Deadline Sets Stage for Crucial Euro Week

By CHARLES FORELLE And SUDEEP REDDY

PARIS—Top European officials this weekend vowed to unveil a sweeping euro-zone rescue plan by Oct. 23—setting the stage for one of the most critical weeks of the bloc's nearly two-year-old debt crisis.

The deadline heaps pressure on euro-zone members to deliver a grand plan that would get them in front of their problems they have perennially been behind. But hurdles remain—among them the details of a new Greek bailout—and clearing them is likely to take weeks, not days.

The result could be a plan broad in ambition but short on specifics. The stakes are high: If investors aren't satisfied, a swift market backlash may follow.

Finance ministers and central bankers of the Group of 20 industrial and developing economies, after concluding their gathering here Saturday, said they expected an Oct. 23 meeting of European leaders "to decisively address the current challenges through a comprehensive plan."

During the coming week, "a lot will be decided, perhaps everything," for Greece, the country's finance minister, Evangelos Venizelos, said on Sunday.

Investors are closely watching for a decision on a new Greek bailout, one of the plan's key pillars. Without it, Greece will almost surely tumble into a chaotic default. At the same time, the currency union needs to show financial markets that it can prevent the woes of its peripheral nations from destabilizing the region's banks, and that it can stop what has happened to Greece from happening to Italy—the biggest threat of all.

The bloc must court financial markets aggressively because Italy relies on private creditors to provide hundreds of billions of euros a year, sums that the bailout fund couldn't replace.

During the two-day G-20 meeting, and over a lunch Friday with French President Nicolas Sarkozy and the French and German finance ministers, the euro zone's key actors moved closer to agreement on the two other pillars of the plan: a broad call for higher capital levels for banks and a beefing up of the euro zone's bailout fund. The rough outlines of the deal call for raising a key bank-capital threshold, and for using the bailout fund as an insurance vehicle to back bonds issued by weak euro-zone countries.

But there are still details to be decided: for instance, how quickly banks must raise the required capital, and how rapidly governments, or the euro-zone bailout fund, should step in if private markets fail to provide it.
Greece is particularly nettlesome.

Olli Rehn, the European Union's economy commissioner, said Saturday that he expects euro-zone leaders on Oct. 23 to "decide on the key principles and parameters" of the new Greek bailout, but that "technical finalization" of the program will take place in the following weeks.

In July, markets were cheered by an announcement of another grand plan, but the enthusiasm went flat within days once investors realized critical details hadn't been fully worked out.

The thorny nature of the Greek talks adds to the tough timetable. A mission of European Union and International Monetary Fund bailout monitors will report to euro-zone officials this week on how much more money Greece will need, and under what circumstances its giant debt pile could be considered bearable.

The July deal called for a new €109 billion ($151 billion) bailout for Greece. That would supplement a €110 billion package granted in May 2010. The July deal also required private creditors to accept a bond exchange that would extend the length of their loans by as much as 30 years and cause a reduction in the face value of their holdings.

Amid deteriorating finances and delays in a big privatization plan, Greece needs more money now than it did in July, and many capitals—chief among them Berlin—are demanding that private creditors take bigger losses to offset some of the new cash that governments will have to put in. An analysis discussed at the G-20 meeting showed that leaving the July deal in place would result in Greece’s debt soaring to nearly 200% of gross domestic product next year, according to a person familiar with the matter.

This person said alternative scenarios were discussed, including a five-year "interest holiday," bond exchanges with less-favorable terms for creditors and a 50% outright haircut in the face value of private creditors' debt.

But banks and other creditors are pushing back hard against significant modifications to the July deal, and reaching an agreement will be difficult—especially by Oct. 23. Before making a deal with creditors, European governments have to arrive at a common position themselves. France, for instance, has been less eager than Germany to hand losses to banks.

Euro-zone leaders have insisted that any debt-modification plan will be voluntarily undertaken with creditors. Under these circumstances, rating firms already consider a voluntary plan to be a form of default, as creditors are being pressured into accepting a modification. But forcing one on them would trigger a more serious default.

Beyond the Oct. 23 summit in Brussels is an early November meeting of G-20 leaders in Cannes, France. If a detailed plan is hatched only there, another euro-zone summit would likely be necessary, because only three of the 17 euro-zone nations are officially included in the G-20.

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