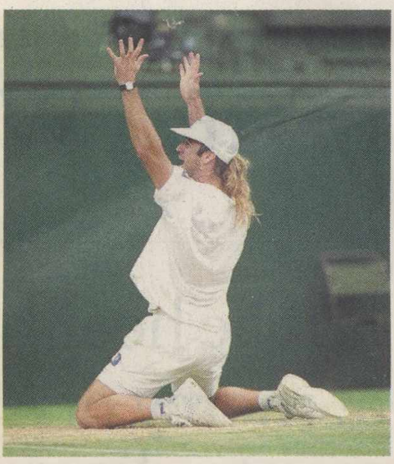

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Leaders vow to save euro, but question is still how

ROME

I.M.F. adds to pressure on Merkel, but she resists calls for pooling of debt

BY ELISABETTA POVOLEDO AND STEVEN ERLANGER

The leaders of the euro zone's four largest economies vowed Friday to defend the common currency with all means necessary, trying to reassure jittery financial markets before yet another summit meeting of the European Union this coming week in Brussels.

But there is clear disagreement about what "all means" actually means.

Chancellor Angela Merkel of Germany is under increasing pressure from the other three leaders — and from the International Monetary Fund — to do more to support the euro zone and its banks. On Friday, however, she gave little indication that she was inclined to listen to others' calls for pooling the region's debt or using European bailout funds to prop up the government bonds of Spain or Italy.

"There was an agreement among all of us to use any necessary mechanism to obtain financial stability in the euro zone," Prime Minister Mariano Rajoy of Spain said at a joint news conference with Ms. Merkel, President François Hollande of France and Prime Minister Mario Monti of Italy.

"The euro is here to stay and we all mean it," Mr. Monti broke into English to say. But he added that while much had been done to stem the euro crisis, the measures were still insufficient. The markets are sure to agree.

And so the impasse remains, despite a sharp public rebuke Thursday evening by the I.M.F. director, Christine Lagarde, who urged European leaders to finally get on with fixing the euro zone's economic problems.

