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EU leaders forced to calm jitters over euro

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THE political crisis that has engulfed the European Union since France and the Netherlands rejected its proposed constitution yesterday threatened to spill over and damage the euro.

Embattled EU financial leaders spent the day defending the currency, dismissing talk of its break-up as "absurd". One senior EU official said: "Euro notes and coins are for ever, like the euro."

In a symptom of the seriousness of the creeping doubts, Roberto Maroni, the Italian Welfare Minister, had suggested in an interview with *La Repubblica* that a referendum should be held on bringing back the lira. The euro had "proved inadequate in the face of the economic slowdown, the loss of competitiveness and the job crisis", he said.

"Wouldn't it be better perhaps to return, temporarily at least, to a system of dual circulation of the euro and lira?" He cited Britain as an example of a nation "growing and developing by holding on to its own currency".

Although the Italian Government quickly distanced itself from Signor Maroni's views, his comments rattled the currency markets. The euro slumped from about \$1.2290 to \$1.2231 on his remarks. On Wednesday, the euro fell by about 1.40 cents against the dollar as the Dutch voted on the EU constitution and markets reacted to uncertainties created by France's "no" vote. That brought the single European currency to an eight-month low of \$1.2202.

An economic adviser to José Manuel Barroso, the President of the Commission, gave warning that the situation was "dangerous" and that some countries would want to leave the currency. For the first time financial markets are speculating that the euro may collapse, by offering variable long-term interest rates on government debt in different eurozone countries. However, Joaquín Almunia, the European Monetary Affairs Commissioner, said: "The euro forms part of our landscape. I think nobody is going to succeed in eliminating an achievement that cost us a lot to bring about."

The markets had already been shaken by a newspaper report in Germany that Hans Eichel, the Finance Minister, had attended a meeting to discuss the break-up of the euro. He denied the story.

On Thursday, Jean-Claude Trichet, the President of the European



Zebedee, 26

Looking for Tigger for Spring.

Must like the highs of life and be ready to jump at opportunity.



Central Bank, dismissed speculation about the end of the euro, calling it "totally absurd" and "complete nonsense".

Many of the countries which joined the euro have suffered economic stagnation and rising unemployment, with people also blaming the currency for rising inflation. Although the German and French economies are stuttering, Italy has plunged into full blown recession.

The euro is vulnerable to a collapse in public support because none of the 12 countries that joined it allowed their people to approve the decision in a referendum. Many Dutch used the referendum on the constitution to show their disapproval of the euro, while in Germany polls show 56 per cent of people want to return to the mark.

A report called *The Demise of the Euro* by the Centre for European Policy Studies, a think-tank funded by the European Commission, admitted that the currency was probably responsible for Italy's economic problems, which it predicted would soon afflict the majority of countries in the eurozone.

Confidence in the euro collapsed in the markets after the French and Dutch referendums, because economists believe that it would make it difficult for governments to co-ordinate action to keep the currency stable. The currency had already been hit by the collapse of the Stability Pact which underpinned it. Eurozone governments are now openly flouting their legal borrowing limits.

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