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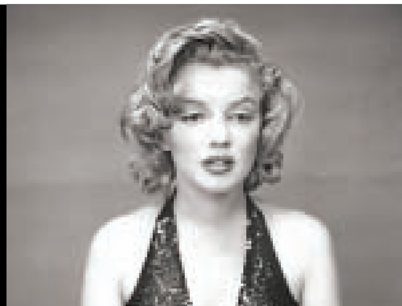

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Four men at the world championship crossroads

Getty Images

Four-way chase: From left, world champion racing driver contenders Sebastian Vettel of Germany, Fernando Alonso of Spain, the U.K.'s Lewis Hamilton and Australian Mark Webber on Thursday during preparations for the weekend's Abu Dhabi Formula One Grand Prix. Any one of the group could clinch the title on Sunday. **Article on page 28**

Euro falls as fears grow over battles with debt

By Terence Roth

The euro continued to slide against the dollar as investors grew increasingly anxious about fiscal challenges facing countries along the troubled edge of the 16-member euro zone.

The shared currency fell almost 0.9% against the dollar to $1.3657 late in Europe on Thursday, hitting a one-month low. Just one week earlier, the euro was trading at $1.4216 after the Federal Reserve announced $600 billion of bond purchases to drive down long-term interest rates.

"This was always the risk for the euro, that the focus would come back to the peripheries," said Daragh Maher, a currency analyst at Crédit Agricole in London.

Ireland's struggle to rescue its banking system has driven its budget deficit to 32% of gross domestic product, more than 10 times the euro zone's deficit ceiling. In recent days, investors have grown doubtful that Ireland will succeed in reducing its deficit without external help.

Earlier this year, Greece required help from the European Union and the International Monetary Fund to deal with its own fiscal crisis, sparking a selloff in the euro and raising questions about the currency union's long-term prospects.

The EU reiterated it has the tools to deal with Ireland, should it need to. The EU earlier this year established a €440 billion ($606.3 billion) rescue fund, mainly in response to the Greek crisis.

"We have all the necessary instruments," European Commission President José Manuel Barroso told reporters in South Korea, where he was attending the summit of the Group of 20 industrialized and emerging nations. "The EU is ready to support Ireland."

The risk of another euro-zone debt crisis continues to roil government-bond markets along the EU's periphery, where some governments are struggling to reduce deep budget deficits without tumbling back into recession.

The cost of insuring debt against potential default using credit-default swaps hit record highs for Irish, Spanish and Portuguese government bonds Thursday. These costs also rose for Greece, Italy and Belgium.

Also, the yield on Ireland's 10-year government bond, which moves inversely to its price, hit 9.24%, a record 6.83 percentage points more than the rates on lower-risk German bunds. More troubling, the yield premium, or "spread," for Irish two-year bonds is also about 6.83 percentage points.

Normally, longer-dated government bonds offer a higher yield because investors lose more control over their cash when they lend it for longer periods. Spreads tend to equalize across durations ahead of defaults because investors reason that the time difference no longer matters if a borrower proves unable to repay its debt.

Ireland, however, has enough cash on hand that it won't need to return to the bond market until the middle of 2011.

Portugal's fiscal situation is also grim.Earlier this week, Portugal sold six- and 10-year bonds at the highest yields since the introduction of the euro.

Renewed questions on whether ailing government treasuries can sustain rising borrowing costs have put into high relief the functionality of the EU's new bailout facility, which hasn't been tested and remains under review. The German and French governments, in particular, want to toughen rules to protect EU taxpayers from covering the cost of a sovereign default.

The change most dreaded by investors is Germany's push for a provision that defaulters must restructure their debt if they become shut out of credit markets. This would shift the losses from EU taxpayers to investors but also could chill investor interest in riskier euro-zone government debt.

—Nathalie Boschat, Mark Brown and Clare Connaghan contributed to this article.

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Obama meets his critics at summit

SEOUL—U.S. President Barack Obama met with leaders including Chinese President Hu Jintao, who has resisted his pressure on currency revaluation, and German Chancellor Angela Merkel, whose government had badgered Washington on fiscal policy, without any obvious tensions at the G-20 summit Thursday.

President Obama found a summit of world leaders who felt freer to challenge U.S. power. He failed to secure a free-trade agreement with South Korea by his imposed Thursday deadline, a serious blow to a president who has pledged to double U.S. exports over the next five years and lift the U.S. job market through trade.

The meeting of the Group of 20 industrial countries is expected to conclude with a communiqué Friday that papers over differences on fiscal and monetary policy that had burst into the open in the run-up to the gathering.

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PAGE TWO

Europe is running out of yellow cards as the debt crisis refuses to go away

[Agenda]

By Terence Roth

If history marks this week as the start of Europe's Debt Crisis II, next week has promise for still more nerve-testing action along Europe's crumbling outer rim.

Fiscally frail Ireland and Portugal will stay caught in the spotlight of unforgiving bond investors. Joining them on Monday will be Greece, no stranger to that script.

Officials from the European Union and the International Monetary Fund descend on Athens next week for their newest look into the Greek treasury's books and will decide whether Greece has earned its next payment tranche. On Thursday, Greece is expected to present its final 2011 budget to Parliament and with it its latest budget estimates.

The rough picture already emerges that the Greek government underestimated the severity of its crackdown on spending to comply with EU and IMF rules. Stiff austerity cuts, overestimated tax receipts and recurrent strikes by alternating segments of the work force have taken their toll on the economy and now numbers are off course.

By how much is to come on Monday, when the EU's Eurostat statistics office publishes its independent estimates on Greek public finances. It could be the first of a series of vulnerable moments for Greece and its peripheral kin in financial markets.

First the math. The Greek government promised to bring its 2010 budget deficit down by 5.5 percentage points with its IMF agreement in May, when its estimate of the 2009 deficit was 13.6% of gross domestic product.

Agence France-Presse/Getty Images

European Central Bank President Jean-Claude Trichet speaking in Basel Monday.

But the government already has been leaking out that the number for 2009 likely will be revised to 15% or more, diluting the impact of a 5.5-point cut and putting deficit relief further downrange. Now senior Greek officials are letting on that the 2010 figure will be closer to 9.3% of GDP than the 8.1% under the original calculation.

The line on deficit-funding must be held and the European Central Bank is the one to do it.

They also say the IMF will be assured that the gap can be covered with still more spending cuts. The prospect, of course, of more pain won't sit well with a simmering population that gave Prime Minister George Papandreou's ruling Socialist Party only a narrow win in last weekend's regional elections. More than 12% of the work force is out of a job, with one in three job seekers between the ages of 15 and 24 unable to find work.

