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Germany dashes eurozone expectations

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By Quentin Peel and Peter Spiegel in Berlin

Senior government officials in Germany have cautioned anew against expectations in the financial markets – and the capitals of its eurozone partners – at the introduction of radical new measures to defuse the crisis in the eurozone in coming days or weeks.

In a series of interviews, leading politicians and members of the government warned that even Europe's most powerful economy is not capable of assuming responsibility for the debts of all its partners in the eurozone. They rejected demands for urgent introduction of jointly guaranteed eurozone bonds or the creation of a publicly funded bank deposit guarantee scheme.

Instead they are calling for a fundamental process of negotiating a "fiscal union" to underpin the common currency. But they warn that it is likely to take many months of talks to agree on measures to reinforce the economic integration of the common currency area, almost certainly involving the politically unpopular process of changes in European Union treaties.

The medium-term actions would include stricter controls over national budgets than have already been agreed, with the new powers for EU institutions such as the European Court of Justice.

"The principle is no mutualisation of debt without mutualisation of responsibility," said Andreas Schockenhoff, foreign policy spokesman in the German Bundestag for the Christian Democratic Union, the main party in Chancellor Angela Merkel's centre-right coalition government.

In spite of widespread concern about the outcome of the forthcoming Greek election, and fears that it could lead to a Greek decision to leave the euro, top civil servants and politicians in Berlin are adamant that new instruments are not on the immediate agenda. Nor are moves to increase the finances available to the European Financial Stability Facility, and the European Stability Mechanism, the eurozone's two rescue funds.

"If ever an accident occurs, we will have to deal with the situation with the instruments we have in our hands," according to one well-placed official. "Some people still seem to think that huge steps in the European Union can be done in a day. It is simply wrong."

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Parliamentarians and political observers in the German capital believe that some form of constitutional convention will be needed in the coming months to create broad agreement on measures that are necessary to underpin the stability of the common currency.

They insist that the 17 members of the eurozone have made dramatic progress over the past two years in agreeing on the instruments needed to rescue debt-strapped members of the monetary union.

But senior government officials maintain that Germany cannot assume the full burden of providing financial guarantees for its partners, if both Spain and Italy get into financial difficulties.

"If you say Germany must take on the debt of everybody, it will not reassure the markets," another official said. "It will have the opposite effect. If we say we will do it alone, the markets will discover we cannot. So they will downgrade Germany, because it has taken on a burden that it cannot shoulder."

Financial officials argue that in spite of the "no bailout" clause written into the EU treaties, the past two years of the eurozone crisis have seen "risk mutualisation" amounting to about €2,000bn, including the emergency liquidity measures of the European Central Bank, and the resources of the EFSF and ESM. That demonstrates the extent to which the German government has already effectively put its financial guarantee on the line, they say.

Ms Merkel's government is aware that it faces growing pressure from its eurozone partners to relax its stance on jointly-guaranteed debt. But even the opposition Social Democratic party in Germany appears to have backed away from its former support for eurozone bonds.

"If you ask people in Germany what they mean by solidarity, they will say: respecting the rules," says Daniela Schwarzer, EU expert at the German Institute for International and Security Affairs (SWP) in Berlin.

In the longer term, however, she believes the German debate has shifted towards a more flexible stance.

"There used to be a simple No to the idea of a 'transfer union'," she said. "People have moved. It is accepted that there will be transfers somewhere."

EU leaders will be given a first report at their summit meeting at the end of the month on what might be included in a "fiscal union".

In Berlin, this would include more intrusive supervision of national budgets, with clear guidelines set for social spending, retirement ages and pension benefits, and such questions as public sector pay. Harmonisation of taxes is one popular proposal in Germany, and a common European tax to lay the foundations of a European treasury is also under discussion.

According to a notional timetable presented to the German Bundestag last week, no decisions would be expected before the spring of 2013 at the earliest.

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