Merkel Heads for Debt Showdown With Hollande at EU Summit

By Tony Czuczka and Flavia Krause-Jackson - May 21, 2012

Germany and France, the leading economies in the 17-nation euro region, are headed for a showdown at the next European Union summit over their views on how to stem a debt crisis that threatens the survival of the single currency.

German Chancellor Angela Merkel said she won’t shy away from disagreeing with French President Francois Hollande at the summit on May 23, the next major appointment of leaders seeking to allay concerns among investors that Greece may quit the euro, putting at risk Spain and Italy as well.

Good cooperation “doesn’t exclude differing positions,” Merkel told reporters yesterday in Chicago during a meeting of the North Atlantic Treaty Organization. “These may very well arise in the context of the European discussions.”

While Franco-German collaboration has been a cornerstone since the founding of the euro, Merkel and Hollande, France’s first socialist president in almost two decades, have gotten off to a rocky start in a relationship that needs to work to spur economic growth and prevent Greece from leaving the euro area.

The seriousness of the crisis has compelled President Barack Obama, facing re-election in November, to become directly involved. He hosted a Group of Eight meeting near Washington followed by the NATO Summit in Chicago.

“What happens in Greece has an impact here in the United States,” Obama told reporters yesterday. “Businesses are more hesitant to invest if they see a lot of uncertainty looming across the Atlantic because they’re not sure whether that’s going to mean a further global slowdown.”

Hollande’s Euro-Zone Bonds

Hollande was elected on a campaign pledge to blunt the German-led austerity drive in Europe. He told reporters he wants to avoid conflict, though he intends to discuss joint euro-area bonds and put growth and stimulus spending at the heart of the summit this week in Brussels.

“Everything will be on the table,” he said. “All the tools, all the proposals will be welcomed and I am not preparing this informal summit with my government to create conflict.”

Acknowledging the topic’s sensitivity, he declined to discuss euro-wide bonds ahead of the EU gathering of government heads “because I don’t want to anger anyone before we talk about it directly on Wednesday.”

Merkel opposes joint debt issuance, saying the differences in bond yields between euro countries are incentives for weaker nations to overhaul their economies and boost competitiveness.

Merkel’s Isolation

No crisis solution can work without Merkel, who heads Europe’s largest economy. Germany contributes the
most of any country to the EU’s financial backstops and bailouts for Greece, Ireland and Portugal.

Merkel, whose approach to the crisis has helped make her Germany’s most popular politician ahead of elections next year, faces growing pressure among G-8 leaders to ease up on her austerity-first policy after three years of the crisis.

U.K. Prime Minister David Cameron has urged European leaders to make contingency plans for a Greek exit from the euro and defended his right to speak about the dangers posed to the single currency, even if Britain isn’t part of it.

“This affects us -- 40 percent of Britain’s exports go to euro-zone countries,” Cameron told reporters in Chicago. “Staying silent on the problems would actually be more dangerous than speaking out.”

Merkel declined to specify on which points she would clash with Hollande and her European colleagues at the EU summit.

**German Interests**

“The point is to find sensible solutions,” she said. “That’s how I work and that’s also the feeling I got from the French president.”

Since Greece first showed signs of trouble in late 2009, Merkel’s response has been shaped by domestic political considerations. Polls show that German voters back her demand that Europe must clamp down on budget deficits.

German borrowing costs plunged as investors sought a haven from the doubts that Greece can stay in the euro zone. The yields on German two-, five-, 10- and 30-year bonds have declined to the lowest on record. States have benefited as well, with five-year debt from North-Rhine Westphalia dropping to as low as 1.5 percent last week from more than 3 percent in 2011. The federal government pays 0.5 percent to borrow for five years.

The euro has lost 3.3 percent against the U.S. dollar this month and almost $4 trillion has been wiped from equity markets amid concerns over Greece.

Greece is preparing for June 17 elections, following an inconclusive May 6 ballot. Spain, which has the euro region’s third-largest budget deficit, revised its 2011 deficit upward -- even as its borrowing costs approached levels that prompted bailouts in Greece, Ireland and Portugal.

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