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German lawmakers back euro aid

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By Madeline Chambers and Jan Strupczewski

BERLIN/BRUSSELS (Reuters) - Germany's parliament approved on Friday a \$1 trillion safety net to stabilize the euro as fears swirled that Europe's debt crisis and tougher financial regulation may choke economic recovery.

European Union finance ministers, meeting in Brussels, backed a German call for tougher sanctions in future against states that flout the bloc's budget rules, to prevent any repeat of Greece's debt crisis, which required a euro zone/IMF bailout.

Worries persisted that Greece's debt troubles would spread to other indebted nations, dragging down Europe's economy and curtailing trade to the United States and Asia.

"The Greek debt crisis and its ripple effects are bad news for all corners of the world and there is a strong collective interest in containing the problem," said Eswar Prasad, senior fellow at the Brookings Institution in Washington.

European officials were eager to show they were committed to bringing down deficits without smothering a still-fragile recovery. European Central Bank President Jean-Claude Trichet sought to calm nervous markets by declaring the euro was not in danger.

Both chambers of parliament approved Berlin's contribution of up to 148 billion euros (\$183.8 billion) in loan guarantees, deeply unpopular with voters, on top of an equally divisive 22.4 billion euros in bilateral loans for debt-ridden Greece.

The bill passed the lower house by 319 votes to 73 with 195 abstentions after the opposition Social Democrats and Greens abstained and 10 members of Chancellor Angela Merkel's center-right coalition rebelled, highlighting the domestic pressure she faces.

The vote was not enough to stop the fall in European shares, which lost a further 0.5 percent on the day after Asian stock markets slid again. Japan's Nikkei average closed 2.5 percent down for a loss of 6.5 percent on the week, mostly due to worries about the euro zone.

"It doesn't make any difference what Germany does. It doesn't make any difference what the financial reform is. Traders and investors are frightened here, and they just want out," said Paul Mendelsohn, chief investment strategist at Windham Financial Services in Charlotte, Vermont.

But Wall Street rebounded, led by financial shares, after the Dow Jones industrial average briefly fell below the symbolic 10,000 point level following U.S. Senate adoption on Thursday of a sweeping financial reform bill after months of fierce debate.

Merkel said the parliamentary vote was a clear German message of support for Europe. But she failed to secure the broad backing she sought to ease public hostility to bailing out weaker euro zone states, despite unilaterally banning speculative trade in some financial instruments on Wednesday.

The surprise German ban on naked short-selling of sovereign euro bonds and some financial shares sent stocks and the euro plunging this week and drew sharp criticism from EU partners, including close ally France, which were not consulted.

HARSHER SANCTIONS

In Brussels, EU finance ministers debated how to tighten the bloc's tattered budget discipline rules and improve economic policy coordination in the 16-nation euro zone, drawing lessons from the Greek crisis.

As expected, they reached no immediate decision, but European Council president Herman van Rompuy, who chaired the task force meeting, said there was broad support for Berlin's demand for harsher sanctions on deficit laggards.

"One of the conclusions of our debate is that it is very clear that there is a broad consensus on the business of having financial sanctions and non-financial sanctions," he told reporters.

However, he indicated that only Germany was pressing for a longer-term insolvency procedure for states crippled by debt.

German Finance Minister Wolfgang Schaeuble and his French counterpart, Christine Lagarde, told a joint news conference the EU should focus on strengthening fiscal discipline in the short term before looking at possible changes of the EU treaty, which would be harder and slower to agree and ratify.

Several euro zone governments have followed Athens in announcing or planning austerity measures to shore up their credit ratings and avoid having to seek a Greek-style bailout.

But doubts remain about their ability to push through savage spending cuts in the teeth of public opposition.

The head of Spain's largest union, Comisiones Obreras (CCOO), said it could call a general strike to protest against planned austerity measures, probably for one day, although analysts regard Greek-style unrest as unlikely.



Efforts by France and Germany, the euro's founders, to patch up differences on the debt crisis and financial regulation, along with short-covering, helped push the euro up as high as \$1.26 on Friday from a four-year low of \$1.2143 on Wednesday.

Euro zone policymakers brushed aside any talk of intervention to steady the single currency, which has lost 12 percent against the dollar this year.

ECB President Trichet told the Frankfurter Allgemeine Zeitung: "Let us be clear, it is not the euro that is in danger, but the fiscal policy of some countries that has to be, and is being, addressed.

Luxembourg Prime Minister Jean-Claude Juncker, chairman of the Eurogroup of euro area finance ministers, and Ewald Nowotny, a member of the European Central Bank's governing council, both dismissed worries about the euro's level.

With the United States increasingly involved in trying to contain the euro zone crisis, U.S. Treasury Secretary Timothy Geithner will visit Europe next week, on his way back from a trip to China, and will meet the head of the European Central Bank and Germany's finance minister.

Beijing also warned the crisis was creating global uncertainty.

(additional reporting by Holger Hansen in Berlin, Paul Day in Madrid, and Gilbert Kreijger in Amsterdam; Writing by Paul Taylor and Miral Fahmy; Editing by Mike Peacock, Ron Askew and Dan Grebler)

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