Missed budget targets would bring into high relief incautious views from some Greek cabinet ministers lately. The one asks why a debt restructuring, bringing deep losses to the investors who bought Greek bonds, should be demonized. Another suggests Greece get easier terms and an extension of its €110 billion ($150 billion) rescue package.

So now Greece bubbles up again just as the cost of insuring government debt from Ireland, Spain and Portugal has rocketed to new highs. Greece is firmly supported by the rescue package until mid-2013, but the steady flow of negative news means Athens may not be out of the woods once that life support is withdrawn. That's why all this talk of a new debt crisis, barely six months after the last one abated with Greece's bailout in May.

EU policy makers are rightly getting ready for the next development, among other things with its unfinished €440 billion rescue net for bankrupt countries. Unfinished because Germany and France are still bullying euro-zone partners into accepting that it's OK to default if things get bad.

Restructuring your debts and shifting the burden from EU taxpayers to investors is good politics. But it's a lousy way to attract desperately needed investors back to the currency area's riskier sovereign debt. This means investors keep demanding higher and higher premiums until one day the price of borrowing and its strain on deficits becomes unsustainable.

The line on deficit-funding must be held and the European Central Bank is the one to do it proactively to buy time for governments hoping for salvation from a strengthening global economic rebound.

The Royal Bank of Scotland observed that the debt crisis along Europe's periphery is developing faster than any of Europe's leaders expected. To prevent further deterioration the ECB should increase its program of buying government bonds by a further €100 billion by early next year.

Instead, the ECB puts the onus on national governments to clean their fiscal cellars and enact reforms to improve competitiveness. The ECB was among the EU institutions backing away from special support mechanisms over the summer, allowing its bond purchasing to dwindle to zero until reviving it again last week after bond markets abruptly went bad.

ECB chief Jean-Claude Trichet, to his credit, hasn't stopped warning of a possible relapse in credit markets. Soon warnings might fall short of what's needed.

What's News

■ **The G-20 summit** is expected to end Friday with a communiqué that papers over differences on fiscal and monetary policy. 4

■ **Euro-zone core inflation** is likely to stay "contained" in the near term, although it may edge up slightly, the ECB said in its monthly bulletin for October. 7

■ **Greece's 2010 budget gap** is expected to reach 9.3% of GDP, forcing the government to implement further spending cuts. 6

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■ **Viacom is preparing** to sell its division that makes the "Rock Band" line of games. The company's profit in the quarter fell 59%. 17

■ **Spain's recovery stalled** in the third quarter as the result of a government austerity drive, data showed. 6

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'Anyone wanting to bet that the pound can rise some more will probably swiftly lose their nerve.'

Nicholas Hastings on how euro-zone debt problems are affecting sterling

Continuing coverage

Get updates and analysis from the G-20 summit in Seoul at **wsj.com/g20**

Question of the day

Vote and discuss: Which country is most likely to reignite Europe's sovereign-debt crisis?

Vote at **wsj.com/polls** and for Europe crisis news visit **wsj.com/europedebt**

Previous results

Q: Google is giving every worker a 10% raise. Is it a good move or a bad one?

Good move **85%**

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NEWS

Egypt's Indiana Jones is on the hunt

By Ashraf Khalil

CAIRO—Zahi Hawass, Egypt's larger-than-life antiquities chief, is hunting for treasures from some of the richest known collections—the world's prominent museums.

In an increasingly public campaign, Dr. Hawass is lobbying international museums to return some of Egypt's most important archaeological artifacts. These include the Rosetta Stone, displayed for more than 200 years in the British Museum, and the Zodiac of Dendera, housed in the Louvre in Paris.

"I'm going to fight. I'm going to go and tell the world that these countries have no right to these antiquities," Dr. Hawass said in an interview.

His most recent victory was the announcement Wednesday that the Metropolitan Museum of Art in New York would return 19 items, including a bracelet and a small bronze statue of a dog, that were excavated from the tomb of King Tutankhamun and held by the museum for decades.

"These objects were never meant to have left Egypt, and therefore should rightfully belong to the Government of Egypt," said Met Director Thomas Campbell in a statement. The items will remain on display in New York City for several months before being returned to Egypt in June 2011.

Dr. Hawass called the return "a wonderful gesture" and praised the Met for its "ethical behavior."

His repatriation campaign has resulted over the years in the return of more than 5,000 antiquities to Egypt, Dr. Hawass claims. The items he is seeking are intended to fill a new national museum in Cairo set for completion in 2013. The 935,000-square-foot Grand Egyptian Museum will cost an estimated $550 million, house more than 100,000 artifacts and will be "one of the flagship institutions in the world," the archaeologist said.

Dr. Hawass, the head of Egypt's Supreme Council for Antiquities, said he envisions the Rosetta Stone, a 196 B.C. text used to first decipher hieroglyphs, as the "natural centerpiece" for the new museum. He also seeks return of a Ramses II statue on display in Turin, Italy, and a statue depicting the architect of the Great Pyramid in the Museum of Fine Arts, Boston.

Dr. Hawass is something of a global media icon, following a series of heavily hyped TV specials and a carefully cultivated public persona. His recent History Channel series, "Chasing Mummies," depicted him as a sort of burly denim-clad Indiana Jones in a trademark leather Stetson hat. The archaeologist earned his Ph.D. in Egyptology in 1987 from the University of Pennsylvania, Philadelphia, and returned to Egypt the same year. He was appointed director of the Giza Plateau, which includes overseeing the Pyramids and the Sphinx. He was named head of the Supreme Council of Antiquities in 2002.

European Pressphoto Agency

Zahi Hawass wants artifacts returned.

Photo: Reuters; Zuma

Imperious and relentlessly self-promoting, Dr. Hawass also has become a polarizing figure in the insular ranks of international archaeology, and may soon become more so. Some critics accuse him of hogging credit for other people's work and placing good television over sound science.

"I think Egyptologists kind of laugh and shrug their shoulders at Zahi," said one British archaeologist, who has worked with Dr. Hawass.

But few seem to doubt the sincerity of his antiquity-repatriation effort, which has become a personal mission for the 63-year-old. Now, he is expanding his campaign. In April, he hosted a conference bringing together more than a dozen countries around the cause of repatriation of national treasures. Several participants, including Libya, Greece and Nigeria, submitted wish lists of items they want returned.

