

FINANCIAL TIMES

Last updated: May 7, 2012 7:48 pm

Merkel urges Athens to stick with reform

By FT Reporters



German chancellor Angela Merkel

Angela Merkel, Germany's chancellor, on Monday warned Athens to stick to the reform plans and budget targets agreed under its international bailout plan as financial markets and EU policymakers grappled with an anti-austerity backlash spreading across the eurozone.

The two main Greek parties suffered a collapse in support in Sunday's election, plunging the country into political turmoil and raising doubts about its commitment to the terms of its rescue programme.

The euro fell and bank shares came under pressure in early trading as investors digested the implications of the Greek vote and the prospect of a challenge to Ms Merkel's eurozone austerity after Socialist François Hollande won France's election.

Further instability in Greece is the focus of market concern with economists at Citi, the US bank, raising their odds on the country leaving the euro to up to 75 per cent.

Greece's stock market sank nearly 7 per cent, but the euro later recovered after falling to its lowest level since January and France's CAC 40 index closed up 1.65 per cent.

Greece appears to be heading for fresh elections in mid-June. An attempt by Antonis Samaras, the leader of the centre-right New Democracy party, to form a national unity government with centre-left Pasok was rebuffed despite offering to amend the bailout agreed with the European Union and International Monetary Fund.

Christine Lagarde, IMF managing director, echoed other policymakers in acknowledging the importance of economic growth to recovery across Europe. "There's no avoiding this brake of fiscal adjustment," she said. "But if calibrated correctly, we can make sure it doesn't do too much harm to growth."

- Conceding the Greek electoral result was “not uncomplicated”, Ms Merkel said: “It is of utmost importance that the programmes that we agreed on with Greece continue to be implemented.” The European Commission also made clear it was not willing to reopen the €174bn programme.

Following Mr Hollande’s victory on an anti-austerity ticket in France, resistance to a German-inspired EU fiscal treaty has spread.

Italy’s centre-right People of Liberty, the largest party backing Mario Monti’s technocratic government, threatened to vote against ratification of the eurozone fiscal compact unless the prime minister secured changes to the treaty.

Mr Hollande will take office on May 15. He is expected to travel to Berlin the next day.

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Printed from: <http://www.ft.com/cms/s/0/fb8abe22-9845-11e1-8617-00144feabdc0.html>

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