

Sarkozy recoils from EU-wide €300bn bail-out

President Nicolas Sarkozy yesterday distanced himself from a proposed €300bn EU bank rescue scheme which has divided EU governments and left his efforts to galvanise Europe's response to the financial crisis in tatters.

"I deny the sum and the principle [of the rescue scheme]," said Mr Sarkozy, France's president, as other EU figures lined up to criticise the apparently French idea of a bail out fund. Mr Sarkozy had hoped to forge a common front at a summit with his German, British and Italian counterparts in Paris tomorrow, while encouraging his guests to be open-minded about bold solutions given the gravity of the crisis.

But the furore - led by the German government - over the bail-out fund proposal has put paid to that. The summit is now likely to focus on the existing efforts to tighten regulation of ratings agencies and improve co-ordination between supervisors, and a review of mark-to-market accounting rules.

One possible face-saving initiative could be to agree on common standards for bank deposit insurance. EU officials believe that harmonising the protection for savers would discourage other member states from following Ireland and offering blanket guarantees to banks. Greece yesterday became the latest EU country to propose more protection for savers.

France's EU partners have been privately sceptical about the need for tomorrow's meeting, predicting that little would emerge, and fearing bold but ill thought-out proposals.

British officials made clear that Gordon Brown, prime minister, believed national governments had the primary role in resolving the crisis and was opposed to "grand European solutions".

Jean-Claude Trichet, president of the European Central Bank, said the EU's structure was ill-suited to a common bail-out scheme.

"We do not have a federal budget, so the idea that we could do the same as what is done on the other side of the Atlantic doesn't fit with the political structure of Europe." Silvio Berlusconi, the Italian prime minister, will want to be seen supporting Mr Sarkozy in proposals for greater regulation. But with the desperate state of Italy's public finances - debts of more than 103 per cent of gross domestic product - he will not be in a position to offer much in terms of an EU bail-out package.

However, the Dutch government said it would continue to press its idea for a €300bn (\$415bn, £235bn) scheme whereby each of the EU's 27 member states would set up its own rescue fund worth up to 3 per cent of gross domestic product.

The funds would be set up according to a common model and governments would co-ordinate with each other in the case of a rescue. "In essence, we think it would be a good thing for all European states to put aside money so that they would be able to do the same thing with distressed banks as we did last weekend with For-tis," said Wouter Bos, Dutch finance minister.

"If all European countries simultaneously show that they are prepared, that would send a terrific signal of confidence to European citizens."

French officials were furious at what they felt was a deliberate German government plan to sabotage tomorrow's meeting by publicly attacking an apparently French plan.

French officials insist there never was a French proposal for a €300bn EU-wide fund and that what was under consideration was the Dutch proposal.

But even that now appears off limits. "Maybe they will talk about it for half a minute before moving swiftly on," said a French official.

Meanwhile, Spain, Belgium and other EU countries that are not invited to tomorrow's meeting, have warned Mr Sarkozy and his guests that they will have no authority to take decisions on behalf of the 27-nation bloc as a whole.

EU finance ministers, who have spent the last 12 months working on a regulatory "road map", have not been invited either.

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