Even colleagues sympathetic to Dr. Hawass question whether such institutions will ever set the dangerous precedent of giving in to his demands. "If one object is given back to Egypt, then maybe Benin will want something and all the museums of the world will empty out," said Salima Ikram, an Egyptology professor at the American University in Cairo.

The Rosetta Stone, for example, passed into British hands in 1801 when the British defeated Egypt's French occupiers. There is no legal precedent for making the British Museum give it up now.

Emily Teeter, an Egyptologist at the University of Chicago's Oriental Institute, said the international legal framework regarding antiquities repatriation is murky.

A 1970 Unesco accord commits signatory countries to ban traffic in stolen antiquities, and sets standards for provenance. But many items on the Hawass wish list fall outside the purview of that accord.

For example, a Pharaonic bust held by Boston's Museum of Fine Arts was granted as a gift under "partage"—an archaeological tradition whereby a researchers keep part of what they unearth. Dr. Hawass challenges partage agreements made by his predecessors.

Dr. Hawass's toughest legal battle may be over the Rosetta Stone, because it was a spoil of war. The main modern example of legal proceedings to return spoils of war relate to World War II.

Tribunals at the Hague have forced Germany and Russia to return items looted from private art collections. But that example isn't relevant to Dr. Hawass's campaign, Dr. Teeter said, because the 1954 Hague Convention regarding looted cultural property doesn't cover actions before World War II. She declined to comment on Dr. Hawass's chances of getting the Rosetta Stone.

The targeted museums tread carefully when asked about Mr. Hawass. Esme Wilson, a spokeswoman for the British Museum, said the institution has never received an official demand for the permanent return of the Rosetta Stone—merely requests for short-term loans that she says are under consideration.

In the absence of legal legitimacy, Dr. Hawass has two primary weapons at his disposal: rallying public opinion and denying institutions the right to conduct digs or research in Egypt.

As for the first tactic, Dr. Teeter credits Dr. Hawass and his counterpart in Italy, Maurizio Fiorilli, with instilling a new sense of caution and attention to detail in the international antiquities world.

The second tactic has been used by Dr. Hawass to more effect. In 2009, the Louvre agreed to return several ancient wall frescoes he demanded, but only after he blackballed Louvre-associated archaeologists from working in Egypt.

In the past, European institutions holding Egyptian antiquities have expressed concern that the Egyptian government wouldn't be able to preserve and protect these historical treasures. The argument gained some credence in late August when a Van Gogh painting valued at $50 million was stolen in broad daylight from a museum run by the Ministry of Culture.

Dr. Hawass contends the new national museum will have state-of-the-art preservation systems. He wants the Rosetta Stone for its grand opening.

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G-20 SUMMIT

Locking horns | Flash points at this week's meeting in South Korea

Since the world financial crisis, the Group of 20 industrialized and developing nations has become a kind of board of directors of the global economy. First, the G-20 encouraged countries to boost spending to spur demand and to upgrade financial regulation. This spring, fearing spending could get out of control, the group set goals to cut deficits and debt. But as global growth has rebounded, a sense of urgency has waned. Leaders meeting in Seoul are divided over big issues facing the world economy.

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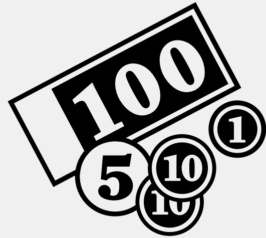
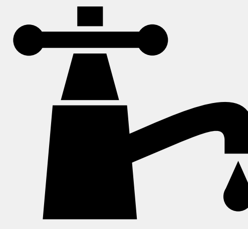
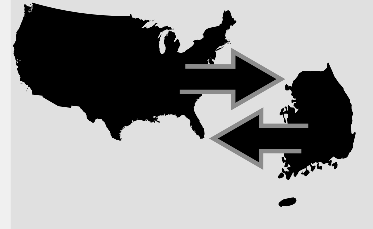
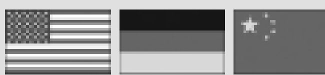
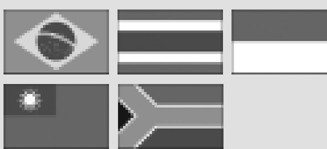
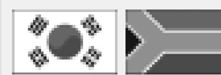
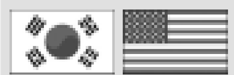
					
ISSUE	As U.S. consumers pay down debts, the global economy needs new sources of growth. A G-20 pact aims at 'rebalancing'—calling on trade-surplus countries such as Germany, China and Japan to rely less on exports and more on domestic markets, as the U.S. does the opposite.	The U.S., Europe and other nations want China to boost the value of its currency. Beijing has moved a bit in that direction. But now the Federal Reserve's move to pump billions into the economy—'quantitative easing'—is spurring charges the U.S. is devaluing the dollar.	As central banks in the U.S. and Europe maintain interest rates at near-zero levels, investors are chasing fatter returns in Asia and Latin America. More investment is usually a blessing because it boosts growth—but it can be a curse if it produces asset bubbles.	South Korea wants to make the G-20 a force in economic development. The group isn't looking to raise a big pot of foreign aid for poor nations—instead it's looking for ways to boost trade, investment, skills and infrastructure.	The Seoul summit was touted as the deadline for renegotiating a Bush-era free-trade pact between South Korea and the U.S. After more than a week of talks, the two countries' leaders said they missed the deadline, effectively leaving the deal in limbo.
STICKING POINT	The G-20 has no way to enforce these pledges.	Watch for claims and counter-claims as the G-20 tries to contain currency battles.	Watch for G-20 members proposing regulations and taxes to encourage longer-term investments.	Each initiative risks stepping on the toes of existing development groups.	Failing to reach a deal risks sending a message abroad that the U.S. is turning protectionist.
					
SQUARING OFF	**U.S.** vs. **Germany** and **China**	It's a free-for-all. **U.S.**, **France**, **Germany**, **Japan** vs. **China** on the yuan. **China**, **Germany**, **Brazil** vs. **U.S.** on quantitative easing.	Among those making moves to stem a torrent of capital: **Brazil**, **Thailand**, **Indonesia**, **Taiwan**, **South Africa**	**South Korea** and **South Africa** are leading the changes, but making little headway with aid groups.	**South Korea** vs. the **U.S.**

Obama is challenged to defend Fed policy

BY JONATHAN WEISMAN AND DAMIAN PALETTA

SEOUL—President Barack Obama limped toward the close of the Group of 20 summit, weakened by an anemic economic recovery and an election drubbing that has left world leaders questioning U.S. authority.

