

## EU TREATY REWRITE IS SOUGHT BY MERKEL AND SARKOZY



German Chancellor Angela Merkel and the French President Nicolas Sarkozy pushed for a rewrite of the European Union's governing rules to tighten economic cooperation in a demonstration of unity on ending the debt crisis. Stocks and the euro rose after Merkel and Sarkozy said that the European's two biggest economies were aligned on backing automatic penalties for deficit violators and locking limits on debt into euro states' constitutions. The French leader said that they aimed to reach consensus on the changes required by March. "We don't have time--we are conscious of the gravity of the situation," said Sarkozy after the two met over lunch at the Elysee palace in Paris today. "We want to go as fast as possible based on this agreement between France and Germany, which is open to others." With the fate of the currency shared by the 17 euro countries at risk, Merkel and Sarkozy presented common platform for a December 8-9 summit of EU leaders in Brussels that aims to halt the crisis now in its third year. Among the French-German measures were plans to fast-track the permanent rescue fund to 2012, one year earlier than originally envisaged. While the announcements represent "a good start to the week of truth," Merkel and Sarkozy still need to convince the rest of the euro area to go along with their plans for a closer union if they are to prompt the European Central Bank President Mario Draghi to step up the ECB's response to the crisis, said Carsten Brzeski, who is an economist at ING Group in Brussels. "They need to put money where their mouth is and bring everyone else on board," said Brzeski by phone. "From a financial market perspective, it's about them doing enough to deliver Draghi's fiscal compact." On Monday, Merkel and Sarkozy both declined to comment on Draghi's comments from last week that "other elements might follow" should a "new fiscal compact" emerge among the euro nations. Safeguarding banks, that are limiting the damage to Italy and Spain and finding additional rescue funds may hinge on the response to Franco-German demands for closer economic integration and tougher policing of fiscal rules. The Financial Times recently reported that Standard & Poor's will put France, German and other European nations on "creditwatch negative." S&P released a statement on Monday saying that they plan to put the Netherlands, Austria, Finland and Luxembourg on "creditwatch negative" the FT reported, implying a 50 percent chance of a ratings downgrade within 90 days. The euro erased that gains against the dollar after the FT report. The euro was down 0.1 percent at \$1.3397 at 3:09 pm New York time after gaining 0.7 percent. The risk premium between Italian and German 10-year notes narrowed nearly 79 basis points to 3.73 percentage points.

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