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## Merkel faces G8 isolation on eurozone

By FT Reporters

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The US said it “welcomed” the evolution” of debate in Europe towards growth on the eve of a G8 summit that could see Angela Merkel, Germany’s chancellor, isolated as other world leaders push her to help stimulate the economy in Europe.

In a move to make the G8 less formal and more productive, Barack Obama will host the group – whose economic policies could sway his re-election prospects this autumn – away from the media at the presidential retreat of Camp David, Maryland.

Iran, Syria, Afghanistan, and North Korea will be on the agenda at the meeting that begins with a dinner on Friday. Mr Obama is expected to make a food security announcement on Friday but the eurozone will overshadow all other conversations.

“This is a euro crisis summit. It will be dominated by the crisis,” said Heather Conley, a former State Department official now at the Center for Strategic and International Studies, a Washington think-tank.

Tom Donilon, Mr Obama's national security adviser, stressed he did not want to get involved in internal eurozone disputes but added that he "welcomed the evolution of discussion in Europe towards growth and jobs".

The G8 summit marks an early step on to the international stage for François Hollande, the Socialist president of France who took office on Tuesday. His partners will find his studiously "normal" style a stark contrast with the restless, often barbed approach of Nicolas Sarkozy, his predecessor.

But Mr Hollande should find support for his call to stimulate growth in Europe after pointedly criticising the eurozone's German-led fixation on austerity during his election campaign.

David Cameron, the UK prime minister, hopes to repair strained relations with Mr Hollande by supporting his growth plan. Mr Cameron's aides say the prime minister will align himself with Mr Hollande in seeking greater domestic demand in Germany in order to rebalance the eurozone.

Senior German officials are prepared for a debate but insist that they do not expect any "confrontation" either with Mr Obama or other European leaders.

Berlin's position is that budget discipline and growth are both necessary to stem the crisis in the eurozone but that budget discipline is a precondition for "sustainable growth". Officials say there was broad agreement on the need for fiscal discipline and growth at Ms Merkel's dinner with Mr Hollande on Tuesday evening.

Privately, however, there is concern in German government circles that Mario Monti, the Italian prime minister, is closer to the position of Mr Hollande on the need for economic stimulus than he is to Ms Merkel. Mr Monti's backing for the idea that government borrowing can be justified for investment, if not for current spending, worries Berlin.

"I don't expect there to be a sterile debate between fiscal responsibility and stimulus," said Michael Froman, Mr Obama's closest aide on international economics. "The conversation is likely to focus on how to achieve that growth."

The G8 summit comes before a gathering of EU leaders in Brussels on Wednesday where, for the first time, the 27 heads of government are expected to spell out concrete proposals to stimulate growth through more investment in infrastructure.

In depth

Austerity Europe

One leading proposal would see the European Investment Bank get €10bn in new funding for large-scale investments. Because EIB regulations prevent it from lending in unstable economic environments, European leaders are considering using funds from the EU's own budget to guarantee EIB loans, freeing up more money for countries such as Greece.



Europeans are braced for a new age of austerity as governments across the region take action to eliminate unsustainable budget deficits

Eurozone leaders are also likely to back a European Commission plan to create so-called “project bonds” – debt backed by all 17 eurozone countries that would raise funds for infrastructure projects in depressed regions.

The G8 summit may also discuss contingency plans to soothe oil markets in the event of a confrontation with Iran. Yasushi Takase, deputy director-general for economic affairs at Japan’s foreign ministry, declined to comment on reports that Mr Obama would ask for a release of strategic oil reserves and that Japan would be supportive, saying: “It is very difficult for us to predict what they

are going to discuss.

“But although oil prices are decreasing very decently, the level is still high – so in the discussion of the global economic situation, there is a possibility that the leaders will take up the issue of oil prices.”

*Reporting by Robin Harding, Richard McGregor and Geoff Dyer in Washington, George Parker in London, Kiran Stacey in Chicago, Mure Dickie in Tokyo, Hugh Carnegie in Paris, Quentin Peel in Berlin and Peter Spiegel in Brussels*

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