In private meetings with Mr. Obama Thursday, Chinese President Hu Jintao resisted his pressure on currency revaluation. Mr. Obama also failed to secure a free-trade agreement with South Korea by his imposed Thursday deadline, a blow to a U.S. president who has pledged to double U.S. exports over the next five years.

Reuters

U.S. President Barack Obama listens to South Korean President Lee Myung-bak.

The G-20 summit is expected to conclude with a communiqué that papers over differences on fiscal and monetary policy that had burst into the open in the run-up to the gathering.

Undersecretary of the Treasury Lael Brainerd said currency policy dominated a meeting between Messers. Obama and Hu after the U.S. president raised it. Mr. Hu told his U.S. counterpart that China will push forward on revamping the yuan exchange-rate mechanism—a longtime goal of U.S. policy—but that such a move requires "a sound external environment" and can proceed only gradually, according to state television and a government spokesman.

He also told Mr. Obama that China is paying attention to the U.S. Federal Reserve's decision to pump $600 billion into the U.S. economy, which critics charge is driving down the value of the dollar. Mr. Hu urged the U.S. to consider the interests of emerging markets, according to Chinese state TV.

That China was emboldened to lecture the U.S. on its currency, a notable reversal of recent meetings, underscores how it and other countries, including Brazil and Germany, have emerged from the global economic crisis faster and more strongly than the U.S. Mr. Obama found himself in the odd position of having to defend the U.S.'s independent central bank. He was also unable to quell concerns that the U.S. government is deliberately trying to weaken the dollar to boost exports.

Mr. Obama and German Chancellor Angela Merkel have agreed to downplay the sniping from officials that dominated the run-up to the summit. Both resolved to pick up the phone before going public with their frustrations.

The U.S. says the policy is designed only to boost U.S. domestic growth. It also argues the dollar's value is correlated to confidence in the U.S. and global recovery.

The meeting of world leaders in Korea kicked off Thursday evening with a dinner and closed-door meetings focused in part on disputes over currency valuations and trade imbalances. The leaders are expected to reach several agreements before they adjourn Friday, namely on financial regulation and the role of the International Monetary Fund. But officials have quashed expectations of a breakthrough on the top issues of currencies and trade.

—Ian Talley and Patrick McGroarty contributed to this article.

U.S., Korea fail to seal trade pact

SEOUL—The presidents of the U.S. and South Korea were unable to overcome a combination of cars, cows and domestic politics in order to revive a trade deal the two leaders touted as important for economic growth.

By Bob Davis, Evan Ramstad And Jonathan Weisman

After more than a week of talks to amend a Korea-U.S. free-trade deal, originally negotiated by the Bush administration in 2007, U.S. President Barack Obama and South Korean President Lee Myung-bak said they had missed their deadline.

The negotiations will continue, the two leaders said, but chances for a deal are bound to diminish. Without presidential pressure and a deadline, there's less impetus to break an impasse, leaving the free-trade deal in limbo.

Officials in both countries said that the discussions over South Korean restrictions on auto and beef imports had proved too vexing. "We aren't at a place where we feel we have gotten the market access that we need and our auto manufacturers deserve," U.S. Trade Representative Ron Kirk said in an interview.

Negotiators on both sides were hindered by difficult domestic political conditions, which limited room for maneuver. In the U.S., free trade has become an electoral liability. "If we rush something that then can't garner popular support, that's going to be a problem," said Mr. Obama, who criticized the Korea trade pact when he was a presidential candidate. "We think we can make the case, but we want to make sure that that case is airtight."

Mr. Lee faces similar pressure in changing an agreement portrayed in the country as a victory over U.S. negotiators when it was first struck.

Mr. Obama had hoped to revive the deal as part of a push to double U.S. exports by 2015. He set the negotiating deadline to coincide with the Group of 20 leaders' summit as a way to force deals in the two key areas: eliminate import obstacles for U.S. car makers and beef producers.

A deal with South Korea is seen as especially important because it would be the largest bilateral deal the U.S. has completed since the North American Free Trade Agreement with Mexico and Canada in 1994—and because South Korea is in the process of approving a trade pact with the European Union, set to go into effect on July 1, 2011.

Accepting expanded imports of U.S. beef was especially difficult for South Korea. Two years ago, civic activists and opposition politicians staged huge protests in central Seoul after Mr. Lee agreed to reopen imports of U.S. beef, which it banned in 2003 after a case of mad-cow disease was found in the U.S.

In the U.S., big labor unions that form a pillar of President Obama's political base and **Ford Motor** Co. were vocal opponents of the deal.

Two prominent lawmakers from Ford's home state of Michigan, who often take different sides on trade issues, said in a joint statement Thursday that further talks with South Korea "will succeed only if South Korea adopts concrete steps to open its market to U.S. exports."

—Elizabeth Williamson and Josh Mitchell in Washington contributed to this article.

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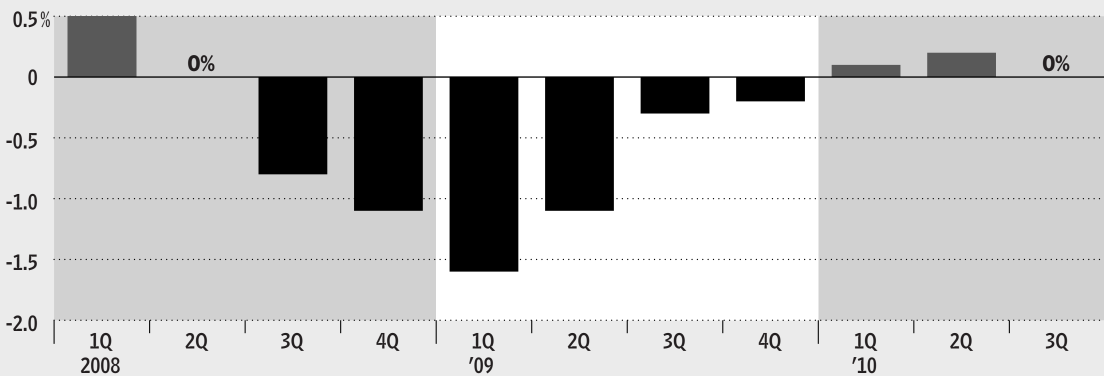
A government job center in Madrid this month. Spain's unemployment rose above four million people in September.

