Merkel Reins In Greek Exit Talk in Euro’s Decisive Phase

Chancellor Angela Merkel told officials in her coalition calling for a Greek exit from the euro to “weigh their words,” as she signaled a renewed determination to keep the single currency intact.

Asked about comments by a party leader calling for Greece to leave the 17-nation single currency, Merkel told ARD television that such comments were damaging as crisis fighting reaches a “decisive phase.” Alexander Dobrindt, general secretary of the governing Bavarian Christian Social Union, told Bild newspaper that Greece wouldn’t be part of the euro in 2013.

“Everybody should weigh their words very carefully,” Merkel told ARD yesterday in Berlin. The Greek government under Prime Minister Antonis Samaras is undertaking “serious efforts” to reduce its debt, she said, and reiterated Germany’s desire to stand by the country where the crisis originated.

Euro leaders are preparing for a critical month in the three-year-old crisis that will involve the formulation of a European Central Bank bond-buying plan, a progress report by Greece’s international creditors and a looming German court decision on bailout funding on Sept. 12. Bundesbank President Jens Weidmann opened a new line of attack over the ECB’s plans, warning in Der Spiegel that monetary financing of budgets can “become addictive like a drug.”

Merkel told ARD she welcomes input from Weidmann, lauding him for continuing “to make demands on policy makers.”

Yields Fall

German government bonds gained last week, with 10-year yields falling the most in seven weeks, as concern that euro-area growth has stalled and the debt crisis is worsening fueled demand for safer assets. The euro on Aug. 24 fell for the first day in five, sliding 0.4 percent to $1.2512.

Merkel’s warning to her Christian Democratic-led coalition echoes the Greek premier’s complaint that the “cacophony” of speculation about an exit has turned investors away from his country and made the execution of Greece’s bailout terms more difficult.

Such “toxic statements, from wherever they come, can only do damage,” Samaras said as he stood alongside Merkel in Berlin on Aug. 24. "Is there any businessman who will make an investment in euros to get it back in drachmas? The recovery of the economy is of critical importance if we are to achieve our goals."

Greek Talks

Merkel struck a conciliatory tone toward Samaras last week in an attempt heal a rift between Germany and Greece. The next day, French President Francois Hollande told the Greek leader that his government must commit to overhauling its economy so Europe can do its part and move on from the debt crisis.

European leaders’ desire to hold the currency union together reflects a recognition that the fallout from a breakup could be worse than the cost of getting Greece back on its feet, according to Clemens Fuest, an economist at Oxford University’s Said Business School.

“A Greek exit is really not attractive,” Fuest, who also sits on an advisory panel for the German Finance Ministry, said in a phone interview yesterday from Oxford. “On the other hand, to give Greece a perspective, a realistic chance to recover within the euro zone is very, very difficult.”

Troika Report

German Vice Chancellor Philipp Roesler, leader of Germany’s third governing party, the Free Democrats, who last month roiled markets by raising the possibility of an exit, told ZDF in an interview yesterday that while keeping Greece is “desirable,”
the government in Athens must stick to its agreements.

Euro leaders have said they’ll await a report from Greece’s troika of creditors -- the ECB, the European Commission and the International Monetary Fund -- before making a decision on whether to ease the terms of the $240 billion lifeline.

Options raised in Germany in recent weeks include front-loading aid payments to Greece to help it over liquidity hurdles, lowering the interest rate or extending maturities on loans, and pushing for a second debt writedown, this time focusing on bonds held by public institutions, notably the ECB.

The bloc is also awaiting Sept. 12, when Germany’s Federal Constitutional Court will decide whether to suspend the euro-area’s 500 billion-euro ($626 billion) permanent bailout fund, the European Stability Mechanism. Until then, Europe’s anti-crisis coffers will be less than half full.

‘Good Arguments’

In the ARD interview, Merkel called the ESM “absolutely necessary” to overcome the crisis and signaled that she’s confident that court will approve the measure.

“I think we’ve brought forward good arguments” for the ESM, Merkel said, alluding to the establishment of a euro-area fiscal pact earlier this year that laid out budget limits to complement bailout funding.

The bailout aid will also be needed to reinforce possible ECB intervention in the bond market to ease borrowing costs for countries such as Spain and Italy.

The chancellor, who earlier this month voiced support for the ECB’s insistence on conditions in return for assistance, told ARD that the Frankfurt-based central bank has a “very clear” mandate, and that whatever purchasing plan is agreed to will conform with that.

The Bundesbank’s Weidmann, Germany’s chief central banker, said that the proposal for new bond purchases will increase governments’ reliance on the ECB and won’t help solve the crisis. Such decisions should be taken by "parliaments rather than central banks," Weidmann told Spiegel.

Merkel sidestepped open conflict with Weidmann, a former policy adviser, saying that she values his role within the ECB.

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