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France pushes hard on ECB intervention

By Hugh Carnegie in Paris

When Nicolas Sarkozy welcomes Mario Monti, Italy's freshly minted prime minister, and Angela Merkel, German chancellor, at a mini-summit in Strasbourg on Thursday, high on the French president's list of issues will be the role of the European Central Bank in helping to resolve the eurozone debt crisis.

The French government continues to argue in the face of strong German resistance that the ECB should be deployed urgently to help build a firewall against financial market attacks on big debtor countries such as Italy and Spain – and France itself.

"We are stuck with a major difficulty – that is to convince Germany that we should arm the eurozone with an instrument of defence for our currency through a certain evolution of the role of the central bank," François Fillon, the prime minister, said on Tuesday in what has become an almost daily incantation by French ministers.

It has become clear in Paris that, far from giving up on the issue, Mr Sarkozy's government is linking it to French willingness to meet Ms Merkel's insistence on changes in European governing treaties to embed centrally-enforced budgetary discipline within the 17 member eurozone.

Despite French caution on the issue of treaty change, Mr Sarkozy has accepted it is necessary "to avoid the divergence of the powerful countries in the budgetary, economic and fiscal domains". He said on Tuesday that he and Ms Merkel would shortly set out proposals which would be discussed at a European summit on December 9.

Paris is hoping that, backed by similar pressure from other European countries, the US and even the media, Germany and the ECB itself could be persuaded to bend their hitherto rigid refusal to act, in effect, as a lender of last resort.

Officials admit they see no sign of movement so far. But at the least, France wants the ECB to agree to a long-term continuation of its current special measures programme under which it buys bonds of peripheral eurozone countries, and possibly to enforce a cap on peripheral country bond yields.

"When would that happen?" said one official. "When we have given enough assurances to Germany and the ECB that governments are really committed to reduce deficits. It is a matter of governance and treaty measures."

France fears that if no move is made, the eurozone will be forced into a vicious cycle where an austerity policy straitjacket suffocates already fragile growth.

But while Mr Sarkozy has moved in Berlin's direction on the issue of treaty change, it remains unclear exactly how far he is willing to go in handing over fiscal powers to Brussels.

Mr Fillon, addressing a conference of French mayors, said that while "profound treaty modification" was necessary, it would take time. "Today only a very strong intergovernmental union at the heart of the eurozone will enable us to resist the attacks on the links we have patiently built up since the second world war," he said.

France's historical preference, going back to the days of General de Gaulle in the 1960s, has been for an intergovernmental approach to governance in what is now the European Union.

Mr Sarkozy, whose centre-right UMP party claims the Gaullist inheritance, has made little secret of his impatience with the European Commission in Brussels, which wants more authority over national budgets of eurozone members, with or without treaty change.

There are also significant domestic political constraints. Both the president, who is now well into the early stages of a re-election campaign, and François Hollande, his Socialist opposition rival, have significant minorities within their camps hostile to handing over more power to Brussels. They have painful memories of France's rejection in a 2005 referendum of a European constitution.

Mr Sarkozy has strongly advocated much closer co-operation within the eurozone – and especially between France and Germany – in areas such as having common bases for building budgets, harmonising corporate and sales taxes and imposing a financial transaction tax on the financial sector.

He favours concentrating on building up integration within the eurozone, despite the concerns of the 10 non-eurozone members of the EU of the potential impact on issues such as the single market. "I think there is not enough economic integration in the eurozone and there is too much integration in the union of 27," he said in a television interview last month.

He has also preached the necessity for eurozone members to abide by the rules. The key question is how such discipline should be imposed. In previous negotiations, Paris balked at accepting binding automatic sanctions on countries that get out of line.

Mr Sarkozy is due to set out French proposals on all these issues. But he will push hard for something in return from Berlin and Frankfurt on ECB intervention.

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