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Germany ready to help eurozone members

By Bertrand Benoit in Berlin and Tony Barber in Brussels

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Germany signalled that it would support emergency action to protect the eurozone if one of its 16 member-states found itself in such serious difficulties that it could not refinance its debt.

Asked on Wednesday whether Germany would risk seeing the eurozone break up rather than take action, Peer Steinbrück, finance minister, told a press conference: "Could you imagine anyone would be willing to put up with this? We would have to take action."

Mr Steinbrück told an event in Düsseldorf on Monday night that "the euro-region treaties don't foresee any help for insolvent countries, but in reality the other states would have to rescue those running into difficulty".

The remarks underlined the concern with which Germany views the impact of the global economic crisis on Europe's public finances, in the shape of sharply rising budget deficits and government debt. Berlin is also worried about excessive liquidity building in financial markets.

"There is an enormous amount of liquidity in the markets and we are seeing very large budget deficits," Mr Steinbrück told the Financial Times on Wednesday. "We must start thinking about how we reabsorb this liquidity and reduce these deficits."

Depending on the country, Mr Steinbrück said this would imply raising interest rates, encouraging households to save more or taking tough structural measures to return to fiscal consolidation.

"These will be difficult and unpopular measures," he said.

Mr Steinbrück declined to elaborate on his comments about possible bail-outs of eurozone member states.

But a senior government official, speaking on condition of anonymity, told the FT the government would back assistance to a troubled eurozone state in spite of a European Union rule, known as the "no bail-out clause", which prohibits collective liability for debt incurred by an EU state.

The senior official said: "Should refinancing conditions become too demanding for a eurozone member, I think other members would have to act to protect the euro despite the no bail-out clause.

"It is a simple matter of theory versus practice."

The remarks do not indicate that Germany was proposing to abandon the "no bail-out clause", which is contained in Article 103 of the EU's governing treaty and is a cornerstone of European monetary union. Rather, Berlin appears to be thinking in terms of pre-emptive measures to help a eurozone country before it reached the extreme point of being unable to refinance its debt.

The European Commission, the guardian of the EU's rules on fiscal discipline, urged Greece and Ireland on Wednesday to start cutting their budget deficits this year rather than waiting until next year when Europe may emerge from recession.

"We are asking them to step up their consolidation, because the markets are putting them under very strong pressure," said Joaquín Almunia, the EU's monetary affairs commissioner.

Together with France, Latvia, Malta and Spain, Greece and Ireland were placed under special disciplinary procedures by the Commission because they ran deficits of more than 3 per cent of gross domestic product in 2008, with the probability in most cases of similarly excessive deficits this year.

Mr Almunia added: "Nobody is thinking about sanctions."