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German court rules rescue body breaches constitution

By Gerrit Wiesmann in Berlin

Germany's highest court has blocked the powers of a special parliamentary panel to fast-track emergency decisions concerning the eurozone rescue fund, saying the lack of greater oversight breached the country's constitution.

The constitutional court did however back a vital mechanism allowing the panel to sign off on emergency bond purchases on the secondary market.

The decision could heighten financial market fears that parliamentary oversight of the eurozone's firewall would delay rescue responses. But investors might also draw heart from the court accepting a special role for rapid bond-market intervention in times of crisis.

Andreas Voskuhle, the president of the court, said the judges had "to a large degree" upheld a complaint brought by two opposition members of parliament, that procedures agreed last year for approving emergency measures to be undertaken by the eurozone's rescue fund were in breach of the country's constitution.

In response to an earlier ruling by Mr Voskuhle and his colleagues, the government had given the Bundestag the right to vote on each aid request to the European Financial Stability Facility, with participation ranging from a full plenary vote on programmes to speedy decisions by a special committee of nine legislators who would meet to decide on emergency measures.

But the constitutional court ruled on Tuesday that most of the latter decisions, given to the so-called Group of Nine, ignored the German constitution's demands for broad participation by legislators under the "comprehensive budgetary responsibility" of the Bundestag.

As a result, the Bundestag will have to tweak rules for parliamentary oversight of the EFSF, probably shifting decisions about emergency measures – in particular precautionary credit lines for a government unable to tap the bond market through no fault of its own – to the 41-member budget committee rather than the chamber itself.

Crucially for the eurozone, the court accepted that secrecy and speed in deciding about bond purchases outweighed constitutional rules about broad parliamentary participation – although it said the Group of Nine would need more members in order to become more representative.

The German finance ministry welcomed the court's ruling on bond buying. It said purchases would succeed in bringing down bond yields of stricken countries if buying programmes could be decided quickly and discretely by a small group.

Allowing the EFSF to buy bonds on the secondary market was seen as a vital new instrument when it was agreed last summer. Although German legislators had eyed this rule with suspicion, they came to accept it as an alternative to the European Central Bank's bond purchases, which are vilified by many as funding eurozone states through the printing press.

Although the EFSF is scheduled to close this summer when its permanent successor, the European Stability Mechanism starts life, the decision on Tuesday looks set to remain relevant beyond that because German legislators hope to transfer current oversight rules to the ESM.

Mr Vosskuhle said the court in Karlsruhe, south-west Germany, had kept a keen eye on upholding the Bundestag's power to act in the eurozone crisis. "However, efficiency is not an end in itself, but rather a means of ensuring parliamentary legitimacy," he said.

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