

EU agrees new golden rule to constrain budgets

Written by AFP / The Swedish Wire

Friday, 09 December 2011 06:21 - Last Updated Friday, 09 December 2011 06:26

- ['No support' in Sweden for EU treaty change: PM](#)
- [Euro scepticism hits record high in Sweden](#)

BRUSSELS, December 9, 2011 (AFP) - EU leaders agreed Friday a new "golden rule" to bring down debt, as battles over treaty change and hard cash overshadowed a crunch summit hit by an ECB warning it will not jump-start rescue funding.

The move to ask countries to set "balanced" budgets until debt levels drop was only agreed "in principle", despite proposed "automatic consequences" for eurozone countries that break the long-ignored rule that budget deficits must be under three percent of gross domestic product (GDP).

Countries' "annual structural deficit" could reach 0.5 percent of GDP, rather than zero, draft conclusions seen by AFP said.

The "structural" deficit is one calculated minus one-off factors such as debt repayments and the effects of the economic cycle.

However, several sticking points in the wider "fiscal compact", the first steps towards a tax-and-spend union, remained according to diplomats over the finer detail of agreeing the legal language required.

Difficult talks running overnight began on a sour note when European Central Bank president Mario Draghi, who joined pre-summit negotiations with a restricted power group of Germany, France and leading EU officials, sent stock markets falling.

Draghi said hoped-for ECB action to buy up the sovereign bonds of debt-wracked countries was "limited" and "temporary".

Over the past two years, bond traders have driven up borrowing costs for a succession of eurozone countries.

EU agrees new golden rule to constrain budgets

Written by AFP / The Swedish Wire

Friday, 09 December 2011 06:21 - Last Updated Friday, 09 December 2011 06:26

Markets have been looking to see how European Union leaders would come up with a promised trillion-euro emergency firewall to save Italy or Spain if they became sucked in like Greece and others beforehand.

The euro dropped against the dollar and Italian stocks fell a steep 4.29 percent while in the United States the Dow Jones also shed 1.63 percent.

"We want them to produce results that relieve markets and the world as it is a very important meeting that could determine the course of the world economy in 2012," Japan's Finance Minister Jun Azumi said after stocks there also opened lower.

Diplomats said they expected the arduous negotiations to run through the night as five of 27 EU states, including Britain, came out strongly against a German-French drive for changes to the European Union treaty.

Chancellor Angela Merkel and President Nicolas Sarkozy, who earlier warned there might be "no second chance" for a deal on the euro, have argued full-blown treaty change is the way to reassure markets that eurozone governments will in future live within their means.

US President Barack Obama questioned whether Europe's leaders can collectively "muster the political will" to solve a crisis that Russian counterpart Dmitry Medvedev also said risked hurting the global economy.

Even Pope Benedict XVI said a prayer for the EU.

Earlier, the ECB cut interest rates for a second time and eased further access and repayment conditions for bank funding, on the day the European Banking Authority (EBA) in London increased banks' estimated needs under a recapitalisation drive.

Europe's banks must raise 114.7 billion euros (\$152.5 billion) in new capital to restore stability

EU agrees new golden rule to constrain budgets

Written by AFP / The Swedish Wire

Friday, 09 December 2011 06:21 - Last Updated Friday, 09 December 2011 06:26

and confidence, the EBA said.

Draghi, though, said a plan for national central banks to fund the IMF, which sources said could inject up to 200 billion euros into bailout funding for Italy or Spain if required, would raise "complex legal issues".

He was adamant that the ECB must not be used simply to print money.

British Prime Minister David Cameron vowed he would "have no hesitation in vetoing a treaty at 27" after stressing that powers cannot pass from London to Brussels without a referendum.

Britain wants the EU to ease off on tough new regulation on the City of London financial sector and a proposed tax on financial transactions.

Triple A-rated eurozone country Finland, as well as non-euro Poland, Sweden and Romania also had issues over full-blown treaty change.

The summit faces other obstacles, with diplomats saying that Merkel rejected entirely proposals for the eurozone's current and future rescue funds to be added together so as to make available resources bigger.

Berlin also ruled out granting the European Financial Stability Facility (EFSF) a banking licence, allowing it to draw funds from the ECB.

IMF chief Christine Lagarde pledged that her institution would "participate" in the eurozone's efforts and called for "decisive" and "coordinated" action.

The pressure is on after ratings agency Standard & Poor's put a number of large European

EU agrees new golden rule to constrain budgets

Written by AFP / The Swedish Wire

Friday, 09 December 2011 06:21 - Last Updated Friday, 09 December 2011 06:26

banks on review and placed the EU and the eurozone on watch for downgrades.