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Triple A eurozone group frays over firewall

125

By Peter Spiegel in Brussels and Quentin Peel in Berlin

Barely a day after Germany, Finland and the Netherlands together foisted tough terms on Athens and private Greek bondholders in a €130bn bail-out, their triple A rated northern European alliance is fraying over whether to increase the size of the eurozone's €500bn firewall against debt market contagion.

Jan Kees de Jager, the Dutch finance minister who joined Wolfgang Schäuble, his German counterpart, on Monday night to force new losses on Greek investors and demanded intrusive controls on Greek aid, has publicly called for the eurozone bail-out fund to be increased to €750bn.

The Dutch government has backed European Commission plans to either keep in place the current, temporary rescue fund – which has about €250bn remaining in it – when a new €500bn permanent fund is launched midyear, or to combine the two funds' resources. Finland, the third of the triple As, has also signalled its support.

But in two separate Brussels gatherings of European Union finance ministers this week intended to lay the groundwork for a deal at next week's EU summit, diplomats said Mr Schäuble failed to support the move, despite overwhelming backing by other member states and the European Central Bank.

"Germany is holding things up," said one senior Brussels-based diplomat. "There is a lot of pressure on them but it is impossible to know what they really think."

The official view in Berlin remains that an increase is "not necessary", and is difficult to sell politically both to Chancellor Angela Merkel's supporters in the Bundestag and the wider electorate.

"You have to tell them why it is absolutely necessary," said one German official. "The disadvantages are obvious. If nobody is making a good case for it, the Bundestag would not be convinced."

Senior EU officials, including Herman Van Rompuy, president of the European Council, had hoped a deal would be finalised at next weeks' two-day summit. French officials said however that a decision may now be delayed until after the summit.

Although the differences within the triple A alliance had largely remained behind closed doors, in an interview with Le Monde, the French newspaper, published on Wednesday, Mr de Jager for the first time pointed the finger publicly at Berlin if a deal goes awry.

"We are ready to combine the two funds at our disposal to reach firepower of €750bn," Mr de Jager said. "We will see if we can do that by March. You have to ask Germany, which has opposed that since October."

The Finnish government – which strongly backed the hardline stance in Greek negotiations – has been less public than the Dutch, but it has also signalled support for a €750bn ceiling as long as it comes with simultaneous commitments by non-eurozone countries to increase the resources of the International Monetary Fund.

The plan would probably include speeding up cash deposits into the new fund, called the European Stability Mechanism, which Finland has already agreed to; originally, the deposits were to be spread over five years.

Christine Lagarde, the IMF's managing director, has said her backing for increasing the fund's resources was contingent on a larger eurozone rescue facility, a position she repeated this week and one that has caused consternation in Berlin.

Tim Geithner, the US Treasury secretary, has long pressured Germany to increase its commitment to the bail-out fund, and officials in Brussels and Berlin believe Ms Lagarde has taken the stance at the behest of the US, which is the IMF's largest shareholder.

Senior EU officials are divided over whether Ms Lagarde's public stance will help gain Berlin's support. One senior EU official involved in the talks said the pressure was counterproductive, arguing German political leaders strongly resist outside pressure.

But others said without IMF pressure, Germany would have no reason to move, making a deal less likely.

Officials said Tuesday's Greek deal may have made getting German agreement less likely. Several noted that by preventing a Greek default, the bail-out appears to have convinced Berlin increasing rescue mechanisms was less urgent.

"Now that we have 'saved' Greece, quote unquote, the political imperative for Germany is gone," said one senior EU official.

Additional reporting by Hugh Carnegy in Paris, Gerrit Wiesmann in Berlin and Alex Barker in Brussels

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