

22

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Germany refuses to back down on Greece

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The German government on Friday signalled it would not back down in its stand off with the European Central Bank over the involvement of owners of Greek sovereign bonds in a new round of aid for the debt-ridden country.

Wolfgang Schäuble, German finance minister, told the country's parliament he was sticking by his demand that the package observe "a fair distribution of risks between tax payers and private creditors".

That followed Thursday's warning by ECB president Jean Claude Trichet that forcing the involvement of Greece's private creditors would be akin to a default, an "enormous mistake" that would rattle a recovering financial system.

Mr Trichet was reacting to a letter from the German finance minister to eurozone peers and the ECB in which he demanded that "substantial" numbers of private creditors agree to extending the maturity on Greek paper by seven years.

For two days of meetings with lawmakers who are wary of giving Greece more money, Mr Schäuble promised "a good solution for the involvement of private creditor that can and must be supported by the European Central Bank."

He said Berlin was taking its critics seriously and that a working group, involving the ECB, had been asked "to sound out the thin line" between real involvement of private creditors and spooking the financial markets.

German officials have long held that Greece can only get back on its feet through some sort of debt restructuring – although they have also conceded domestic political pressure has helped make this a priority for Berlin.

Lawmakers in chancellor Angela Merkel's coalition of Christian Democrats and Free Democrats on Friday voted to pass a resolution calling for the involvement of private creditors in any new aid package for Greece.

Though technically a non-binding appeal to the government, officials acknowledge Ms Merkel cannot ignore these demands when EU heads of government meet to hammer out the final details of a new Greek package on June 24.

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