Stalled recovery

The Spanish economy stagnated in the third quarter after two periods of timid quarter–to–quarter GDP growth



Source: Spain's National Statistics Institute

Photo: Reuters

Spain's recovery stalls after austerity measures

By Jonathan House

MADRID—Spain's timid economic recovery stalled in the third quarter as the result of a government austerity drive, data from Spain's National Statistics Institute showed Thursday.

In its preliminary estimate for the quarter, the statistics office said Spanish gross domestic product was unchanged from the second quarter. On a year-to-year basis, GDP was up 0.2%, it said in a statement.

Spanish GDP rose at a 0.2% quarterly rate in the second quarter and by 0.1% in the first after six consecutive quarters of contraction. The statistics office said domestic demand had weakened in the third quarter. It will provide further detail Nov. 17.

The third-quarter GDP reading from the statistics office matched the one given by the Spanish central bank Nov. 5, However, it was better than the forecasts of many private-sector economists, who had widely expected output to fall in the third quarter as Spain cuts spending and raises taxes to rein in a double-digit budget deficit.

"Today's GDP outcome brings a note of comfort," said Tullia Bucco, an economist at UniCredit.

Spain is grappling with the collapse of a decadelong construction boom that has sent unemployment spiraling and punched a large hole in its public-sector accounts. After Greece's financial meltdown, other fiscally frail countries like Spain and Portugal have faced intense pressure from investors and the European Union to push through austerity measures. In recent months, Spain has slashed investment, cut public-sector wages and raised its value-added-tax rate.

Luigi Speranza, an economist at BNP Paribas, noted the measures have allowed Spain to "decouple itself from the countries most affected by the sovereign-debt crisis," which has lowered Spanish borrowing costs and helped to improve consumer confidence. "Looking forward, chances of a double-dip" recession for Spain have receded, Mr. Speranza said.

Nonetheless, many economists expect Spanish growth to remain weak as high unemployment weighs on consumer spending, businesses remain reluctant to spend and the construction industry struggles to digest a glut of one million unsold homes. "Overall, therefore, we expect growth to be very moderate going forward," Mr. Speranza said.

Greece braces for further cuts

By Costas Paris And Alkman Granitsas

ATHENS—Greece's 2010 budget gap is expected to reach 9.3% of gross domestic product, well above its forecast, forcing the government to implement further spending cuts to bring its fiscal-tightening plan back on track, a senior government official said Thursday.

The official also said Greece's budget deficit for last year is expected to be revised sharply higher, to more than 15% of GDP, up from the current estimate of 13.8%. "We now expect the budget deficit for this year at about 9.3% and the revised 2009 figure will likely be above 15%," the official said. "This means extra measures will have to be taken, but it will be slashing spending rather than new taxes or reducing salaries."

Since May—when Greece narrowly avoided default with the help of a €110 billion (about $150 billion) loan backed by the International Monetary Fund and European Union—the country's ruling Socialist government has implemented a harsh, multiyear austerity program of spending cuts and higher taxes.

Under terms of the loan, Greece aims to cut its budget deficit to 8.1% of GDP this year and to 7.6% of GDP in 2011. However, lagging tax revenue to date indicates that Greece will miss this year's deficit forecast by about €2 billion.

Moreover, Eurostat, the EU's statistics agency, next week will revise its estimate of Greece's budget deficit for 2009. With a higher starting point for the deficit last year, the government will have to adopt further spending cuts to meet its fiscal responsibilities for next year.

The revised figures from Eurostat will play a key role in the 2011 final budget to be presented next week. "Final touches will be put together after the meeting with our visitors [from the IMF and EU] early next week and it will be a very tough negotiation," the senior official said. "It will be the most difficult budget in decades."

Analysts estimate that in absolute terms, Greece will need an additional €4 billion in new measures—on top of those already disclosed—to meet its 2011 deficit goal. Those measures are expected to be detailed in the final 2011 budget, to be outlined Thursday.

Late Wednesday, the Greek Finance Ministry said the budget deficit in January to October was down 30%, below the 32% forecast for that time frame.

"According to preliminary data for the state-budget execution for the 10 months of 2010, on a fiscal basis, the deficit is €17.4 billion compared to €24.8 billion during the same period in 2009," the finance ministry said.

The price of EU's plan to punish bondholders

[Brussels Beat]

By Stephen Fidler

Germany succeeded at a European summit in late October in persuading fellow members of the European Union to consider forcing investors in sovereign bonds to take losses as a precondition of future government rescue packages.

That success has come with an immediate price: a sharp rise in borrowing costs for weaker euro-zone governments as investors calculate that default risks have risen. Ironically, that has made highly likely what was previously only likely—bailouts for Ireland and Portugal in the next few months in which bondholders won't be asked to pay a penny.

The €440 billion (about $606 billion) bailout fund that Ireland will likely access, created in May, doesn't anticipate forcing losses on bondholders but it lasts only until mid-2013. Germany is seeking to make sure the "permanent crisis mechanism" that replaces it punishes bondholders as well as taxpayers. With the help of France, it got its way at the summit. The summit communiqué said the new mechanism would require tough conditions on those governments using it, the participation of the International Monetary Fund and the involvement of private-sector creditors.

The prospect appears to have scared investors. Yet, there is so much scope for interpretation of what this private-sector involvement means that it may be that the risks investors face are not much higher than they were. "The different ways of involving the private sector suggest that the implications of the [mechanism] on private bondholders might vary a lot," wrote Jürgen Michels of Citigroup Global Markets in a recent research note.

The final decision "on the outline" of the new mechanism will be made by the leaders at their next summit in December, after they have studied a report that the European Commission is currently compiling.

The yet-to-be-decided variables include, as a report this week from analysts at Goldman Sachs point out, "who has the right to initiate a restructuring procedure, under what circumstances and under what terms."

Five leading economists from Bruegel, a Brussels think tank, this week advocated a debt restructuring in which the European Commission, the EU's executive arm, and the European Court of Justice, the bloc's highest court, would sit as the sovereign equivalent of a bankruptcy court.

The two institutions would determine whether government debt had reached unsustainable levels and therefore should be restructured, provide a framework for restructuring and ensure the enforcement of the resultant deal, the Bruegel economists suggest. The life of the current bailout fund should be extended and it should be able to provide liquidity to solvent states as well as bridging finance to countries negotiating debt reductions.

German Finance Minister Wolfgang Schäuble proposed in an interview with German newspaper Der Spiegel two possible restructuring stages: the first involving a lengthening of bond maturities and the second imposed losses—with a guarantee on the debt that's left—if that wasn't sufficient to ensure debt levels could be sustained.