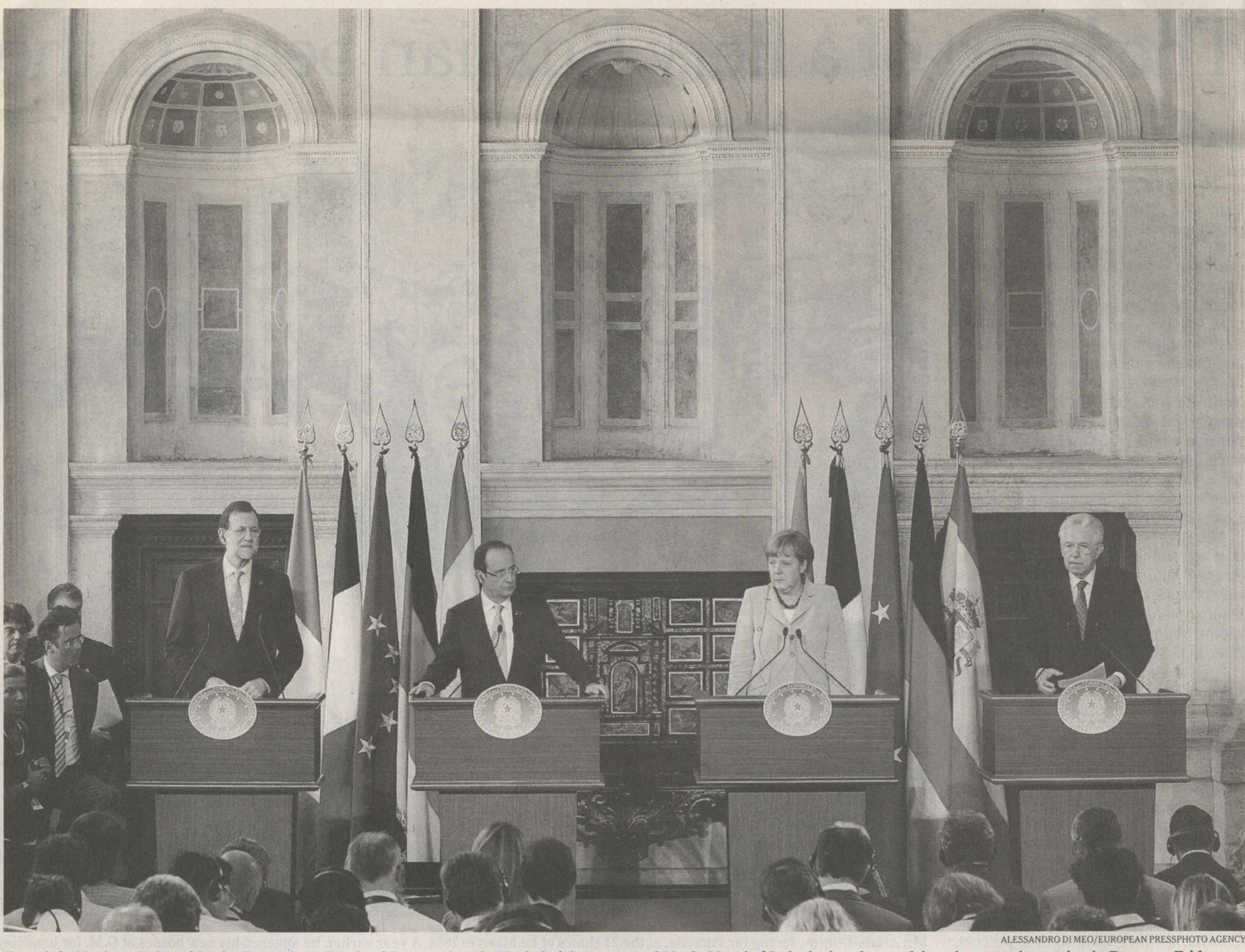
EURO, PAGE 13

CLAUDIO PERI/EPA

Angela Merkel and Mario Monti after the summit meeting in Rome on Friday.

ICELAND STILL EAGER TO JOIN E.U.

The euro crisis has not diminished the desire of Iceland to become a member of the European Union. *PAGE 13*



ALESSANDRO DI MEO/EUROPEAN PRESSPHOTO AGENCY

From left, Mariano Rajoy of Spain, François Hollande of France, Angela Merkel of Germany and Mario Monti of Italy during the quadripartite summit meeting in Rome on Friday.

Leaders vow to keep euro zone intact

EURO, FROM PAGE 1

Ms. Merkel has regularly opposed the idea of using the Union's bailout funds as a bank, to buy the bonds of countries under pressure from the markets, like Spain and Italy, as a way to rein in those countries' soaring borrowing costs. And she has opposed letting the European Central Bank lend directly to the bailout funds or to individual governments.

She argues that the rules as written allow neither, and risk making Germany, as the largest and most creditworthy country, liable for the uncontrollable debts of others. But she is being pushed hard to agree to change the rules, in order to give the financial markets a medium-term indication of how the Union and the euro zone intend to defend the common currency and support the member states.

Mr. Hollande, recently elected, and Mr. Monti have also been pressing for a method to collectivize debt in the euro zone, as another way to bring down borrowing costs for the countries most under strain. But again, Ms. Merkel has said that mutualized debt can only be the result of mutualized responsibility, sovereignty and oversight — not a precursor.

On Friday, Mr. Hollande put the emphasis differently, saying that there could be "no transfer of sovereignty without an improvement in solidarity" and that he would continue to push for collective euro bonds. Ms. Merkel answered that solidarity was possible only with serious controls and collective oversight and that "we have existing treaties and they must be respected."

The bailout funds are "instruments of solidarity," but "you cannot have guarantees without control," Ms. Merkel said tersely.

"If I simply gave money to a Spanish bank, or other bank," she said, "I can't say what that bank should change, because I'm not responsible. I'm the German chancellor; I can only say that to my banks."

