How to help

Compromises and late-night discussions bring forth a mechanism for rescuing Greece.

“THIS was the case that was never supposed to happen,” said Angela Merkel on Friday March 26th, at the end of a short but tense European Union summit in Brussels. Germany’s chancellor did not need to elaborate. To her visible distaste, Europe’s leaders had just agreed a mechanism for rescuing Greece from a sovereign credit crunch.

The back story is, by now, familiar. After joining the European single currency in 2001, the Greek government and people embarked on a borrowing and spending spree fuelled by the euro zone’s low interest rates, and cooked the books for years until the ghastly day last year when the incoming Socialist government announced that the country’s budget deficit was some 13%: twice as large as previously admitted.

With markets demanding a 3% premium over benchmark German rates to buy ten-year Greek debt, EU governments found themselves faced with an unappealing choice: offer financial aid—fiercely opposed by German taxpayers, who would be asked to foot a large part of the bill—or leave Greece to drown in a sea of rising interest payments, possibly imperilling other troubled euro-zone countries, such as Spain and Portugal.

The mechanism agreed late on March 25th by the 16 countries that share the euro was harsh. At the insistence of Mrs Merkel, Greece will be able to tap into emergency help only if available market financing has been deemed “insufficient” by experts from the European Commission and European Central Bank. In a sign that something terribly serious had been agreed, the declaration used a Latin term, ultima ratio, to describe the last-ditch nature of the mechanism.

Leaders made clear that, for the moment, Greece—which must raise €54 billion ($72 billion) of debt this year—had not asked for any assistance, and expressed hopes that Greece’s austerity plans would reassure markets, making a rescue package avoidable.

In a second German demand, a substantial proportion, perhaps a third, of any loans extended to Greece (or any other euro-area country in a similar pickle) would come from the International Monetary Fund. IMF involvement is seen as a guarantee that financing would be subjected to tough conditions.

France had strongly opposed involving the IMF, arguing that it would be a “humiliation” for Europe to signal that it was unable to solve its own problems. However, faced with the risk of a Franco-German split, the French president Nicolas Sarkozy agreed to what he called a “European compromise”. The IMF is now part of the rescue mechanism, but a majority of the money in a rescue package would come from bilateral loans from the 15 other members of the euro zone. These would be offered at above average euro-area interest rates, to “set incentives” for recipients to “return to market financing as soon as possible”.

In return, Mr Sarkozy talked up what he said were big concessions to French ambitions for Europe. In private briefings for the French press, the president celebrated the fact that the mechanism was signed off by a meeting of leaders of the 16 countries of the euro zone, rather than all 27 members of the EU. That distinction is less arcane than it sounds: France has long been interested in beefing up the political role of the euro zone, in case it is needed as the inner core of a two-speed Europe, bypassing such laggards as Britain.

Mr Sarkozy also celebrated Mrs Merkel’s agreement that the European Council (the body that brings together the EU’s national leaders) should become an “economic government” for Europe. Yet in truth the two leaders mean different things by the phrase. The Germans would like to see the euro zone’s divergences tamed by the spread of Germanic rigour, and Mrs

Merkel said any new “economic government” would have to be agreed on by all 27 members of the union (meaning that sceptical countries such as Britain can stop it going far). The French would like more political intervention in the monetary and fiscal policies of members of the euro zone. Ireland and the Netherlands objected to the term “economic government”, fearing it would alarm voters.

In a European compromise, the term was subjected to what the president of the European Council, Herman Van Rompuy, called “asymmetric translation”. The French version of the declaration talked about gouvernement économique, while the English version called for enhanced “economic governance”. This time, there was no Latin translation.

Fonte: The Economist. Disponível em: <www.economist.com>. Acesso em: 29 mar. 2010.