Germany Warns Greece on Aid Funds

Finance Minister Says Euro Zone May Refuse Athens a Fresh Bailout If Nation Can't Enact Reforms

By MARCUS WALKER, WILLIAM BOSTON and ANDREAS KISSLER

BERLIN—Germany's finance minister issued an unusually blunt warning that the euro zone might refuse to grant Greece a fresh bailout, pushing Athens into default unless it persuades Europe it can overhaul its state and economy.

"Greece needs to decide," Wolfgang Schäuble said in an interview with The Wall Street Journal, when asked whether the euro zone would grant or withhold the second bailout package for the country since 2010, expected to be in excess of €130 billion ($172 billion).

Europe is "prepared to support Greece" with the new loan package, Mr. Schäuble said, but he warned: "Unless Greece implements the necessary decisions and doesn't just announce them...there's no amount of money that can solve the problem."

The remarks came as German officials last week floated the radical idea of appointing a European "budget commissioner" with veto powers over Greece's spending, partially suspending Greece's national sovereignty over its budget, in return for aid.

"Perhaps we and our partners must look into ways to assist Greece in this difficult task in an even closer manner," Mr. Schäuble said, alluding to the German oversight proposal.

Germany's proposal met with skepticism from other European policy makers and got an angry response from Athens. In a statement on Sunday, Greek Finance Minister Evangelos Venizelos said "bigger nations" shouldn't force Greece to confront a "dilemma of 'economic assistance or national dignity.'"

Greece's deteriorating finances and ever-growing funding needs are leading to renewed political tensions in the euro zone that threaten to reignite the region's debt crisis, which has shown tentative signs of stabilizing so far this year.

In Germany and other northern European creditor countries, frustration is rising with Greece's perceived failure to get a grip on public spending, improve tax collection or free up its economy. Many lawmakers in German Chancellor Angela Merkel's conservative-led coalition are unhappy about risking billions more on financially stricken Greece.

Berlin officials say their proposal for more-intrusive controls over Greece's budget is one of several ideas being discussed, and that they are flexible about the specifics—but that something needs to be done about Greece's slow compliance with the terms of its international aid.

Ms. Merkel is expected to discuss stronger enforcement of Greece's reform measures with Greek Prime Minister Lucas...
Papademos in Brussels on Monday, when European leaders gather for a summit whose official agenda is how to improve economic growth in the 17-nation euro area.

Greece’s fiscal mess is increasingly taking center stage again, however, in a sign of how the euro zone has gone around in circles since the crisis began in Athens in late 2009.

Stubbornly high budget deficits mean that Greece is struggling to restore its solvency, despite an expected deal with bondholders that could reduce its private-sector debt by up to €100 billion. Many economists say euro-zone governments and the European Central Bank will also eventually have to forgive some of what Greece owes them.

Mr. Schäuble declined to rule that out, saying "we must see what the whole package will look like," and that the independent central bank would make its own decision.

The euro zone must decide by March whether to proceed with the second bailout deal for Greece, which some European officials say will require closer to €145 billion in international loans than the €130 billion agreed on in principle late last year.

The alternative—a full-blown default by Greece on its debts in late March—could spark another round of panic in European government bond markets, threatening the access to credit of other euro members with rising debts, including Spain and Italy.

Fear of such contagion is the main reason Germany and other creditors view further aid for Greece as the lesser evil. But Berlin officials are growing exasperated with Greece’s political parties, which are seen as only half-heartedly behind the country’s painful reform program, and with a Greek public administration that has failed to turn reforms into reality.

Mr. Schäuble, a 69-year-old conservative and the second-most powerful member of Germany’s government after Ms. Merkel, is known as both a staunch believer in the euro and a steely guardian of Germany’s purse. In the interview, he defended Germany's handling of the euro-zone crisis against recent international criticism.

At last week's World Economic Forum in Davos, Switzerland, top global policy makers and business leaders called for Germany to relax its drive for pan-European austerity, do more to support growth, and build a bigger financial safety net to reassure markets struggling euro-zone governments will stay liquid.

Mr. Schäuble insisted Germany is taking the best possible steps to support economic growth in Europe's biggest economy, and rejected calls for a significantly bigger euro-zone bailout fund.

"In the euro zone, we will regain the trust we have lost only through steady policies," rather than constantly revising decisions, Mr. Schäuble said. Germany’s cautious, step-by-step response to the euro-zone "isn't that unsuccessful," he said, pointing to the relative financial calm in Europe since Christmas.

But while some analysts have suggested lately that the worst of the euro crisis might be over, Mr. Schäuble said it’s "too early to sound the all-clear," given the continuing uncertainties in Greece and other struggling euro members.

Dismissing the idea that Berlin should pursue a more-expansionary fiscal policy to support the euro-zone economy, Mr. Schäuble said last year’s 3% economic growth in Germany showed that careful budget consolidation is more effective.

"I don't know how it's best done in America, but in Germany it works like this: If you want more private demand,
you have to take people's angst away," he said.

Many German consumers are anxious about rising public debt and its implications for the state's ability to pay for pensions and health care in an aging society. Mr. Schäuble cited the research of U.S. economists Kenneth Rogoff and Carmen Reinhart, who have argued high public debt is a drag on economic growth.

Germany's economy has stalled this winter after two years of solid growth, however, adding to criticism of the government's austerity focus. Mr. Schäuble said the slowdown is temporary. "A recession looks quite different from what's happening in Germany right now," he said.

Write to Marcus Walker at marcus.walker@wsj.com, William Boston at william.boston@dowjones.com and Andreas Kissler at andreas.kissler@dowjones.com