Europe’s Greece Ultimatum

France, Germany Say the Nation Must Decide Whether to Stay in Euro or Go

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CANNES, France—Europe's leaders, making it plain that they've reached the end of their patience with Greece, demanded that the beleaguered nation declare whether it wants to stay in the euro currency union—or risk going it alone in a dramatic secession.

"Does Greece want to remain part of the euro zone or not," German Chancellor Angela Merkel said. "That is the question the Greek people must now answer."

French President Nicolas Sarkozy said the Greeks would get no more euro-zone rescue aid—"no French taxpayer money, no German taxpayer money"—until the question is answered. Without aid, Greece would be bankrupt within weeks.

The extraordinary rupture with the rest of Europe—whose leaders have insisted for months that an exit from the currency union is simply inconceivable—follows Greek Prime Minister George Papandreou's stunning decision Monday to call a referendum on his country's bailout.

Given the deep unpopularity of the budget-cutting measures that the bailout requires, a "no" vote in a Greek referendum is a real possibility. That could send Greece, and possibly the euro zone itself, into chaos.

Mr. Papandreou said the referendum, which must be approved by the Greek Parliament, could be held Dec. 4 at the earliest. He said Wednesday he had tried for a broader political consensus on Greece's bailout but "this wider consensus did not exist." He said he hoped the Greek people would vote affirmatively.

"The people are wise and capable of making the right decisions for the benefit of our country," he said. "A positive decision by the Greek people is not only a positive decision for Greece, it is a positive decision for Europe."

The wait opens a month-long stretch of uncertainty for Greece, for Europe and for global financial markets. Wednesday, to prepare the bloc, its leaders moved to accelerate efforts to expand their bailout fund and fortify their countries' banking systems. There was a troubling sign Wednesday when the bailout fund, which raises money for its operations on financial markets, pulled a bond offering, citing unfavorable financing conditions.

The call for a referendum, particularly if presented as a question of euro or no euro, is a risky bet. Should the referendum fail, Greece would come unmoored from the euro zone and likely default on its €350 billion ($480 billion) of debt—sending a giant...
shock wave that could test the resilience of other weakened euro-zone countries. But should it succeed, the Greek government would have a strong mandate to push through austerity measures and proceed with the European Union’s plan.

World leaders are gathering in this Riviera city, more accustomed to movie stars than motorcades, for the annual summit of the Group of 20 industrial and developing nations. But the deliberations of the G-20 are now a sideshow to the Greek main event. Europe had hoped this summit would be an opportunity to demonstrate to the rest of the world that it has its debt crisis under control. An all-night euro-zone meeting just last week had fashioned a “comprehensive” plan to aid Greece, bolster the bloc’s bailout fund and recapitalize the region’s banks. That is now in tatters, and the image Europe is presenting is one of more confusion and uncertainty than ever.

In a series of hurriedly scheduled meetings on Wednesday, Europe’s top powers stumbled to plot their strategy for responding to the new uncertainty posed by Greece and to dress down the Greek prime minister.

In the evening, before the official kickoff of the G-20 summit Thursday, Mr. Sarkozy, Ms. Merkel, International Monetary Fund chief Christine Lagarde and the two top officials of the European Union, José Manuel Barroso and Herman Van Rompuy, met in a strategy session. In a phone call earlier in the day, Mr. Barroso told Mr. Papandreou that the referendum proposal threatened Greece’s lifeline of aid.

Later in the evening, Mr. Papandreou arrived to join them, walking alone into the Palais des Festivals.

After his meeting, it appeared the European leaders had scored one victory by pulling the proposed referendum forward to early December. Greek officials had earlier signaled that it would be held in January, after the completion of negotiations on a new Greek bailout.

The European leaders also appeared to have changed the focus of the referendum from the bailout plan, with its uncomfortable budget cuts, to euro-zone membership itself. Polls show that while a majority of Greeks are dispirited by the bailout, most want to hold on to the common currency.

The latest eruption in Europe’s debt crisis is particularly damaging considering how much the region now needs the rest of the world. Voters in Germany and other strong countries in the euro zone’s north have insisted they will provide no more money to propping up Greece and the rest of the periphery.

Thus the EU is turning to China and other emerging countries with surplus cash. Mr. Sarkozy dined with Chinese premier Hu Jintao Wednesday; no specific commitments emerged from that meeting, and the Chinese have said they want more detail and clarity from Europe on its plans.

Mr. Papandreou stunned Europe and financial markets this week when he called for a plebiscite on the latest, €130 billion rescue package for Greece, which is tied to deeper austerity policies in the economically suffering country as well as the restructuring of Greek bonds.

Analysts say the referendum idea was a Hail Mary pass by the increasingly isolated premier, aimed at gaining a popular mandate for his overhauls of the Greek state and economy and putting opponents on the spot.

The enormous stakes, and the high risk of a “no” vote in the referendum amid Greeks’ anger about steep government spending cuts and tax hikes, have triggered a revolt by some lawmakers in Mr. Papandreou’s ruling Socialist party.
On Wednesday it appeared he might muster enough votes to scrape through a vote of confidence in Parliament set for Friday.

Even if Mr. Papandreou survives in office, he may lack enough lawmakers’ support to stage the referendum.

Meanwhile, Greece is fast running out of cash.

Money is being supplied by the EU and the IMF under a €110 billion program agreed to last year. That aid is distributed in quarterly tranches, and the next tranche was expected to be paid imminently. But that was before the referendum call, and it is now clear that aid is contingent on resolving the political crisis.

Failure to make the next aid payment, valued at some €8 billion, would likely mean the country running out of money in December, officials said, potentially causing an unplanned default on bonds that come due that month.

A spokesman for the German Finance Ministry said Greece doesn’t need urgent bailout payments now and won’t require the next chunk of aid until mid-December.

—Costas Paris, Alkman Granitsas, William Boston, Stephen Fidler and William Horobin contributed to this article.