These, however, are proposals and the final outcome hasn't been settled. A senior EU official, speaking straight after the summit, said there was no agreement on the shape of private-sector involvement.

Invoking a tough regime, as favored by Germany, is likely to be unpopular in Ireland, Greece and Portugal—but also in Spain and Italy, given the likely impact on their borrowing costs. Moreover, even once an accord is agreed, some "minor" changes to EU treaties will be required. While these will be designed not to provoke referendums in member states, in many countries, the process of ratification may not be simple.

There's also influential opposition to the German idea that private-sector participation, in the form of extended maturities or debt reduction, should be established beforehand—ex-ante—as the price of every sovereign bailout.

"The involvement of the private sector should not be seen as an ex-ante, a priori 'must' when it comes to the resolution of financial crises," Jean-Claude Juncker of Luxembourg, the chairman of the euro group of finance ministers from the 16 euro-zone countries, told reporters this week.

European Central Bank President Jean-Claude Trichet, who warned prophetically at the summit of a negative investor reaction, favors ambiguity about bondholder losses ahead of the event. The IMF, has shown, he said, that the moral hazard problems of bailouts can be resolved without insisting on bondholder losses ahead of time.

In an opinion piece in the German newspaper Die Zeit this week, Lorenzo Bini Smaghi, a member of the ECB executive board, echoed the view. He pointed out that sovereign default within Europe's complex financial systems could lead to snowball effects in which state guarantees of banking systems could be called into question.

On top of that, making debt restructuring a condition of financial support would create incentives for runs on government bonds, rewarding the financial speculators so despised by the French and German governments. "As soon as expectations arise that a country might apply for the support of the crisis mechanism, there would be incentives to take speculative positions against the country, betting on the loss of value of its sovereign bonds," Mr. Bini Smaghi said.

Differing views at London's wartime memorial ceremony

European Pressphoto Agency

Children look on as veterans lay wreaths at the Cenotaph war memorial in London Thursday, marking Armistice Day when peace was declared on Nov. 11, 1918.

Germany aims at drug costs

By Sten Stovall

Germany's lower house of parliament approved rules to curb the power of drug makers to set prices in Europe's largest pharmaceutical market, ending companies' ability to charge what they want.

The rule change is part of the government's health-care overhaul. It aims to rein in pharmaceutical spending by forcing drug companies to negotiate a price with health insurers. Many say Germany's drug-pricing rules have kept prices high there and fed those costs into other countries' health-care systems.

Drug makers in Germany will now be given the right to charge their own prices on brand-name drugs only in the first year of market launch. During that time they must prove a new medicine is really innovative to retain the product's premium pricing.

Under the arrangement, a company wanting to launch a new drug would set an initial price before starting negotiations with the insurer. If within a year no agreement has been reached, Germany's health-technology appraisal body, IQWiG, could step in and assess the drug's cost-effectiveness.

Germany's lower house of parliament, or Bundestag, approved the measure with 314 votes Thursday. Some 269 parliamentarians voted against the measure, introduced by German Health Minister Philipp Rösler. The bill will now have to pass the upper house of parliament, or Bundesrat, which is scheduled to take a vote on the issue on Nov. 26.

Mr. Rösler said Thursday the law will create the right balance between granting people access to modern medication and exercising stricter cost control over the drugs. "We don't want drugs to be more expensive in Germany than elsewhere," he said.

Germany's national association of health-insurance funds, the GKV-Spitzenverband, said it is pleased the government is addressing the issue of rising drug prices. "With the new law the [pharmaceutical] industry's price monopoly is finally being seriously attacked for the first time," the association said. "The accelerated fixed-payment procedure—the automatic assignment of new drug without additional benefits to a fixed price, and respectively the start of negotiations if there is no respective fixed price—is real progress."

Under the new system, innovative drugs can be marketed at their asking price for the first year but after that, those drugs with no added value will be added to the therapy reference-pricing system. The therapy reference-pricing system will be expanded to all "me-too" products—drugs that are structurally very similar to existing drugs.

Analysts have said the revamp has added importance given the role Germany plays as an external benchmark for drug prices elsewhere. For example, France, Europe's second-largest drugs market, looks at German, British, Spanish and Italian prices when setting charges for medicines.

Cameron set to visit Russia as ties warm

By Laurence Norman

SEOUL—U.K. Prime Minister David Cameron is poised to become the first British prime minister to visit Russia since 2005 after he accepted an invitation from Russian President Dmitry Medvedev to visit the country next year.

U.K.-Russian tensions have eased in recent months, with Foreign Secretary William Hague visiting Moscow last month in a bid to boost ties. However, an unresolved standoff over the 2006 death of former KGB officer Alexander Litvinenko in London appears to be a major obstacle to a complete relaunch of the relationship. Britain accused Russian citizen Andrei Lugovoi of poisoning Mr. Litvinenko and has unsuccessfully sought his extradition.

Following a bilateral meeting between Messrs. Cameron and Medvedev ahead of the Group of 20 summit of industrial and developing nations in South Korea, Mr. Cameron said, "We have both agreed we want to strengthen the bilateral relationship."

U.K. officials said the two leaders didn't discuss the Litvinenko case. Officials said they were still discussing a date for the visit, which could be to Moscow or St. Petersburg. However, it is thought likely to be in the second half of the year.

Mr. Cameron said he is "very pleased to take up the invitation of a visit to Russia next year," adding that Russia wants to see ties "grow and develop." He said the two sides discussed Iran and North Korea.

Mr. Cameron and Mr. Medvedev also discussed the bid to host the 2018 football World Cup. Russia and England are among the main candidates. Amid accusations about alleged bribery of officials from football governing body FIFA, Mr. Cameron joked with Mr. Medvedev that he hoped it would be a "good clean fight," his spokesman said.

Mr. Cameron was also asked about violent protests by students in London Wednesday against his government's decision to raise university tuition fees. Mr. Cameron said the violence was "completely unacceptable" and that the full force of the law should be imposed on those who had broken the law.

Mr. Cameron said he didn't think the country was headed for a repeat of the sometimes violent protests that hit the U.K. during the 1980s.

ECB sees 'contained' inflation

By Geoffrey T. Smith

FRANKFURT—Core inflation in the euro zone is likely to stay "contained" in the near term, although it may edge up slightly, the European Central Bank said Thursday in its monthly bulletin for October.

The ECB said the harmonized index of consumer prices, which it uses in its definition of price stability, was pushed up in 2010 by a "normalization"' of core-inflation trends after the exceptional weakness caused by the recession that followed the 2008 financial crisis.

