FINANCIAL TIMES

November 23, 2011 3:09 pm

Barroso warns fate of the euro at stake

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By Alex Barker in Brussels

A Brussels proposal for a joint "eurobond" to steady sovereign debt markets has drawn a frosty reception from some of the most creditworthy eurozone states, with Germany attacking the idea as "troubling" and possibly counterproductive.

José Manuel Barroso, European Commission president, on Wednesday unveiled long-awaited plans to curb the excesses of profligate eurozone governments and introduce common "stability bonds" to replace national debt issuance.

Arguing the euro project will be "difficult or impossible" to save from break-up without eurozone countries giving up some fiscal control, Mr Barroso backed intrusive European Commission powers that countries must accept if they are to reap the economic benefits from joint "stability bonds".

But, at least in public, Angela Merkel, the German chancellor, remained resolutely unimpressed, describing the Commission's decision to propose eurobonds as "extraordinarily inappropriate" and "troubling" in the midst of a crisis.

Ms Merkel argued it was wrong to suggest that "collectivisation of the debt would allow us to overcome the currency union's structural flaws" – a concern echoed by the Netherlands and Finland, too other triple A rated eurozone members.

Mr Barroso nevertheless struck an optimistic note, claiming Berlin's reservations were primarily over timing. "I feel encouraged ... Reality is a great teacher," he added, referring to how EU countries dropped their opposition to beefing-up the eurozone bailout fund. "Member states agreed to what they said they could never agree to."

Mr Barroso's gamble is that a strict new regime to enforce budget discipline in the eurozone will be enough to convince Germany, Europe's largest economy and most creditworthy state, to forgo fears that pooling sovereign debt will lift market pressure on eurozone states to exercise restraint.

But his proposals for tough new powers for Brussels to bring wayward states to heel – including through withdrawing European funds or unilaterally recommending a country seek a bailout – have courted controversy, with critics crying foul over the Commission overstepping its powers.

“What the crisis has shown now is that without stronger governance it will be difficult if not impossible to sustain a common currency,” Mr Barroso said. “The point is if the Commission couldn’t do this, who could?”.

The proposals include giving Brussels the power to see and pass judgement on national budgets before they are published, and to “request a revised draft budgetary plan” if the draft measures fall short of EU rules. While the recommendations are not binding, they would be made public as a way to increase pressure on the government to comply.

If adopted, the laws would enable the Commission to dispatch inspectors to eurozone countries that are judged to be “experiencing severe difficulties”, even against the will of the government in question.

A separate Commission discussion paper, which is now open to consultation, puts forward three possible models for jointly-guaranteed bonds to restore confidence in sovereign borrowing by eurozone member states such as Italy and Spain.

The most radical involves replacing all national bonds with commonly backed “stability bonds” for all eurozone governments, which would require extensive treaty change and take several years to introduce. The other two options are potentially easier to introduce but involve providing limited guarantees, or simply covering a smaller proportion of national debt with common bonds.