

EU considers loans in return for economy overhauls

The European Union is considering whether it could encourage countries to make long-term economic changes by offering them loans at below-market rates, an EU official told reporters in Brussels today.

The idea is to spur reform in areas like labor policy, vocational training or the judicial system, the official said on condition of anonymity because the proposal is still in early planning stages. The loans could be most attractive to smaller countries that don't have reliable market access, while bigger nations might benefit from looser budget targets in exchange for reform commitments.

National diplomats will get their first look at the plan next week during a preparatory meeting for an EU leaders' summit in December. At the summit, heads of government aim to settle on a framework for designing so-called contractual agreements that would supplement existing EU budget rules.

The sovereign debt crisis in the euro zone that began in Greece in late 2009 prompted EU leaders to back unprecedented levels of economic and regulatory coordination. The 17-nation currency bloc has agreed to new budget rules, put the European Central Bank in charge of bank supervision and pledged to create a common system for managing struggling banks.

EU President Herman Van Rompuy floated the prospect of European financing for countries that promised reforms under a road map last year to strengthen the region's long-term future. German Chancellor Angela Merkel, who leads Europe's biggest economy, said that only a "limited" pool of as much as 20 billion euros (\$27 billion) could be made available for

countries that sign economic-reform contracts.

ESM Proposal

If the contractual agreements proceed, they would be aimed at countries that aren't already bound by a fully fledged rescue program or sanctions tied to macroeconomic imbalances, the EU official said.

There aren't yet any fixed proposals about where the money for loans might come from. Preliminary ideas include the European Stability Mechanism or a similar new vehicle that could raise money in the markets and lend to individual nations on behalf of the currency bloc. The overall proposal could be extended to nations that plan to join the euro as well as those already using the common currency, the official said.

The euro area's recovery came close to a halt in the third quarter as German growth slowed, France's economy unexpectedly shrank and Italy extended its record-long recession. Gross domestic product in the euro area rose 0.1 percent in the three months through September, cooling from a 0.3 percent expansion in the second quarter, the EU's statistics office in Luxembourg said last week.

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