She continued: "That's the problem we have. It's not that I do not want to" provide help, "but the treaties are set up in such a way that the governments are the partners," she said.

Ms. Lagarde, the I.M.F. director and a former French finance minister, is echoing arguments also made by senior officials in the administration of President Barack Obama, who fear that the European delay in fixing the euro problem is dragging down the global economy and Mr. Obama's re-election chances.

At a meeting of euro zone finance ministers in Luxembourg on Thursday, Ms. Lagarde called for the euro area to move swiftly toward a fiscal union including issuance of some form of collective euro zone debt, arguing that the viability of the currency was being put into question.

The I.M.F. would like euro zone bailout funds to be lent directly to struggling banks — rather than through national governments, to avoid adding to countries' sovereign debt. That distinction is at issue in the €100 billion, or $126 billion, bailout package for Spain, where the European lenders so far are insisting that the payback obligation be on Madrid's books.

Ms. Lagarde also appealed to the E.C.B. to take more aggressive measures to quell volatile financial markets, whether by increasing the money supply or by resuming the purchase of the bonds of troubled countries like Spain and Italy.

"Christine Lagarde is throwing down the gauntlet," said one euro zone official, requesting anonymity because of the political sensitivities involved.

Mr. Monti himself has pushed to use the European bailout funds to buy the sovereign debt of countries under strain, without placing conditions on the recipients' budgets or spending. But Germany regards that as a blank check, while others think the funds are too small unless they are guaranteed by the E.C.B. itself.

The markets want reassurance, Mr. Monti said in comments published Friday in a joint interview with five European newspapers. After the summit meeting in Brussels next week, he said, "there may not be — indeed, there will not be — a fully-fledged, detailed blueprint, but there will some strong elements and a short road — I hope short, a few months — to get from there to the overall project" of tighter integration in the euro zone.

But just as Ms. Merkel has domestic political problems at home to consider, with more dissent in her governing coalition and a softening of the exports that drive Germany's economy, so is Mr. Monti under domestic political constraints.

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Considered a technocratic solution to the economic problems that worsened under Silvio Berlusconi, Mr. Monti has found his plans watered down by Italian political parties since he was installed as prime minister last autumn. The chief measures Mr. Monti has implemented in the past seven months — a significant pension overhaul, increases in property and other taxes, and a crackdown on tax evasion — have increasingly alienated Italians.

The Rome mini-summit meeting Friday was a preparation for the larger meeting in Brussels of the leaders of all 27 E.U. members. That is the place where decisions could be made, even if few analysts expect any bold steps. The meeting, on Thursday and Friday, is supposed to concentrate on "growth," as opposed to simply the fiscal discipline now tarred with the "austerity" label.

Also on the Brussels agenda will be measures to support European banks and their supervision, including ideas for a European-wide federal deposit insurance program, to try to eliminate bank runs in troubled countries like Greece and Spain.

Mr. Hollande has proposed a growth pact meant to achieve an expansion of European gross domestic product of about 1 percent, which he said would total €120 billion to €130 billion.

Ms. Merkel said the four leaders had agreed to support a new tax on financial transactions. That money might be used to pay for future bank rescues. But it is something that Britain adamantly opposes, given that London is Europe's financial center.

France, Germany and Austria are the strongest advocates of the financial tax, which under E.U. rules could be adopted within a subgroup of countries if at least nine nations agreed — and if a majority vote by the E.U. allowed them to proceed.

Speaking after the Luxembourg meeting Friday, the German finance minister, Wolfgang Schäuble, said that 10 E.U. countries were prepared to move forward with a financial-transaction tax.

That was not the day's only source of rivalry. The Rome meeting was moved earlier in the day to give Ms. Merkel the time to travel to Gdansk to attend the soccer match between Germany and Greece, about which there have been numerous euro-themed jokes, most of them either lame or unprintable.

Steven Erlanger reported from Paris. Stephen Castle contributed reporting from London and James Kanter from Luxembourg.