Merkel Gives No Ground on Demands for Oversight in Debt Crisis

Chancellor Angela Merkel gave no ground on Germany's demands for more central control over euro member states in return for joint burden-sharing as the region struggles to contain the debt crisis. The German leader said yesterday she hadn't softened her stance at last month's summit in Brussels and that a so-called banking union involving a bloc-wide financial overseer will have to include joint oversight on a "new level." She chided member states who had sought to slow moves toward greater central control "since the first summit" in the 2 1/2-year-old crisis. "All of these attempts will have no chance with me or with Germany," Merkel said in an interview with broadcaster ZDF in Berlin. Two weeks after a European Union summit aimed at bridging differences over crisis resolution, euro leaders are still squabbling over details of how to lift the bloc out of the turmoil. Merkel hardened Germany's position that any attempt to share burdens in Europe -- such as jointly issued euro bonds or common banking bodies -- must first be met with greater cooperation and a handover of some sovereignty to Brussels. The euro fell to its lowest level against the U.S. dollar in more than two years last week, sliding to as low as $1.2163 on July 13. Europe's most credit-worthy government bonds climbed, with German two-year note yields down to a record minus 0.052 percent, as investors sought havens from the euro crisis. Diverging rates and capital outflows within the 17-member monetary union signal that the single currency is "slowly unraveling," Stephen Gallo, senior foreign-exchange strategist at Credit Agricole SA in London, told Bloomberg Television's "The Pulse" in a July 13 interview. 'Unraveling' "The whole project is unraveling, that's what's essentially happening now," Gallo said. While Merkel said that Europe is on the "right course" toward putting an end to the crisis, euro-area leaders "haven't solved the problems conclusively." German lawmakers will interrupt their summer vacations and return to Berlin on July 19 to vote to approve 100 billion euros ($122 billion) in rescue loans to Spain. After Spanish Prime Minister Mariano Rajoy last week announced 65 billion euros in welfare cuts and tax increases, Merkel reiterated yesterday that financial assistance would not be doled out without conditions. "Whoever receives assistance and where liabilities are taken over, there has to be control," Merkel told ZDF. Banks French President Francois Hollande, Italian Prime Minister Mario Monti and Spain's Rajoy have pressed for faster action, including joint liabilities, while Merkel has called jointly issued debt the "wrong way" to fix the crisis. Merkel last month castigated a blueprint for the summit by EU President Herman Van Rompuy as too focused on "collectivization." Euro officials this month have also sparred over the timetable for establishing a euro-wide bank supervisor, a benchmark required before they implement one of the decisions from the June 28-29 summit -- direct bailout funding for banks. Investors have viewed such a step as a way to sever the link between banking debt and sovereign debt. Euro-area finance ministers will confer on Friday, July 20, to complete an agreement on Spain's bank bailout. On July 10, the minister's announced 30 billion euros of aid would be made available by the end of this month. Klaus Regling, who heads the euro's bailout funds, told Welt am Sonntag yesterday that governments could avoid liability for bank rescues under proposals for a regional supervisor. That contradicts German Finance Minister Wolfgang Schaeuble, who said July 9 that he expects governments to guarantee loans even if they go directly to banks, Welt said. Surrendering Sovereignty Merkel said leaders hadn't yet reached an agreement on the terms for bank rescues. German Bundesbank President Jens Weidmann said euro leaders had caused damage by failing to define more clearly their conclusions at the summit. He told Dutch newspaper Het Financieele Dagblad on July 14 that euro nations "should discuss giving up sovereignty with the same openness as the question of how to resolve the debt problem collectively." As governments in Spain and Italy struggle under the burden of higher borrowing costs, Weidmann, Germany's chief central banker and a European Central Bank Governing Council member, told Boersen-Zeitung that Italy's higher yields don't justify a request for bailout assistance. Euro bailout funding should be deployed only as a last resort, he said. Italy "If Italy stays the course on reforms, it's on a good path," Weidmann told the newspaper in an interview. Asked whether the euro area's third-largest economy needs to tap the fund, he said, "No, I don't see Italy in that situation." Italian Prime Minister Mario Monti has sought a "debt shield" against spillover from a Spanish banking crisis. Euro-area leaders have given Spain an extra year, until 2014, to drive its budget deficit below the euro limit of 3 percent of gross domestic product, a concession that may foreshadow leniency for other indebted states in the bloc. In Greece, an MRB poll published in Athens-based Real News newspaper showed that almost three-quarters of Greeks want Prime Minister Antonis Samaras's coalition government to insist on a renegotiation of the country's international bailout. Seventy-four percent in the survey said the government should insist on discussing the terms even if negotiations steer toward the prospect of Greece leaving the euro; 15.5 percent said the government should stick to current conditions. Volker Kauder, the parliamentary leader of Merkel's Christian Democratic Union, told Welt am Sonntag that he doesn't want to give Greece more time to meet economic targets. Merkel, asked the same question during the ZDF interview, said she would await a report by Greece's international creditors, known as the troika.