E.U. ministers agree on fiscal monitoring

LUXEMBOURG

Higher scrutiny of data aims to shore up market confidence in the euro

BY STEPHEN CASTLE

[De]spite continuing tensions over economic policy, European Union finance ministers agreed Tuesday on far-reaching steps to tighten oversight of national governments' budgets and crack down on falsification of economic data, in a concerted effort to avert a further loss of confidence in the euro.

Two days of talks in Luxembourg also ended with a detailed agreement to set up a €440 billion, or $526 billion, safety net for debt-laden members of the euro zone.

The 27 finance chiefs also agreed on the need for European countries to shift from stimulus to consolidation by next year at the latest.

But deep differences remained between Germany and France over the need for Berlin to stimulate consumer demand to help curb imbalances in the euro zone, and over the future of plans to increase Europe's economic integration.

While the French president, Nicolas [Sa]rkozy, wants the 16 countries that [sh]are the euro to be at the heart of economic coordination, Angela Merkel, the German chancellor, favors the wider format of the full 27 E.U. countries, where she calculates that Germany has more allies on major policies. That debate is likely to surface next week when the two leaders meet before an E.U. summit meeting in Brussels.

As heads of government prepare for a meeting of the Group of 20 leaders in Toronto this month, the Europeans have so far failed to agree on how they would introduce a levy on banks if, as expected, a global agreement proves elusive.

During talks in Luxembourg chaired by Herman Van Rompuy, president of the European Council, ministers agreed on the need to impose more sanctions to deter countries from breaking budget deficit limits or taking on excessive debt.

They also supported plans to discuss their budgets and their policy objectives with other E.U. finance ministers and with the European Commission before finalizing them — though Britain said it would only submit material already given to its Parliament.

While Britain's reticence could call into question the scope of any multilateral agreement, officials argued that it would be possible to submit the broad goals of British budgetary policy because these are outlined publicly each autumn before final decisions are made. Details of the sanctions that could be applied to recalcitrant countries have yet to be decided.

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There was a more concrete agreement to allow Eurostat, the Union's statistical agency, to audit countries suspected of falsifying economic data. Eurostat would be able to "visit and have access to all information it deems necessary," said Elena Salgado, the Spanish finance minister, who chaired the talks on this issue.

Olli Rehn, the European commissioner for economic and monetary affairs, identified Bulgaria as one country where the new powers might be used.

Mr. Rehn also gave a cautious welcome to proposed German budget cuts, despite calls from many quarters for Berlin to increase domestic demand. Mr. Rehn said that the German measures "concern the years 2011 onwards," arguing that while those countries in the worst financial state needed to start tightening this year, "it makes sense that all E.U. member states will start fiscal consolidation at the latest in 2011."

"One can feel the change of tone in the G-20 from fiscal stimulus to fiscal exit and our policies are an example of this," Mr. Rehn said.

Nicolas Veron, a senior fellow at Bruegel, an economic research institute, said the agreement on the detail of the euro-zone safety net, or European Financial Stability Facility, was a "big positive" and should allay doubts in the market about the credibility of contingency plans for any euro rescue.

Under the deal, the facility will be based in Luxembourg and will use government guarantees to raise funds for countries at risk. Each euro-zone country will guarantee 120 percent of its pro rata share for each bond issue to cover that of any country unable to contribute.

Mr. Veron pointed to worries about changes to banking legislation and "fiscal adjustment in the more fragile countries," adding that there was "a widespread view among investors that more has to be done in addition to what has been announced by Spain, Portugal and others."

Longer-term tensions remain over whether to coordinate economic policy for the 16 euro-zone countries, he added.

"That has been a longstanding French position" Mr. Veron said, "though the framework of democratic accountability happens to be at the level of the E.U., not the euro zone."

Ms. Salgado said that the fact that the G-20 had failed to agree on the need for a global banking levy at a recent meeting in Busan, South Korea, "means that the E.U. has to be more determined and proactive in following that up."