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Berlin backs plan to raise euro firewall

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By Quentin Peel in Berlin and Peter Spiegel in Brussels

Angela Merkel, Germany's chancellor, for the first time publicly confirmed on Monday that her government will back plans for an increase in the eurozone's financial "firewall" to €700bn, including the €200bn already committed to Greece, Ireland and Portugal.

But the German concession falls short of the preferred solution proposed by the European Commission, the European Union's executive branch, for a near-doubling to €940bn by combining the full resources of the eurozone's current, temporary rescue fund with a new, permanent facility due to start in the summer.

Senior eurozone officials had hoped Berlin would be open to a temporary increase to €940bn by allowing the entire existing rescue fund, the €440bn European Financial Stability Facility, to continue running for a year when the new €500bn fund, the European Stability Mechanism, starts in July. But German officials said they were no longer considering such a plan, which had been identified as an acceptable compromise by the European Commission.

"We say the ESM should remain permanently at €500bn," Ms Merkel said on Monday. But in order for the full amount to be available from the launch of the new fund, "we can imagine ... allowing the programmes to run in parallel".

She has resisted combining the funds for months – in the face of pressure from eurozone partners and Washington – because she fears a backlash from German parliamentarians about any increase in financial guarantees from German taxpayers. Within her own coalition, conservative hardliners are reluctant to allow her government to commit any resources beyond the €211bn already approved by the Bundestag.

Ms Merkel now appears to favour what EU officials regard as a minimalist position. It involves temporarily increasing the overall size of the eurozone's rescue system to €700bn before falling back to €500bn in mid-2013.

The plan she articulated would give the eurozone access to €500bn immediately, faster than the Commission had envisioned in its least-ambitious option, by allowing the €240bn left in the EFSF to fill any gaps until the ESM is fully up and running. But it would never raise total capacity over €700bn, which Brussels believes is likely to prove insufficient to financial markets and the international community.

Eurozone finance ministers are expected to reach a decision on boosting the firewall at a meeting in Copenhagen on Friday.

A confidential Commission "options note" circulated last week to national capitals said a rise to €700bn would not be enough to convince non-eurozone members of the Group of 20 – who are being asked by the EU to increase the International Monetary Fund's resources – to lend their support.

Christine Lagarde, the IMF managing director, has said she is unwilling to seek a sought-after doubling of IMF resources to $1tn unless the eurozone makes a significant move itself.

"The new lending capacity of €500bn would most likely be insufficient to unlock resources from other G20 partners," the Commission paper said. "The markets could consider the new lending capacity to be insufficient in the event that one or several large member states would need to be taken out of the market."

The German compromise was put forward by the chancellor at a leadership meeting of her Christian Democratic Union in Berlin. Ms Merkel's negotiating tactics were denounced by the opposition Social Democrats as a "catastrophe" for leaving the German public ignorant of the full extent of their financial liability for the eurozone debt crisis.