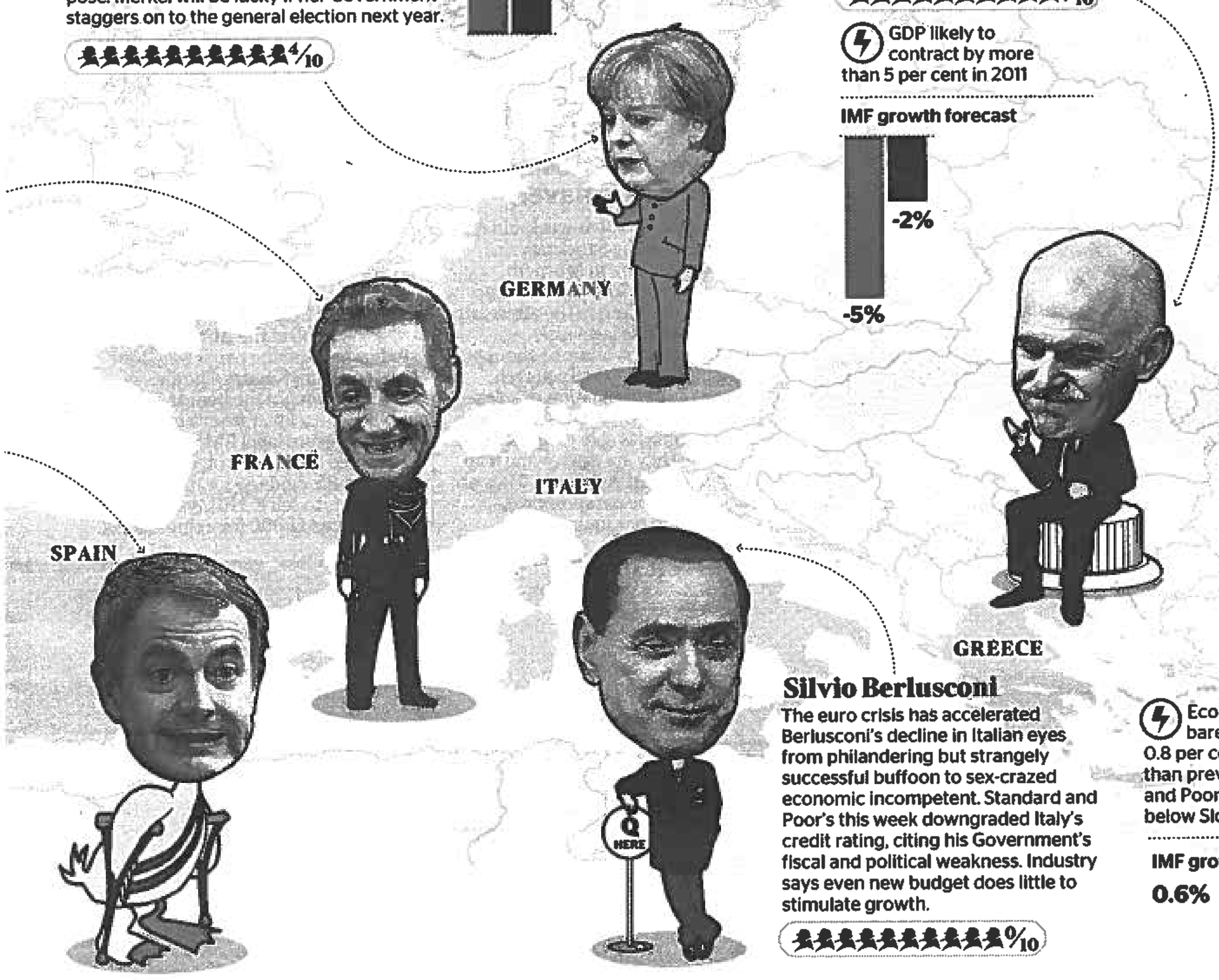
€500bn permanent bailout fund set up by eurozone ministers in Feb 2011

€78bn three-year emergency loan made to Portugal on May 16, 2011

€109bn spent on a second bailout for Greece on July 21, 2011

189% Greek debt will rise to this as % of GDP next year, says IMF

GRAPHIC: HELEN SMITHSON FOR THE TIMES



Angela Merkel

Once hailed as the "Queen of Europe", she has become a captive of her country's sense of grievance. When popular anger flared up in Germany at having to bail out Greece — one tabloid demanded that the Greeks sell the Acropolis to stave off bankruptcy — she failed to provide leadership lest she lose regional elections. Now her junior coalition partners, the Free Democrats, are trying to make their mark by striking a Eurosceptic pose. Merkel will be lucky if her Government staggers on to the general election next year.

4/10

Parliamentary vote on September 29 on new euro bailout conditions may bring massive defections from the coalition

IMF growth forecast

2.7% 1.3%

George Papandreou

Making the best out of a hopeless situation but he has still failed to convince the nation. He is pitted against a rebellious civil service and furious trade unions. Unemployment has reached 16 per cent. If Greece defaults, he is doomed. Has to cut back more and more to please the eurozone and the IMF. Saved only by the fact that nobody seriously wants his job.

6/10

GDP likely to contract by more than 5 per cent in 2011

IMF growth forecast

-5% -2%

Greece

€340bn Total debt

€200bn Bailout cost so far

€41bn Tax arrears, June 2011

>€15bn Amount government loses to tax evasion annually

<€30,000 annual wage category of 90% of the population

5,000 people in Greece (population 12m) who admit to earning more than £90,000 a year

Silvio Berlusconi

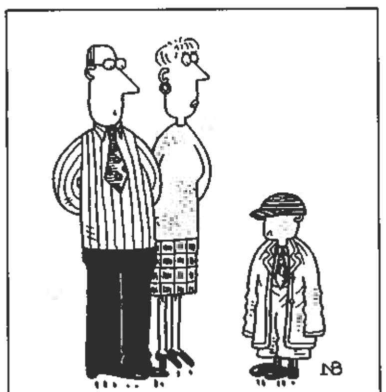
The euro crisis has accelerated Berlusconi's decline in Italian eyes from philandering but strangely successful buffoon to sex-crazed economic incompetent. Standard and Poor's this week downgraded Italy's credit rating, citing his Government's fiscal and political weakness. Industry says even new budget does little to stimulate growth.

