German Court Upholds Bailouts

By WILLIAM LAUNDER And TODD BUELL

KARLSRUHE, Germany—Germany’s Federal Constitutional Court on Wednesday ruled that the euro-zone’s 2010 bailout for Greece and subsequent aid granted through the currency bloc’s rescue fund is legal, eliminating a major hurdle to the sovereign-debt crisis response that’s been closely watched by financial markets.

The constitutional court in Karlsruhe also ruled that Germany’s Parliament should have more say in major future euro-zone bailouts, but these would only need approval from the parliament’s budget committee. This requirement is less strict than some proposals circulated by key government lawmakers that call for the plenary’s approval, a move that could stall the pace of future bailout efforts by giving more lawmakers influence to sway the decision process.

The ruling marks a victory for German Chancellor Angela Merkel, who has been stung by a series of party losses in local elections this year and faces fierce resistance in Germany for her handling of the euro-zone crisis.

Ms. Merkel’s continued willingness to back bailouts for other euro-zone governments has cost her dearly in opinion polls and brought bitter losses in recent regional elections as German taxpayers worried about open-ended liabilities from their neighbors mistakes.

Two mock votes among the center-right parties of the German federal government late Monday suggested that Chancellor Merkel may have to risk her political career to make sure that Germany delivers on its commitment to expanding the euro zone’s bailout capacity at a parliamentary vote later this month.

The court ruling could now make it easier for Ms. Merkel to win parliamentary approval at the Sept. 29 vote for changes to make the euro-zone bailout fund, the European Financial Stability Facility, larger and more flexible, as agreed to in Brussels in July.

The euro briefly rose against the dollar after the ruling, but reversed gains as traders digested the court’s warning that the ruling wouldn’t serve as a blank check for future bailouts.

"Today’s ruling should bring some relief to financial markets as a total chaos scenario has been avoided but it shouldn’t lead to euphoria," writes ING Economist Carsten Brzeski. "A bigger say for German parliament in future bailouts could easily find copycats in other euro-zone countries, undermining the clout of the beefed-up EFSF and later the ESM,” the euro-zone’s permanent bailout mechanism.

Under Wednesday’s ruling, the constitutional court decided the government hadn’t violated German property rights by agreeing to the initial bailout of Greece in 2010 as well as the subsequent rescues of Ireland and Portugal through the EFSF.

The case was brought to court by a German politician and a group of academics last year. Absent from the ruling was a response to their attempt to strike down government bond purchases by the European Central Bank in response to the crisis.

Germany pays the lion’s share of the €110 billion (US$153.97 billion) bailout struck for Greece by the European Union and the International Monetary Fund last year, and is the largest national contributor to the EFSF, angering many Germans who scoff at paying for other member states fiscal woes.

—Klaus Brune in Frankfurt, Geoffrey T. Smith and Katie Martin in London and Bernd Radotz in Berlin contributed to this article.