Germany and the euro

Unhappy new year

BERLIN

Euro-zone leaders meet and talk, but have not resolved their crisis

NICOLAS and Mario. Angela and Nicolas. Mario and Angela. The year is starting with a burst of speed-dating among the leaders of the euro zone's three biggest economies. Their talk is of the single currency, which is threatened by economic failings in Mario Monti's Italy, Nicolas Sarkozy's France and in even weaker Mediterranean countries-but also by dogmatism in Angela Merkel's Germany. The three leaders accept that they have not averted all the dangers, but claim to be making progress. "We have laid the groundwork for the medium term but have not yet won back trust," said Mrs Merkel after her meeting with Mr Sarkozy on January 9th.

All are minding their manners, and yet tensions are apparent. Mr Monti, a technocrat (and former European commissioner) who took over from the populist Silvio Berlusconi in November, marked his visit to Berlin by warning Die Welt, a newspaper, that Italians could turn against the painful reforms he is trying to enact, and that Europe and Germany would be blamed. Mr Sarkozy, who faces a tough re-election fight this spring, carefully hides his differences with Mrs Merkel but sympathises with Mr Monti. The trio, an expanded version of the familiar Merkozy ensemble, will all convene in Rome on January 20th.

Mrs Merkel's hope is that trust will build up gradually from the groundwork already laid. A German-inspired "fiscal compact", enshrined in a new treaty and enforced by sanctions, could be signed either at the next European Union summit, on January 30th, or the one after, in early March. This austerity agenda will be supplemented by a friendlier growth- and jobs-producing "leg", also largely of German design. The idea is to spread best (usually northern European) practices in areas like labour-market regulation and to spend European funds more effectively. Even with its own economy weakening, Germany plans no new stimulus package to boost demand at home or in faltering peripheral countries like Italy and Greece.

Mr Monti and Spain's recently elected

• prime minister, Mariano Rajoy, are among the new leaders who largely accept Mrs Merkel's view that deficit-cutting and structural reforms are what matter most. Mr Sarkozy is a recent convert. But, as Mr Monti's warning suggests, they do not think these will be enough. The fiscal pact must not "strangle" weak economies, Mr Monti said. At the post-summit press conference he called for lower interest rates, code for Eurobonds guaranteed by all euro countries and for more market support by the European Central Bank (ECB).

The Germans think enough billions have already been pledged to wobbly euro members. These mechanisms should be given a chance to work (the ECB will advise the European Financial Stability Facility, the EU'S temporary bail-out fund). The ECB is independent, but is more likely to help if governments do the right things. Markets are already starting to reward reformers, especially Spain, with lower interest rates. Despite German resistance, discussion of topping up the bail-out fund will resume at the March summit.

Mrs Merkel's hoped-for crescendo of trust could be interrupted in two ways. One is a deep European recession, brought about partly by the euro crisis and partly by the fiscal tightening urged by Germany as a way of resolving it. The other is Greece, which is not part of Mrs Merkel's virtuous group. A Greek exit from the euro is seen in Germany as impractical, if not unthinkable. A "disorderly default" is more possible, but that is largely in the hands of the Greeks. Greece is an "exceptional case", Mrs Merkel insists. She and her friends must pray she is right. •

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