It expects the harmonized index of consumer prices, excluding food and energy, "to continue to edge up slightly over the coming months," due to a slow improvement in domestic demand. "Nevertheless, this rise should remain contained given moderate wage developments and the continued slack in the euro-area economy," it added.

The ECB noted that governments' attempts to fill the holes in their budgets by raising indirect taxes and administered prices had added 0.5 percentage point to the harmonized index since 2009.

By contrast, the central bank said there had been little impact on euro-zone inflation from the rise in prices for some agricultural commodities after poor harvests in many parts of the world.

The ECB said recent studies had bolstered the case for taking action against asset bubbles on the basis of certain "early-warning indicators." However, the ECB concluded that "monetary policy should not target asset prices or indices," and said that its own monetary analysis involves some element of raising rates when asset bubbles are forming.

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U.S. NEWS

Committee duo calls Washington's bluff

[Capital Journal]

By Gerald F. Seib

Perhaps you don't want to play poker with Alan Simpson and Erskine Bowles.

Mr. Simpson, the Republican and former Senator from Wyoming, and Mr. Bowles, the Democrat and former White House chief of staff, are chairmen of the federal deficit-cutting commission charged with devising a way to reduce the red ink Washington is producing. They oversee an 18-member, bipartisan panel that is supposed to come up with a plan by Dec. 1, provided they can get 14 of the 18 commission members to agree on something.

That's a big if. But the two have at least increased the odds of success with the clever way they rolled out their own personal recommendations Wednesday on how to suck up that red ink.

Specifically, they jolted the capital by laying out ideas to achieve some $4 trillion in deficit reduction by 2020. Look carefully at what they did and how they did it, and you'll see that their effort was designed to box in those on all sides who would rather talk in high-sounding generalities about the deficit than deal with the unpleasant specifics.

That doesn't mean they will succeed, but their tactics have at least given them a better shot.

Consider:

—By offering even more deficit reduction than necessary to achieve the commission's target, they sent a message: See, it isn't THAT hard to come up with a plan, especially if you're willing to go after popular as well as unpopular programs.

Associated Press

Proposals from Erskine Bowles, left, and Alan Simpson include cutting defense spending and raising the retirement age.

When the commission was created by President Barack Obama and filled out with leaders from both parties in Congress, it was told to devise a way to cut the deficit to 3% of gross domestic product by 2015, from about 8% this year. The chairmen went further and proposed specific spending and tax measures that would reduce the deficit to 2.2% of GDP.

That allows panel members to dismiss some of the most unpopular ideas while still hitting the target. More important, it says to everybody that this isn't impossible by any means. We've shown how to not just hit our target, but to surpass it.

—By making their ideas public, they made it harder for other commission members to run and hide. The commission now can't simply bury controversial or unpopular ideas. It has to say to the world that it has rejected them and take responsibility for having done so.

—They have made everybody uncomfortable at the outset, which is necessary to be sure no group or special interest can feel singled out for pain. They proposed raising the retirement age (oh-so gradually, to 69 by the year 2075) for Social Security and suggested modest curbs in benefits for upper-income seniors and an adjustment in the inflation escalator for all benefits. That was enough to make liberals scream.

They suggested more than $100 billion in defense-spending cuts by the year 2015, as well as an increase in the gas tax and a reduction in a range of tax deductions and credits, including the home-mortgage deduction, which was enough to make conservatives and moderates scream.

—The two men scooped up all the good ideas on the table, made them their own and in many cases ratcheted them up. Mr. Obama, in a little-noticed comment about a month ago, said lowering the corporate tax rate might be a good idea. So the Simpson-Bowles plan proposes reducing the corporate rate to as low as 26% from the current 35%, in return for eliminating other tax credits and deductions. The tax rate goes down, tax revenue goes up.

Similarly, Defense Secretary Robert Gates already has told his bureaucracy to come up with $100 billion in savings; the chairmen pocket those and go further. The health-care bill passed earlier this year created an "Independent Payment Advisory Board" to find savings in Medicare and Medicaid spending; the chairmen simply call for the board to come up with billions more. The Republicans about to take control of the House talk about finding $100 billion in domestic spending cuts next year. The chairmen see that bet and raise it, calling for $113 billion in cuts in fiscal 2013 and $204 billion by 2015.

—The chairmen called the capital's bluff on a popular political dodge: the endless calls for "tax reform." A favorite tactic of politicians in both parties is to say that the deficit problem can't really be resolved until our tangled tax system is fixed—and thereby avoid actually doing something. Messrs. Simpson and Bowles say it's time to put up on that front by offering three different options for actually achieving a tax reform.

All told, the chairmen still are in a tough game without a great hand. They are, however, playing it cleverly.

Obama defends deficit panel

By Jonathan Weisman

SEOUL—President Barack Obama on Thursday urged leaders of his own Democratic Party to hold their fire over the recommendations of the two chairmen of his bipartisan U.S. debt commission, and said "tough choices" would be necessary to tame a deficit that has soared to more than $1 trillion a year.

"Before anybody starts shooting down proposals, we need to listen, gather up all the facts, and be straight with the American people," Mr. Obama said when presented with U.S. House Speaker Nancy Pelosi's statement that the commission chairmen's recommendations are "simply unacceptable."

He also challenged Republicans, who made the deficit a major issue in the campaign but have insisted on the extension of all of President George W. Bush's expiring tax cuts.

"There was a lot of talk during the course of this campaign season about debt and deficits, and unfortunately a lot of talk didn't match up with reality," Mr. Obama said at a joint news conference here with South Korean President Lee Myung-bak. "If we are concerned about debt and deficits, then we're going to have to take actions that are difficult, and we're going to have to tell the truth to the American people."

The two chairmen, Democrat Erskine Bowles and Republican Alan Simpson, surprised Washington Wednesday with the release of their own recommendations on federal debt reduction ahead of a Dec. 1 deadline for the full 18-member bipartisan presidential commission. Their recommendations included hundreds of millions of dollars in defense and domestic spending cuts, a higher retirement age and trims to Medicare, the health-care program for the elderly. They also identified tax-law changes that would raise nearly $1 trillion over a decade.

'Before anybody starts shooting down proposals, we need to listen, gather up all the facts, and be straight with the American people,' the president said.

Some conservatives, such as Grover Norquist of Americans for Tax Reform, castigated the recommendations as too heavy on tax increases and too light on spending cuts.

