

FINANCIAL TIMES

Last updated: February 26, 2012 11:12 pm

G20 turns up pressure on Germany

By Robin Harding and Adam Thomson in Mexico City and Peter Spiegel in Brussels



Finance ministers from the world's largest economies ratcheted up the pressure on Germany to increase the size of the eurozone's €500bn rescue fund, saying the move would be "essential" to a decision by non-European countries to raise more resources for the International Monetary Fund.

Some European officials had hoped the eurozone "firewall", called the European Stability Mechanism, could be increased to €750bn at the same time the IMF

got commitments to raise its firepower against contagion to about \$1,000bn.

But a communiqué issued at the end of a meeting of the Group of 20 ministers in Mexico City – despite efforts by European Union officials to water down the language – made clear that IMF shareholders, including the US and the UK, were unwilling to move simultaneously with the eurozone.

"There is broad agreement that the IMF cannot substitute for the absence of a stronger European firewall and that the IMF cannot move forward without more clarity on Europe's own plans," said Timothy Geithner, the US Treasury secretary.

The political pressure puts Berlin in an awkward position ahead of a vote on Monday in the Bundestag to approve a €130bn Greek bail-out.

Wolfgang Schäuble, the German finance minister, publicly reiterated his government's insistence that an increase was unnecessary, saying it would create "disincentives" for countries like Italy and Spain to continue reforms.

"Let me be clear," Mr Schäuble said. "It does not make any economic sense [to take measures] which would neutralise the interest risk in the eurozone, nor endlessly pumping money into stability funds, nor starting up the ECB printing press."

There were signs, however, that Germany's position was softening. Officials from other G20 delegations said they believed there was flexibility in Berlin's position. Germany has become increasingly isolated within the eurozone with the Dutch government vocally supporting the

increase; Finland, Germany's other traditional ally, has also indicated it would be willing to back an increase.

European officials had hoped to announce the increase at an EU summit at the end of this week, but that now looks unlikely. German officials agreed to review the size of the firewall in March, but have repeatedly pointed out March has 31 days, meaning an increase could still be agreed ahead of April's IMF meetings in Washington.

Instead, eurozone leaders will focus on a final sprint to approve Greece's bail-out. In addition to the Monday vote in the Bundestag, where chancellor Angela Merkel is at risk of defections from within her own coalition, both the Dutch and Finnish parliaments will vote on the package later in the week.

The Greek government must also finalise 38 "prior actions" by Wednesday. If Greece completes the additional austerity measures, and eurozone parliaments back the funding, eurozone finance ministers are poised to approve the bail-out at another emergency gathering in Brussels on Thursday.

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