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France seeks eurozone stability package

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By Hugh Carnegy in Paris



France is pressing the EU to adopt a financial stability package to stem the eurozone crisis, believing negative market reaction to the €100bn bailout of Spain's banks shows the need for more comprehensive action.

Ahead of the EU summit due on June 28, Paris is set to propose a package of measures to put the European Central Bank in charge of bank supervision and to use the European Stability Mechanism, the new €500bn eurozone rescue fund due to come into force next

month, to recapitalise banks directly.

President François Hollande's new Socialist government has made clear that it regards agreement on urgent moves to tackle the eurozone debt crisis as the top priority.

Germany, however, is opposed to the direct recapitalisation of banks. Officials in Berlin are seeking to play down any sense of urgency before the summit, believing that the tools already in place are adequate.

Under last weekend's agreement to rescue Spanish banks, aid from the European Financial Stability Facility, the existing rescue fund, and the ESM will be channelled via the Spanish state. Markets reacted badly, unhappy over the convergence of sovereign and banking debt risk and the lack of clarity over the bailout's terms.

"Look at the reaction to what was done for Spain. It doesn't fly," said one official. "We have to have the proper tools to contain contagion."

As a first step towards a banking union, Paris wants the ECB to assume responsibility for supervising systemically risky banks and their winding up in case of failure. The ECB would stress test the banks and the ESM would be the tool used if recapitalisation were required.

The ESM could only lend directly to banks if its board were to agree to change the rules unanimously, which is opposed by Berlin.

French officials have long argued that the rescue fund should be given a banking licence so that it can leverage its capital and increase its firepower. This would require a change in the treaty establishing the fund which has yet to be ratified by a number of countries, including Germany. The case was supported by the previous centre-right government of Nicolas Sarkozy but vetoed by Berlin. Paris wants the issue put back on the table.

Paris believes Italy and Spain are sympathetic to its proposals and that it is making progress with Germany. They will be part of France's submission ahead of the EU summit to Herman Van Rompuy, head of the European Council, that will include Mr Hollande's proposals for accompanying measures to stimulate growth.

On Wednesday, Mariano Rajoy, Spain's right-of-centre prime minister, released his proposals to Mr Van Rompuy which included similar calls for further action by the ECB to "guarantee the financial stability of the eurozone".

Senior officials in Berlin and Brussels have sought to play down the significance of Mr Van Rompuy's work ahead of the summit, which they say will outline broad proposals. A French move to use the Van Rompuy effort for more immediate crisis measures could exacerbate Franco-German tensions.

Mr Hollande is due to meet Mario Monti, the Italian prime minister, in Rome on Thursday.

The French leader has been markedly less solicitous of Angela Merkel, the German chancellor, than his predecessor, stressing the need for growth measures to accompany Berlin's insistence on fiscal austerity.

But Mr Hollande has been careful to stick to his commitment to fiscal consolidation in France, promising to reduce the budget deficit to 3 per cent of gross domestic product next year.

He is expected to welcome Ms Merkel's calls for closer political and fiscal union and signal his readiness to examine what competences would need to be transferred to Brussels to make the single currency function better, despite strong sensitivity in France to handing over more sovereignty.

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