2/10

Economic growth likely to be barely 0.7 per cent this year, 0.8 per cent next year — much lower than previously expected. Standard and Poor's rating now places Italy below Slovakia and on a par with Malta

IMF growth forecast

0.6% 0.3%



"Perhaps our growth forecast was a touch optimistic"

am not afraid to say that this Government should pack up and go home," she said. "We are a serious country and we are tired of being an international laughing stock when we take our products abroad."

Italy's Government has shown itself unable to get a grip on the crisis, Tito Boeri, former senior economist at the OECD, told *The Times*. "In the past three months, the Government has always been reacting in a slow and inadequate way in that they have always been postponing all the relevant decisions," he said. "I very much doubt that they can find the strength to do now the things they did not do in the past three months."

Politicians in opposition to the current leaders are scornful of what they see as the inertia afflicting the governments as the euro has been battered. François Hollande, the Socialist frontrunner in the race for next April's French presidential election, told *The Times* that President Sarkozy had failed the euro despite his show of action.

"There is a feeling that Nicolas Sarkozy is always late, running behind the event. We are still ratifying the July [Greek bailout] accord when we are confronted with a new risk of Greek default," he said.

"We would have been better to endorse the default in July and draw all the consequences. . . "

In Spain, José Luis Zapatero, the Prime Minister, has called elections in November because of pressure from the crisis. Confidence in the Government has reached rock bottom.

Robert Turnabell, a senior consultant at La Caixa bank, told *The Times*: "Zapatero failed. He could have called general elections five months or a year ago to give more confidence to the markets and to reduce Spain's borrowing costs. Now we face a real possibility of a Greek default."

British fears were raised yesterday by Lord Mandelson, the former Business Secretary and European Commissioner.

He told businessmen in Singapore: "Until Europe's political leaders remake a believable political case for 'doing whatever it takes', they will not succeed in restoring their credibility."

He added: "It is simply not possible to save the eurozone without explaining and making the political case for further integration. "It may be that Europeans are fundamentally not ready to take that step. At the moment, no one is putting the political case for deeper economic union in anything other than the most evasive and oblique terms."

He was echoing remarks to *The Times* from Mr Darling, the former Chancellor, last week. "There are people who could step up. But they're not. I'm not a German but I do understand the difficulties of any politician. If you can't sell your message at home you're never going to sell it abroad." he said.

Additional reporting by David Charter, Berlin; James Bone, Rome; Marie Tourres, Paris; Graham Keeley, Madrid

Voices of disapproval

'I am sad about this lack of European leadership but, to be honest, it was easier in my day'

Jacques Delors, former EU president

'Until Europe's political leaders remake a case for doing whatever it takes, they will not restore their credibility'

Lord Mandelson

'Politicians have to choose between self-reliance or deeper integration'

Jens Weidmann, Bundesbank Governor

IMF warns of economies heading for danger zone

Continued from page 1

continue to buy government debt in order "to avoid problems in sovereign debt markets" and may even need to cut interest rates if the risks to growth persist, the IMF added.

Stock markets around the world have been rattled in recent weeks as investors question Europe's ability to find a solution to the worsening crisis.

Finance officials from around the world will gather in Washington this week for meetings of the IMF and World Bank, but they appear to have no clear plan to deal with soaring debt levels and a fragile global recovery.

As well as delivering a warning shot to Europe, the IMF said that the US Federal Reserve should "stand ready to deploy more unconventional support" for the economy as it downgraded its forecast for growth in advanced economies to just 1.5 per cent.

The forecast is based on the assumption that "European policymakers contain the crisis in the euro area periphery, that US policymakers strike a judicious balance between support for the economy and medium-term fiscal consolidation, and that volatility in global financial markets does not escalate".

The IMF's outlook for the UK was just as miserable as it slashed its forecast for growth this year to just 1.1 per cent, from 1.7 per cent in April and warned George Osborne, the Chancellor, that he may need to backtrack on some austerity measures if growth continues to disappoint.

"If activity were to undershoot current expectations, countries that face historically low yields should also consider delaying some of their planned adjustment," it said.

It was reported yesterday that the Treasury was considering ways of injecting £5 billion into the economy without changing its austerity plans, although government officials insisted that the coalition would stick to its original plans.

The IMF's latest growth forecast for the UK falls behind those for Germany, France, the US and Canada, and will be seen as another blow for Mr Osborne after the OECD cut its forecast for growth this month.

Ed Balls, the Shadow Chancellor, said: "The IMF is saying very clearly that if slow growth continues in the UK the Government should change course and adopt steadier deficit plans.

"But since this is now the third time this year the IMF has downgraded its forecasts we can't afford to just sit back and wait for things to get worse," Mr Balls said. "That's why we need a real plan for jobs and growth here in Britain and around the world, and we need it quickly."

Vince Cable, the Business Secretary, told the Liberal Democrat annual conference that the best hope of stimulating the economy lay with the Bank of England injecting millions of pounds in a new round of quantitative easing. Dr Cable is trying to persuade Sir Mervyn King, its Governor, to act without interfering with the Bank's independence from ministerial influence. "If we are looking for ways of making a stimulus, that would be the best option," he said.

Additional reporting by Neil White