

# FP INVESTING

## Is the EU finally ready to act?



John Kolesidis/Reuters

The moon is seen behind the ancient temple of the Parthenon in Athens.

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With a Greek default looking more inevitable by the day, outsiders are wondering why Europe cannot move faster to deal with the crisis.

Over the past couple of months, a steady stream of political leaders from around the world have called on Europe to quell financial markets and deal with the Greek problem as quickly as possible. On Tuesday it was Federal Reserve chairman Ben Bernanke, who expressed concern about the “slowed” process of finding solutions to Europe’s fiscal problems.

Experts said that European politicians and the European Central Bank are finally starting to recognize that a Greek default is likely. But they have not projected a strong sense of urgency to deal with the crisis.

On Tuesday, European finance ministers appeared to take one important step in that direction, as they discussed how to protect their fragile banking systems from the fallout to come. But at the same time, they delayed a decision on loan payments to Greece until mid-November. (Athens says it has enough cash to stay afloat until then.)

Analysts said Europe's slow movement on the Greek file is partly a reflection of how business works in the Old World. European leaders may be braced for a default, but bureaucracy and a simple lack of experience have left them slow to address it.

"Fundamentally, these people are policymakers; they're not debt management people," said Alex Jurshevski, managing partner at Recovery Partners Ltd., a debt management firm.

"The institutional framework in Europe never envisioned a sovereign default, so they don't have a sovereign default mechanism built into the EU legislation."

The idea that Greece can get out of this mess without a default is increasingly dubious—it has a debt-to-GDP ratio approaching 160%, and no country that went over 100% has ever avoided a restructuring, Mr. Jurshevski said. Bankruptcy would be nothing new for Greece, which has been in default more than 50% of the time since the end of the Ottoman Empire.

But in Europe today, 17 governments have to agree to the terms of any Greek default, meaning the entire process can grind to a halt for long stretches of time. A good example came over the summer, when a voluntary restructuring (including a 21% haircut) was set up for Greece's private sector bondholders. Markets rallied briefly, but could not maintain any momentum as European parliaments were shut down and leaders went on summer vacation. That slowed the legislation.

"The political process in Europe is not capable of keeping pace with what the market wants," said Craig Alexander, chief economist at TD Bank.

The actions of the ECB during the crisis have also left many observers scratching their heads.

On one hand, the ECB played an essential role over the summer by buying the bonds of Greece and other countries nearing default. That potentially prevented a financial crisis, and it gave European leaders time to put measures in place to address a Greek default.

However, the ECB went out of lockstep with the Federal Reserve by raising interest rates this year. That has made things even more difficult for Greece and other debt-laden European countries, which are suffering because of painful austerity programs. Assuming the default does happen, experts said it is impossible to quantify how well European leaders can prevent contagion to other countries. It depends partly on Greece's ability to manage a complicated default scenario, and no one is sure how equipped it is to do so.

"My suspicion is that they are not working on such a scheme, and when a crash happens, it's going to be quite ugly," Mr. Jurshevski said.