110

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Europeans create permanent bailout fund

COPENHAGEN

BY JAMES KANTER

Seeking to reaffirm their determination to put the two-year-old euro crisis behind them, European finance ministers agreed Friday to create a permanent bailout fund for the euro zone with an effective firepower of almost €800 billion.

But the chance for an additional show of unity following the decision was undermined by the group's chairman, Jean-Claude Juncker of Luxembourg, and the Austrian finance minister, Maria Fekter, when she ended up announcing the agreement first.

The incident led Mr. Juncker to leave the conference center visibly upset and to cancel his scheduled news conference, leaving several issues hanging at the two-day gathering.

Questions also persist about whether the fund, even at about $1 trillion, will be sufficient to deal with crises in major European economies like Spain and Italy.

The finance ministers from the 17 European countries that use the euro, known as the Eurogroup, incorporated huge sums of already committed money to create the headline figure of €800 billion for the new bailout facility.

''Finally, robust firewalls have been established,'' the ministers said in a statement.

Announcing a large bailout fund was viewed as crucial to putting an end to speculation over the fate of the currency union prompted by the huge indebtedness of Greece and financial crises in Ireland and Portugal.

But only €500 billion of the sum is fresh money and, of that, the full amount may not be available until 2014.

Instead, some unused funds from an earlier, temporary bailout facility could be accessed only during a transitional period, and ministers reached the final figure of €800 billion by including €300 billion already paid to Greece, Ireland and Portugal.

Some of these figures were originally meant to count against a new €500 billion fund, known as the European Stability Mechanism, or E.S.M., which goes into operation in July.

The sum also is a far cry from the demands of international economic experts and of countries like France, where Finance Minister François Baroin called during the past week for a €1 trillion ''nuclear'' deterrent.

It also is unclear whether the sum is big enough to nudge donors to the International Monetary Fund, including the United States and China, to pledge more to the fund. Many economic experts and some U.S. officials had favored transferring all unused funds from the temporary facility, an amount currently totaling €240 billion, to the new permanent fund.

Christine Lagarde, the managing director of the I.M.F., said the agreement in Copenhagen would ''support the I.M.F.'s efforts to increase its available resources for the benefit of all our members.'' But she did not say whether the agreement was sufficient for the I.M.F. to direct more of its resources to Europe.

Whether the leaders of the Group of 20 countries would increase the overall global lending capacity of the I.M.F. to $1 trillion, as some reports suggest, ''is yet to be seen,'' said Gizem Kara, an economist with BNP Paribas in London.

The stormy exit of Mr. Juncker on Friday over announcing the agreement cast an unwelcome cloud over the introduction of a bailout mechanism that is meant to be a European equivalent of the I.M.F., and that is supposed to help Europe finally turn a difficult page.

The difficulties began when Ms. Fek-

EURO, PAGE 11

Europeans agree on €800 billion rescue fund

EURO, FROM PAGE 9

ter held an impromptu news conference Friday morning and announced that ministers had agreed on the size of the firewall. Mr. Juncker, the chairman of the Eurogroup, then hastily canceled his own scheduled news conference, blaming Ms. Fekter.

"There was no point" in holding the event because "the Austrian finance minister announced it," he said, referring to the firewall.

FABIAN BIMMER/REUTERS

Jean-Claude Juncker and Maria Fekter on Friday; later he seemed upset with her.

Mr. Juncker "was furious, really furious," said an E.U. official who spoke on condition of anonymity because of the delicacy of the matter.

Speculation is widespread over who will succeed Mr. Juncker when his term as head of the Eurogroup ends in June. The president is chosen by consensus by the members of the group, which holds its next meeting in May. Ministers could make a decision before May, or afterward, in the margins of other major E.U. meetings.

Decisions on several other policy-making posts, including at the European Central Bank, are far from made, as institutions try not to fill top positions with people from the same country.

The €800 billion figure agreed to Friday could help to placate Germany and Finland, where there is widespread concern that a more generous backstop could lead other countries to reduce their commitments to austerity and put other European taxpayers, who would bear the bailout funds' liabilities, at even greater risk.

Ministers did agreed to capitalize the E.S.M. more quickly than previously planned by making the final instalment of five payments of €16 billion each in the first half of 2014.

The meetings in Copenhagen will continue Saturday among finance ministers from the full European Union.