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German Parliament Approves Bailout Fund's Expansion

By [WILLIAM BOSTON](#), [MARY M. LANE](#) And [BERND RADOWITZ](#)

BERLIN -- German Chancellor Angela Merkel's fractious coalition won a brief reprieve on Thursday as lawmakers from her center-right ruling parties closed ranks after weeks of bickering to pass legislation to expand and reform the euro-zone's bailout fund without having to borrow votes from the opposition.



WSJ Berlin Deputy Bureau Chief Marcus Walker reports German Prime Minister Angela Merkel's securing of votes to expand the Euro Zone's bailout package paves the way for the 16 other Euro nations to approve as well. Reuters photo.

In the run-up to the vote Ms. Merkel faced a palace revolt of critics with her coalition determined to stop expansion of the European Financial Stability Facility, threatening to weaken her and make it more difficult for the chancellor to help resolve the euro-zone debt crisis. In the end, she received the psychologically important chancellor's majority, but Parliament gave itself veto rights over any future bailouts, tying Ms. Merkel's hands in future euro-zone negotiations.

A total of 523 lawmakers voted in favor of the EFSF reform bill, with 85 lawmakers against and three abstentions. The overall result includes the votes of the opposition Social Democrats and the environmentalist Greens, who unanimously backed the bill

in stark contrast to Ms. Merkel's unruly coalition. Ms. Merkel's coalition of Christian Democrats, Bavarian Christian Social Union, and pro-business Free Democrats backed the EFSF bill with a razor-thin absolute majority of 315 votes, barely more than the 311 Ms. Merkel needed to for a government majority. Thirteen coalition lawmakers voted against the bill and two abstained.

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"This is a temporary boost for Merkel's coalition, but the problems will not go away," said Moritz Schularick, an economics professor at Berlin's Free University.

The 17 euro-zone governments agreed in July to expand and reform the EFSF, boosting the lending capacity of the fund to €440 billion from €250 billion. The fund will also receive additional powers, such as the ability to extend credit lines to banks and buy bonds on the secondary market. The EFSF reform increases Germany's commitment to the fund to €211 billion from €123 billion. The temporary EFSF is set to expire in 2013 and to be replaced by a permanent European Stability Mechanism.

Ms. Merkel's problems are only just beginning. Tougher issues lie ahead, as demonstrated during a roughly two-and-a-half hour

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German Chancellor Angela Merkel, left, speaks with Finance Minister Wolfgang Schaeuble on Thursday.

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The German Parliament has passed a bill to reform the euro-zone bailout fund, but is the fund big enough? Paul Vigna, Shira Ovide and Charles Forelle discuss on Markets Hub.



parliamentary debate. It is widely believed that the EFSF is a big step, but hardly bold enough to deal immunize Europe against the spread of financial contagion. Opposition lawmakers and coalition euro rebels pressed Finance Minister Wolfgang Schäuble to confirm speculation that the fund already needed more money, even before the ink was dry on the current legislation, and to say if it is planned to allow the fund to leverage its assets to increase its firepower. The devil is in the details of the EFSF framework guidelines, which must still be worked out.

"Nothing is being concealed or hidden," Mr. Schäuble told parliament. "Those guidelines will need the approval of the German Parliament."

"The step that we are taking now will certainly not be sufficient," said Kurt Lauk, a CDU lawmaker and head of the party's economy council. "There will be another sequel to the euro thriller."

A major question that will grip German politics soon is how to increase the firepower of the EFSF. European officials are talking about creating technical instruments that would allow the fund to leverage its cash to borrow more cash from the

European Central Bank or to turn the fund into an kind of insurance company. Germans are concerned that leveraging the fund will put their triple-A credit rating at risk. Responding to such concerns, Mr. Schäuble told FDP lawmakers in a closed-door session on Tuesday that he ruled out allowing the EFSF to borrow from the ECB, according to Otto Fricke, budget expert for the FDP.

"There are a hundred possible ways to leverage," said Mr. Fricke. "But the legislation makes it clear that there can be no additional risk. And that means that some of these leveraging ideas can be excluded because there are €211 billion plus interest, plus costs, and that's it."

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