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Eurozone eyes IMF-style fund

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By Quentin Peel in Berlin and Scheherazade Daneshkhu in Paris
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Germany and France are planning to launch a sweeping new initiative to reinforce economic co-operation and surveillance within the eurozone, including the establishment of a European Monetary Fund, according to senior government officials.

Their intention is to set up the rules and tools to prevent any recurrence of instability in the **eurozone** stemming from the indebtedness of a single member state, such as Greece.

The first details of the plan, including support for an EMF modelled on the **International Monetary Fund**, were revealed at the weekend by Wolfgang Schäuble, the German finance minister.

“I am in favour of stronger co-ordination of economic policies in the EU and in the eurozone,” Mr Schäuble told newspaper Welt am Sonntag.

If France and Germany can agree on such proposals – long urged by Paris – they are likely to set the basis for the most radical overhaul of the rules underpinning the euro since the currency was launched in 1999.

The German thinking emerged as George Papandreou, the Greek prime minister, flew to Paris to seek the support of Nicolas Sarkozy, French president, for his government’s drastic austerity programme.

“We must support Greece, because they are making an effort,” Mr Sarkozy said before the meeting. “If we created the euro, we cannot let a country fall that is in the eurozone. Otherwise there was no point in creating the euro.”

His words appeared to underline the greater readiness in France than in Germany to provide some sort of financial support or guarantee for the Greek economy. Angela Merkel, the German chancellor, insisted that no such support had been sought or discussed when she met Mr Papandreou on Friday.

Both France and Germany agree Greece should not turn to the IMF for support, so the idea of an EMF has clear attractions for Paris, though it could hardly be set up in time to help Greece.

Mr Schäuble said: “We are not planning a competitor . . . to the IMF, but we do need an institution for the internal equilibrium of the eurozone that would have at its disposal both the experience of the IMF, and comparable intervention mechanisms.”

According to German thinking, the plan could include tough penalties for eurozone members that fail to curb deficit spending or run up excessive government debt. Ideas include cutting off countries that fail to curb deficit spending from EU cohesion funds, temporarily removing their right to vote in EU ministerial meetings and suspension from the eurozone.

Those may prove very difficult for France to swallow, given its own record of greater fiscal laxity than Germany.