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E.U. leaders fall short of far-reaching debt solution

BRUSSELS

Deficit rules unbalanced, some say, as meeting tries to finalize compact

BY STEPHEN CASTLE
AND JAMES KANTER

European leaders were poised Monday to agree to tougher new measures to enforce budget discipline in the euro zone, but still showed few signs of producing a comprehensive solution for the sovereign debt crisis or a credible plan to revive fragile economies across Europe's weakened Mediterranean tier.

The meeting of European Union heads of state and government here in Brussels was aimed at finalizing the text of a so-called fiscal compact for the 17 E.U. nations relying on the euro and issuing a declaration calling for a new push to kick-start growth and combat joblessness across the Continent.

But a number of politicians and analysts said the pledge by the E.U. leaders to create new jobs was mostly empty, and others complained that the proposed rules to keep deficits under control were unbalanced because they contained little to actually help nations with high borrowing costs.

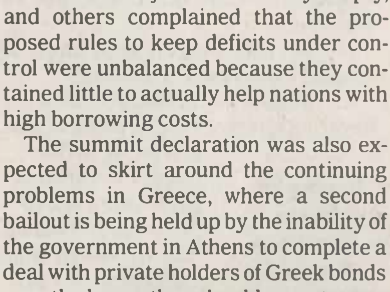
The summit declaration was also expected to skirt around the continuing problems in Greece, where a second bailout is being held up by the inability of the government in Athens to complete a deal with private holders of Greek bonds over the losses they should accept.

Until Greece and its private-sector creditors can agree on a €100 billion, or $132 billion, debt write-down on government bonds, the I.M.F. and the European Union are not prepared to sign off on a further bailout to allow Greece to pay its bills over the next few years. In October, the bailout was expected to total about €130 billion, but since then the country's economic outlook has worsened, suggesting that an even bigger sum might be needed.

Representatives of Greece's so-called troika of creditors — the European Union, the I.M.F. and the European Central Bank — are in Athens to prepare a report to determine what is needed for Greece to manage its finances without being able to borrow from private lenders.

"The troika is still in Greece, we haven't got their report yet," German Chancellor Angela Merkel told reporters earlier Monday. "So that's why it's not on the agenda."

Despite the various other problems to deal with, an agreement on the fiscal compact could nonetheless mark an important step forward by clearing the



OLIVIER HOSLET/EPA

Chancellor Angela Merkel and President Nicolas Sarkozy in Brussels on Monday.

way for Germany — which has demanded the stricter fiscal measures — to accept stronger efforts by the European Central Bank to support ailing countries and a more comprehensive bailout fund aimed at protecting Italy and Spain against the risk of default.

With austerity measures now under way in many European nations, the summit gathering in Brussels was greeted by a general strike in Belgium, the first since 1993, which paralyzed much of the transportation network in the country and shut many stores and schools. Key

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airports stayed open, however, allowing leaders to attend the meeting.

After four hours of talks, the main obstacle to completing the deal was Poland, which pressed for the right to attend meetings alongside leaders of euro nations. Though Poles still use their own currency, the zloty, they are obliged to join the euro eventually.

Poland will join the fiscal pact, Prime Minister Donald Tusk said, providing that "countries that take this co-responsibility are also participating in the decision-making process."

Though European leaders were due to sign off on a deal to bring a permanent bailout fund into existence earlier than previously foreseen, they postponed any final decisions on how big it will be and where all the money for it will come from. The International Monetary Fund, among others, has been pressing Europe to commit enough funds to provide a credible backstop that would insure that Italy and Spain could pay their bills and continue to finance their debts.

Meanwhile Germany backed away from a suggestion that it wanted the government in Athens to cede temporarily control over tax and spending decisions to a new, all-powerful, budget commissioner before it can secure further bailouts.

The idea set off a storm of protests in Athens and was criticized by Jean-Claude Juncker of Luxembourg, the president of the euro zone finance ministers' group, and Austrian Chancellor Werner Faymann.

Mrs. Merkel said Europe was prepared to support Greece in implementing the austerity program it has agreed upon as well as measures to open up its economy to more competition. And she appeared to ease some of her earlier demands, saying the program "will only work if Greece and all other states discuss this together."

Draft texts of the fiscal compact suggested that Italy had won its battle to restrict the scope of the fiscal compact, which calls for making it easier to impose sanctions against countries that break E.U. budget rules. The text said the sanctions would make it harder to block sanctions against countries that exceed annual deficit targets but that the same tough system would not apply to nations with excessive overall debt, like Italy.

The draft also suggested that the compact will come into force in those nations that agree to its terms once 12 euro zone nations have ratified it. That would prevent the project being held up if one or two nations hold referendums on the deal.

Still, criticism of the German focus on belt-tightening loomed large over the summit.

The emphasis on budget cuts was criticized by leading members of the European Parliament. "You don't have to be an economics professor to know that if you have zero growth you are not going to sort things out," said Martin Schulz, the president of the European Parliament after addressing the E.U. leaders.

Guy Verhofstadt, leader of the centrist liberal and democrat group, and a former prime minister of Belgium, took a similar stand.

"The new agreement consolidates fiscal discipline but omits completely to address the other side of the coin – that of solidarity and investment that will create jobs and growth," Mr. Verhofstadt said. "E.U. leaders should act instead of producing more paper."