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Merkel hails eurozone treaty progress

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By Quentin Peel in Berlin

Negotiations on a new European treaty to reinforce budget discipline in the eurozone are making rapid progress and there is "a good chance" of reaching agreement by the end of January, according to Angela Merkel, Germany's chancellor.

Her confidence was mirrored by Nicolas Sarkozy, French president, speaking after a bilateral Franco-German summit in Berlin on Monday. He said the new treaty, including a requirement for all 17 eurozone members to agree constitutional amendments to balance their budgets, should be signed by March 1.

At the same time, the two leaders called for a new push to revive economic growth and job creation in the eurozone, as the "second pillar" of a strategy to stabilise the European currency union.

The treaty is being negotiated by 26 of the 27 members of the European Union – excluding the UK – although it will only bind the 17 eurozone members.

Differences have yet to be resolved on how to involve the main EU institutions – including the European Commission and the European Court of Justice – in enforcing a treaty signed by some but not all EU members. The UK is attending the talks as an observer after David Cameron, prime minister, vetoed a full EU treaty in December.

Ms Merkel said the parallel emphasis on growth in the eurozone crisis strategy was necessary after many months of negotiating the details of budget austerity – at German insistence – to restore confidence in government borrowing by the most debt-laden members of the eurozone.

But she also warned that negotiations on restructuring Greek government debt had to be speeded up to enable a second €110bn financial aid package, agreed last October, to be activated.

"We must see progress in the voluntary restructuring of Greek debt," she said. "From our point of view, the second Greek aid package including this restructuring must be in place quickly. Otherwise it will not be possible to pay out the next tranche for Greece."

"Our intention is that no country should have to leave the eurozone," Ms Merkel declared, looking tired after two hours of talks with the French president. But Greece's outstanding debt was a "special case" where a voluntary deal with bondholders was "a necessary precondition ... to get Greece back onto an acceptable path".

Ms Merkel's willingness to push for a new programme to stimulate growth is seen as a big concession to Mr Sarkozy, who has been pushing Berlin to pursue such a twin-track strategy. He faces a tough presidential election campaign, with the first poll due in April, and insists that he has already fulfilled his commitment to greater budget austerity.

The chancellor said that after months of negotiating new rules to enforce budget discipline, the time had come to focus on job creation and competitiveness, as the "second pillar" of a sustainable solution to the eurozone crisis.

The two leaders agreed to call on the European Commission to spell out new measures focused on job creation and labour mobility, benchmarking best practice in the European Union. It should also include help focused on small and medium-sized enterprises, Ms Merkel said, and focus on cutting youth unemployment.

The French and German leaders also discussed accelerating the introduction of the eurozone's permanent €500bn rescue fund – the European Stability Mechanism. Ms Merkel said they were ready – in consultation with other eurozone members – to see how they could speed up payment of capital into the ESM.

Mr Sarkozy also defended his plan to introduce a financial transaction tax in France, even if it were not agreed for the wider EU or eurozone.

"If we do not set an example, it will not be done," he said. But he added that he would not finalise any proposal until he had talks in France with trade unions.

Ms Merkel was more cautious, saying she agreed with the idea in principle, but wanted it to be adopted by all 27 EU members. She admitted that her government was divided on whether it should be introduced just for the 17 members of the eurozone, if the UK vetoed the tax at EU level.