Chancellor Angela Merkel said euro nations must follow Germany’s lead in tightening budgets and reshaping labor markets to return to growth as she seeks to stave off any crisis eruptions before elections in September.

As European leaders struggle to stanch recession and unemployment, Merkel lauded Germany’s efforts to keep its economy stable through the crisis and said the euro area’s 17 member states must stick to a recipe of budget discipline and improving competitiveness so that growth can take hold.

“It’s greatly in Germany’s interest to do everything so that structural reforms and budget discipline can take place in other countries,” Merkel said in her weekly podcast.

Even as French President Francois Hollande restated his declaration that the three-year-old crisis is over, a looming risk of Greek debt writedowns and a scourge of joblessness among Europe’s youth could compound the turmoil as EU leaders prepare for a June 27 summit. Merkel is easing into an election campaign to seek a third term as chancellor in a Sept. 22 vote.

Hollande, on a two-day trip to Japan, reiterated that the acute phase of the crisis is over and that the euro leaders’ primary task consists of growth and employment.

“Europe has become more stable, but it must now be more oriented toward growth,” Hollande told a conference June 8 in Tokyo. “What’s important for you here in Japan is to fully understand that the crisis of the euro zone is over.”

Jobless Discussions

Finance and labor ministers from Spain, Germany, Italy and France are scheduled to meet on June 14 in Rome to hammer out a European plan to directly address the 24 percent youth-unemployment rate. Merkel and Hollande met at the end of last month to discuss the issue, announcing an initial 6 billion euros ($7.9 billion) to fight joblessness.

European leaders won more potential reprieve after European Central Bank President Mario Draghi last week said the euro economy will return to growth by the end of the year. The single currency climbed 1.7 percent last week against the dollar, rising to its highest level since February.

Still, prospects for growth could be offset by new concern over Greek debt. The International Monetary Fund is pressuring Europe to agree on an additional debt writedown this year to address a 4.6 billion-euro debt shortfall for 2014, Der Spiegel reported, without saying where it obtained the information.

Managing Director Christine Lagarde has said the IMF won’t participate in funding unless it’s secured for the next 12 months, the German magazine reported.

‘Perfidious’ Expropriation

Merkel told members of her Christian Democratic Union last month that she would oppose any further Greek writedowns, which she called a “perfidious form of expropriation.” The chancellor in December had signaled she might be open to such a scenario only when Greece generates a budget surplus.

The IMF last week said that public debt in Greece, where the crisis began in October 2009, remains a risk to recovery and could require further relief. The IMF report, which criticized the fund’s own handling of Greece’s rescue, said debt levels “hang over the program” even as the country makes progress.

European bailout policy will come under scrutiny this week as Germany’s Federal Constitutional Court holds a hearing from tomorrow on the country’s participation in Europe’s main rescue fund as well as the ECB’s bond-purchasing program, whose establishment last year was credited with easing market turmoil.
Report Dismissed

The ECB dismissed a report in the Frankfurter Allgemeine Sonntagszeitung that a limit had been set to the bond-buying program, known as Outright Monetary Transactions. FAS reported that the central bank had communicated a limit of 524 billion euros in a court brief ahead of this week’s hearing as a way of making the program less vulnerable to a legal challenge.

That amount is the total sum of Spanish, Italian, Irish and Portuguese debt with one- to three-year maturities, FAS reported yesterday, citing unidentified central bank officials.

“There are no ex-ante limits on the amount” of OMT borrowing, ECB spokesman Wiktor Krzyzanowski said yesterday in Frankfurt in reaction to the report. “Their size would be adequate to meet their objective.”

The program, which Draghi unveiled last September, was “economically necessary, legally admissible and efficient in terms of its effect,” ECB Executive Board member Joerg Asmussen told Bild newspaper in an interview.

To contact the reporter on this story: Patrick Donahue in Berlin at pdonahue1@bloomberg.net

To contact the editor responsible for this story: James Hertling at jhertling@bloomberg.net