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Germany fights eurozone firewall moves

By Quentin Peel and Gerrit Wiesmann in Berlin, and Peter Spiegel in Brussels

The German government is set to resist or delay increasing the size of the eurozone's financial "firewall" against contagion from the Greek debt crisis, in the face of mounting pressure from its partners, the International Monetary Fund and the US administration.

Steffen Seibert, spokesman for Angela Merkel, the German chancellor, insisted on Wednesday that Berlin saw no need to increase the size of the permanent €500bn European Stability Mechanism. "The German government's position has not changed," he said. "That means no, it is not necessary."

Ms Merkel and her finance minister, Wolfgang Schäuble, are looking isolated in the face of strong pressure from Christine Lagarde, managing director of the IMF, and the other 16 members of the European monetary union. Mr Schäuble is likely to face further pressure on the subject this weekend at a meeting of G20 finance ministers in Mexico City.

Financial markets have long seen boosting the size of the eurozone rescue fund as necessary in order to prevent the Greek crisis from spreading to healthier but still vulnerable economies like Italy and Spain. Since expectations of an imminent increase are running high, a failure to agree one next week could undercut hard-won confidence that Europe's leaders have finally come to grips with the scale of the crisis and are willing to commit resources to contain it.

Ms Merkel fears a backlash within her own centre-right coalition, and from public opinion, if she has to argue for any increase in Germany's financial guarantees to eurozone rescue funds. She faces a tough vote next week in the Bundestag, the national parliament, over the €130bn Greek rescue programme.

The Dutch government, which like Germany has taken a hard line on committing resources to the Greek crisis, however indicated it had switched positions. Jan Kees De Jager, finance minister, argued in favour of a higher firewall by combining the resources of the ESM with the current temporary European Financial Stability Facility.

The EFSF has an additional €250bn left after programmes to help Greece, Ireland and Portugal. Germany has so far insisted that this cannot be added to the ESM funds.

Senior European Union officials had hoped that agreement on enlarging the rescue system at the March 1-2 summit in Brussels would finally give them the momentum needed to get ahead of market expectations, following the long-delayed €130bn bail-out deal for Greece agreed this week.

Several officials said they believed getting agreement on three elements – the Greek rescue package, increasing the firewall, and raising IMF resources – would send a strong signal, if all could be finalised in time for IMF meetings in April. But officials involved in the summit preparations said they were growing increasingly concerned Germany would push for a delay.

Officials in the German capital said Germany had promised to discuss the question in March. "We will honour the commitment, and be reasonably open-minded about it," according to one official. "But there are 31 days in March."

Ms Merkel's coalition is strenuously trying to avoid any speculation that it might back an increase in the ESM – or allow it to combine resources with the EFSF – ahead of Monday's parliamentary vote on the Greek bail-out.

"We are confident we'll get a majority of our lawmakers to back the new Greek programme," said one official. "But helping Greece has always been a tough sell, and we want to avoid any subjects that could complicate the vote."

Political observers and diplomats in Berlin believe the chancellor may eventually give way, but government officials warned that she remains very doubtful about the need to combine the two funds.

They believe that the real pressure for such action is coming from the US administration, rather than the IMF, whose members are most concerned that the Fund is already too exposed to the eurozone, and should rein in its involvement.