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One small step for European mankind

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As the sun rose over Brussels on Friday, it seemed that for once, a summit of European leaders may not have resulted in a false dawn.

The test of this week's European Council was whether it could forge a political agreement to use the policy tools that exist to stabilise the eurozone's financial markets. Plenty of opportunities remain to unpick the deal that was sketched out by leaders. But that all the significant euro member states moved towards tying their fates more inextricably together makes the threat of disintegration a bit more remote than just days ago.

Germany's position had shifted subtly in the run-up to the summit, from seemingly ruling out any further help for Italy or Spain to insisting that any assistance must be through the tools already in place. Where chancellor Angela Merkel conceded nothing was on the need to match any new aid with more conditions and control. It was the task of the summiteers to make such a match possible.

They did in the case of what may be the single currency's long-term salvation: a euro banking union. Leaders emphatically expressed the need to undo a lethal embrace in which countries' banks and sovereigns sink each others' financial viability. They staked out the way to achieve this, too: states will give the European Central Bank power over their banks, which can in return be recapitalised directly by the eurozone's rescue fund.

This was what Madrid needed: the "rescue" of its banks earlier in the month was a millstone around its sovereign neck. There is now a chance that a European problem – caused by reckless private lending from surplus countries to reckless private borrowers in the periphery – will get a European solution.

Amid broad market euphoria, the most dramatic response was the plummeting yield on Irish sovereign debt. A statement that "similar cases will be treated equally" gives hope that the cost of bailing out Ireland's banks may also be shifted to the eurozone level. That would repair Europe's extortion of Irish taxpayers for the benefit of creditors in the eurozone core.

It would also help the eurozone as a whole. An Ireland able to regain sustained access to the markets – proof that eurozone countries can get out of rescue programmes as well as into them – could rekindle confidence among the eurozone's citizens and the world's investors.

Much work remains to be done. Whether the rescue fund will be used to buy Italian bonds is still unclear. Talk of giving the funds a banking licence to boost their firepower remained just that.

As for banking union, no doubt domestic political constituencies will balk when they realise what it entails. But the steps taken this week show that pessimism may be overdone. Perhaps it could one day be morning in Europe again.

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