EU heads for battle over new budget rules

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By Peter Spiegel in Brussels

European finance ministers on Tuesday put in place the last main element of their multi-pronged strategy for shoring up the eurozone, agreeing to new budget rules that involve fines for countries that do not cut their public debt.

However, Jean-Claude Trichet, president of the European Central Bank, called the measures "insufficient" and national governments are heading for a battle with the European Parliament which is determined to make the rules tougher.

Ministers agreed that a country that fails to close the gap between its debt level and the EU limit of 60 per cent of gross domestic product each year by 5 per cent would be subject to a fine of 0.2 per cent of its GDP.

Under the new rules, countries would have wiggle room to avoid fines.

EU officials, for example, would have to take into account private-sector debt – a stance long held by Italy, which has the eurozone's highest government debt levels but is not weighed down by household and corporate debt.

In addition, the costs of EU-mandated pension reforms would also be taken into consideration, a concession to a group of central European countries led by Poland.

Mr Trichet has long been concerned about politicians' reluctance to approve sanctions, thereby undermining fiscal discipline.

Under the new rules, fines will be imposed unless a majority of governments overturn them.

The new rules fall short of the original proposals of Olli Rehn, the EU's top economic official. But they are tougher than the controversial compromise struck by Nicolas Sarkozy, French president, and Angela Merkel, the German chancellor, in Deauville in October.

Mr Rehn and the Dutch government, which has been the leading opponent of the Deauville deal, said they were satisfied with Tuesday's outcome.

"We were a little afraid after Deauville that Germany was persuaded to agree with less automatic sanctions," Jan Kees de Jager, Dutch finance minister, said in an interview. "Over the last three months, at times I was not sure whether the outcome would be sufficient to deal with this crisis and deal with prevention."

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> **Jan Kees de Jager**
> **Dutch finance minister**

Mr Trichet's objections could become an increasing problem for EU leaders, however, because they are likely to galvanise legislators in the European Parliament. The ECB has repeatedly pushed member states to go further in giving the EU more power to deal with the ongoing crisis, only to fall short. Saturday's deal on the new structure of the eurozone's bail-out funds, for example, failed to include new tools asked for by the ECB, including the ability to buy sovereign bonds of struggling countries on the open market.

Although the new size and functions of the funds has been decided, there continued to be debate on Tuesday over how to enlarge their lending capacity.