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Victory for Merkel over fiscal treaty

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By Peter Spiegel in Brussels



Twenty-five of the European Union's 27 countries have signed up to a German-inspired treaty enshrining tougher fiscal rules to help underpin the euro.

But Berlin was warned that there were limits to how much sovereignty governments could be expected to surrender for the sake of fiscal discipline.

Nicolas Sarkozy, the French president, said the German proposal for the EU to control Greece's budget decision-making "would not be reasonable, not be democratic nor would it be effective". He said that he had confronted Angela Merkel, his German counterpart, with his views and insisted she had agreed.

"The recovery process in Greece can only be enacted by the Greeks themselves, democratically," Mr Sarkozy said. "There can be no question of putting any country under tutelage. Having spoken to the chancellor, I can tell you this is exactly her position."

However, Ms Merkel said she still believed that Greece required stricter monitoring to stick to its bail-out targets, saying Athens' repeated failure to implement agreed reforms warranted more intensive intervention.

"Greece is a special case in this sense," Ms Merkel said. "They have to implement the programme completely."

Senior EU officials met Lucas Papademos, the Greek prime minister, after the summit concluded to discuss new conditions for a second €130bn bail-out, talks that continued late into the night.

The continued debate over Greece's future came as Ms Merkel was handed a symbolic victory in her months' long drive to include tough budget limits into the fabric of the single currency. But Berlin lost a second signatory at the summit when the Czech Republic announced it would join the UK by not agreeing to the pact.

David Cameron, the British prime minister who in December vetoed inclusion of the fiscal discipline measures in the EU treaties, said he would not block signatories from using EU-wide

institutions. But he warned he would take legal action if the new treaty undermined British interests.

Ratification by Germany's most important partner in the eurozone also became more complicated as Mr Sarkozy said he would not ask the French assembly to approve the treaty before April's presidential election. Mr Sarkozy's likely opponent, Socialist François Hollande, has said he would seek to renegotiate the pact, but Ms Merkel said she did not believe France would back away from the commitment.

"Europe would not function any more if it changed course after every election," she said.

The agreement to the fiscal compact, which will be formally signed in March, comes as leaders and institutions around the world, from the International Monetary Fund to Italy's new prime minister, question the austerity-centred policy backed by Ms Merkel. Some likened the new pact to outlawing Keynesian-style fiscal stimulus.

As a consequence, the summit was nominally focused on creating new jobs in the EU, although most of the measures in a draft communiqué – from redirecting EU development funds to support youth job programmes to further liberalising the EU's internal market – have been proposed in policy circles for months if not years.

The treaty aims to force eurozone countries with high debt levels to bring their budget deficits down to 0.5 per cent of their economic output – a Herculean task for some of the region's most debt-strapped countries.

Additional reporting by Joshua Chaffin and Alex Barker in Brussels

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