But many Republicans held their fire. "This is a provocative proposal, and while we have concerns with some of their specifics, we commend the co-chairs for advancing the debate. We will continue to work toward solutions that help spur economic growth and restrain the explosive growth of government spending," three House Republicans who serve on the commission, Reps. Dave Camp of Michigan, Paul Ryan of Wisconsin and Jeb Hensarling of Texas, said in a joint statement.

In contrast, Ms. Pelosi, other congressional Democrats, union leaders and liberal advocacy groups laid into the chairmen's conclusions.

"Any viable proposal from the president's fiscal commission must strengthen our economy, but it must do so in a fair way," Ms. Pelosi said in a statement. "This proposal is simply unacceptable."

Mr. Obama urged supporters to keep their powder dry, even as he said a real assault on the deficit could happen only with broad bipartisan support. Popular proposals like ending lawmakers' special-interest "earmarking" of funds and tackling waste and abuse in government would not do the trick, he said.

"I set up this commission precisely because I'm prepared to make some tough decisions," he said.

Some call for Pelosi to forgo top post

By Patrick O'Connor

A small but growing number of Democratic lawmakers are calling on House Speaker Nancy Pelosi to abandon her plan to run for minority leader in the new Congress.

In the past week, about 20 Democrats in the House of Representatives have called for a change in leadership of their caucus, a response to the party's sweeping defeats in the elections that gave Republicans control of the House.

On Wednesday, four more Democrats added their names to the list of lawmakers either calling on Ms. Pelosi to step aside or lamenting her decision to run for minority leader. The speaker surprised many of her colleagues last Friday when she announced she would run for the spot, which many of her predecessors had foregone after their party lost the chamber's majority.

This vocal chorus includes longtime Pelosi allies such as Massachusetts Rep. Mike Capuano, who has called for a new leadership team but said he would reluctantly back Ms. Pelosi. It also includes more frequent critics of the speaker, such as Pennsylvania Rep. Jason Altmire.

The biggest bloc in opposition includes surviving members of the conservative Blue Dog Coalition, including Reps. Jim Matheson of Utah and Mike Ross of Arkansas, who saw almost two dozen members of their group get voted out of office. North Carolina Rep. Heath Shuler, a Blue Dog, had suggested he would challenge Ms. Pelosi if no one else did, but he hasn't said anything publicly since the speaker said she would pursue a bid for minority leader.

Ms. Pelosi has deflected the notion that the election results amounted to a rejection of her, or of her party's agenda. The California Democrat declined to comment Wednesday, but referred reporters to an opinion piece in USA Today.

"Last week's elections reflected a genuine frustration of the American people, who are justifiably angered by the continued high unemployment rate," she wrote.

No challenger has emerged to run against Ms. Pelosi, but the calls for change nonetheless threaten to undermine the speaker.

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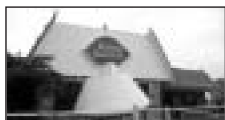

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WORLD NEWS

Associated Press

Supporters of Aung San Suu Kyi at her party's Yangon headquarters Thursday.

Frustration rises after Myanmar vote

By a Wall Street Journal Reporter

YANGON—Frustration over Sunday's national election in Myanmar is rising amid reports of voting irregularities and as the scale of apparent victories by government-backed candidates appeared to surprise and demoralize many residents.

Myanmar's secretive military regime has slowly released official results. The outcome of only 182 of the contested constituencies of the roughly 1,150 seats at stake for a new national parliament and regional assemblies had been reported by election officials as of Thursday, with the government's Union Solidarity and Development Party winning 140 of those, or 77%.

Prime Minister Thein Sein and other prominent members of the ruling junta were among the winners. Leaders from the USDP have said privately they are confident they won 75% to 80% of all the seats in play, the Associated Press reported.

Residents and analysts had widely expected the USDP and its pro-military allies to win a parliamentary majority in what was Myanmar's first national election in 20 years, but were still expressing dismay. The military remains deeply unpopular in Myanmar after nearly five decades of harsh rule, including a brutal crackdown on monk-led antigovernment protests in 2007 that left more than 30 people dead.

"We knew it was going to be bad, but not this bad," said one Yangon resident, a travel-company owner who said he opposes the military regime.

Several opposition groups, including the party of famed pro-democracy advocate Aung San Suu Kyi, which was disbanded by the government this year, have said they believe there may have been widespread fraud, and are considering raising more-formal complaints. The second-largest party—a pro-military group, the National Unity Party, loyal to late strongman General Ne Win—has joined in the criticism despite being viewed as being broadly pro-establishment.

"The election process is absolutely unfair," said 82-year-old retired Brigadier Aye San, a senior NUP official, the Associated Press reported.

The U.S., Japan, the Philippines and Britain are among the countries criticizing the conduct of the vote. Much of the criticism has focused on the handling of advance ballots in areas where residents for various reasons were unable to vote on Sunday. Those ballots are believed to have heavily favored the USDP, residents and opposition leaders say.

Attempts to reach the Myanmar government to discuss allegations of fraud were unsuccessful. It has repeatedly said its vote, part of a "road map to democracy" aimed at ending decades of military rule, would be free and fair. The government has re-emphasized that position in recent days in state-run publications, with numerous reports detailing efforts by election officials to ensure the contest was free of manipulation.

Some Asian governments have endorsed the election. Vietnam, speaking as chair of the 10-member Association of Southeast Asian Nations, to which Myanmar also belongs, described it as "a significant step forward," while China welcomed what it called a "steady and smooth" vote.

The likelihood of unrest on the streets of Yangon and other cities remains low, residents say, given the regime's record of attacks on critics. That includes torture and the imprisonment of more than 2,000 political opponents, according to human-rights groups. Many residents interviewed this week said they felt powerless to express an opinion about the election in public, much less organize protests.

Still, public frustration could complicate government deliberations over whether to release Ms. Suu Kyi, a Nobel laureate whose latest term of house arrest ends Saturday. Her lawyers have tried to secure an earlier release, and on Thursday Ms. Suu Kyi lost a final appeal of her conviction for violating a previous period of house arrest by briefly sheltering an uninvited American who swam to her lakeside home last year.

The government has repeatedly extended the house arrest, keeping Ms. Suu Kyi in detention for 15 of the past 21 years. But many residents are hopeful her release is imminent. The government has dropped hints in conversations with diplomats and local journalists in recent weeks, and this week granted a visa to Ms. Suu Kyi's younger son, Kim Aris, a 33-year-old British resident who had been denied entry for years.

Ms. Suu Kyi has indicated through her lawyer in recent days that she will not accept anything short of an unconditional release.