

MERKEL SHUNS THE ECB ROLE IN FAVOR OF BUDGET LIMITS



Germany and France are pushing for a closer economic tie among the euro nations and a tougher enforcement of budget rules to counter the debt crisis, snubbing investor pleas to back up an expanded European Central Bank role. German Chancellor Angela Merkel, who will use a speech to lawmakers in Berlin to outline her stance before a December 9 European summit, has repeated her push to push to rework EU rules to lock in the budget monitoring and seal off the ECB from political pressure. On Wednesday, French President Nicolas Sarkozy called for "more discipline" and automatic penalties for the nations that break fiscal rules. Merkel's refusal to deploy the ECB is a rebuff to President Barack Obama after he urged Europe's leaders to take more action to combat the crisis. The chancellor is loath to agree to follow the Federal Reserve and the Bank of England in the policies that she views as akin to fighting debt with more debt. Enlisting the ECB in battling the crisis would violate the central bank's independence and set it on a course of action that may or may not work, destroying its credibility. "The market is questioning Merkel's tough approach," Jacques Cailloux, who is the chief European economist at Royal Bank of Scotland Group Plc in London, said in a phone interview. The investors want "clarity on what the framework will look like and what the financial bridge will look like" to fund euro-area governments and banks that are in need of aid, while fiscal ties are negotiated, he said. The EU President Herman Van Rompuy has questioned imposing policy through a treaty, saying that the process doesn't move quickly enough to satisfy markets. "It can take a lot of time," he said on Wednesday in Brussels. "We are looking for something that can be handled much quicker" to restore investor confidence. Throughout almost two years of market turbulence and conflict with allies, Merkel has yet to budget, rejecting joint euro bonds and a greater ECB role, and at times, clashing with Sarkozy. On December 5, Merkel will travel to Paris as the two leaders prepare the proposed overhaul of European institutions. It's a required step before considering more aggressive measures, said Merkel. "You can't put the cart before the horse," she said on November 23. In his speech on Wednesday night in Toulon, France, Sarkozy said that the 17-nation euro area, bound by a currency introduced a decade ago and intended to be permanent, risks "exploding" if members fail to converge economically. Sarkozy has said that the countries that are sharing the currency must prepare their budgets in common, narrow competitiveness gaps and face tougher automatic penalties for fiscal rule-breaking. "There can't be a single currency without economies heading toward more convergence," Sarkozy told 5,000 supporters in a 50-minute speech in the Mediterranean port. "If living standards, productivity, and competitiveness gaps widen among euro-zone countries, the euro will sooner rather than later be too strong for some and too weak for others, and the euro zone will explode."

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