Merkel to Throw Cold Water on Macron's Plans to Overhaul European Union

BERLIN — Angela Merkel will push back on Emmanuel Macron's ambitious plans to overhaul the European Union at a meeting in Paris on Friday, reaffirming her country's longstanding skepticism about the pooling of fiscal resources and liabilities among eurozone member states.

The German chancellor will use her first meeting with the French president since Parliament re-elected her on Wednesday to deliver the bad news, officials from several European countries and senior officials familiar with Ms. Merkel's thinking said.

Mr. Macron's pledge to strengthen the EU and buttress the foundations of its common currency was a core part of the message that led to his election last year. It included giving the eurozone a joint finance minister and a substantial budget to be used for investment and countering economic shocks as well as speeding up the integration of its banking system, in part with a joint backstop and a common deposit guarantee program.

The rejection — the first substantial setback for the charismatic French president — will disappoint Paris, EU officials in Brussels and much of southern Europe, where leaders had hoped Ms. Merkel's fourth government would soften its posture and agree to underwrite a more robust set of fiscal, financial and banking backstops to be deployed in the event of future economic and financial crises.

The EU's executive arm had hoped to set up a deeper economic and monetary union that would protect the eurozone against crises by mid-2019, ahead of EU elections.

The sovereign-debt crisis that engulfed the eurozone in 2010 nearly caused it to break up. But with growth picking up, unemployment falling across the bloc, and the tough domestic overhauls and fiscal belt-tightening Germany had always championed appearing to bear fruit, German officials say Berlin is less convinced than ever that the significant steps proposed by Mr. Macron are necessary to stabilize the currency area.

French officials in early negotiations with the new German government said both sides remain open. One French official said France and Germany are still planning to set out a roadmap for eurozone overhauls in time for a summit of European leaders in June.

Since Mr. Macron first floated his ideas, the French government has softened its demands by stretching them over an extended horizon. Under this new approach, the most ambitious measures, such as the appointment of a joint finance minister and the creation of a eurozone budget, wouldn’t come for several years.

Still, the French will resist attempts to scale down ambitions for strengthening backstops and completing the banking union, which they see as priorities in the short term.

“It’s important to act now to strengthen the eurozone, so we can face whatever the future holds,” a finance ministry spokeswoman said. “The eurozone recovery does not make eurozone reforms less necessary, on the contrary,” she added.

As part of the deal to seal the formation of her new government, Ms. Merkel handed the finance ministry, which is responsible for eurozone matters, to the Social Democratic Party, a left-leaning party that has historically been strongly in favor of transferring sovereignty to Brussels. But Berlin officials expect Olaf Scholz, the new minister, to hold the hard line set by his intransigent predecessor Wolfgang Schäuble.

French Finance Minister Bruno Le Maire will meet with Mr. Scholz in Paris, ahead of the meeting between Mr. Macron and Ms. Merkel.

While the chancellor won’t reject all Mr. Macron’s suggestions outright, she will insist most should be long-term objectives to be implemented by future governments, the officials said. Ms Merkel wants to shift the focus to what she sees as more pressing challenges, such as the need to manage illegal migration and securing the EU’s porous external borders.

In a television interview on Wednesday night, Ms. Merkel said Germany was ready to increase its contributions to the EU budget, partly to make up for the expecting departure of the U.K. from the bloc, but without accepting guarantees for other countries' liabilities — from public debts to bad loans in banks' balance sheet.

"What we don't want is, so to speak, to mix up liabilities and responsibility, or rather to simply mutualize debt, without becoming competitive," she said. The main responsibility, she added, lay with the nation-states.

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"We think it is essential to have a budget for the eurozone to stabilize the zone in the case of macroeconomic and asymmetric shocks. It is also necessary to finance certain investments that will be just for the 19 countries. But for us that remains on the horizon," a senior French official said this year.

People close to the chancellor said she still strongly supported Mr. Macron's efforts in the past year to overhaul the French economy and that she would back limited steps to deepen eurozone integration.

Among those, Germany would agree to convert the eurozone's bailout fund into a permanent European Monetary Fund. But she would insist it stay subject to the control of national parliaments instead of that control being transferred to EU institutions, as suggested by Paris.

Germany isn't isolated in its skepticism. A group of eight smaller countries that are net contributors to the EU budget — meaning they pay more into the common pot than they receive in EU subsidies and funding — have emerged as strong opponents of Mr. Macron's plans.

The countries led by the Netherlands issued a common warning last week against "far-reaching transfers of competence to the European level."

Dutch Finance Minister Wopke Hoekstra on Wednesday said Ms. Merkel's key confidant Peter Altmaier was present when the text was being formulated. Mr. Altmaier attended two meetings of the signatories, Mr. Hoekstra told journalists on Wednesday.

"Germany, in my view, supports most, if not all, of what we have stated. Germany is satisfied with both the initiative and the content,” Mr. Hoekstra said.

Patricia Kowsmann in Frankfurt and William Horobin in Paris contributed to this article.
