Merkel, EU reject bailout for eastern Europe

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By Constant Brand, Associated Press Writer

Merkel, EU reject blanket bailout for eastern Europe; Hungary warns of economic 'Iron Curtain'BRUSSELS (AP) -- German Chancellor Angela Merkel and other EU leaders flatly rejected a new multibillion euro (dollar) bailout for eastern Europe on Sunday, suggesting that additional aid be given to struggling nations only on a case-by-case basis.

Germany and the Netherlands also shot down suggestions that eastern European countries that have seen their currencies plummet be given a quick entry to the euro, which has remained strong against the U.S. dollar and Japanese yen. But French President Nicolas Sarkozy said the EU could look at reviewing the stringent euro currency membership criteria and two-year waiting period once the global economic crisis ends.

Germany, the region's largest economy, has been under rising pressure to take the lead in rescuing eastern EU members staggering from sinking currencies, shrinking demand for exports and rising debt, but Chancellor Angela Merkel insisted a one-size-fits-all bailout was unwise.

"Saying that the situation is the same for all central and eastern European states, I don't see that," said Merkel, adding "you cannot compare" the dire situation in Hungary with that of other countries.

That tough stance came even as Hungarian Prime Minister Ferenc Gyurcsany warned that the global credit crunch was creating a widening economic chasm in the 27-nation bloc which threatened to rend Europe.

Noting that eastern members were being hit the hardest, he suggested setting up an EU fund of up to euro190 billion ($241 billion) to help restore trust and solvency in eastern members.

"We should not allow that a new Iron Curtain should be set up and divide Europe," Gyurcsany told reporters.

Eight other EU nations had joined Hungary in vowing to pressure richer members to back up vague pledges of support with action -- Poland, Slovakia, the Czech Republic, Bulgaria, Romania and the three Baltic states. But Hungary's plan was quickly shot down by Germany and others, who balked at the costs.

EU Commission President Jose Manuel Barroso said eastern European countries already were getting billions in emergency rescue funds and loans from the EU, the World Bank and other financial institutions and did not need a sweeping new bailout plan.

He said the EU has euro25 billion ($32 billion) in reserve to help member nations. It already gave euro9.6 billion of that to Hungary and Latvia, the first EU government to fail because of the global economic turmoil.

Gyurcsany acknowledged that other EU leaders had questioned his plan but insisted they would study it.

"If you are speaking about Europe and you are facing this type of complicated challenge, you have to respond in a way not just concentrating on independent nations, but some regions as well," he said.

Gyurcsany said eastern EU countries could need up to euro300 billion ($380 billion), or 30 percent of the region's gross domestic product this year.

He warned that failure to offer bigger bailouts "could lead to massive contractions" in eastern economies and "large-scale defaults" that would affect Europe as a whole because of political unrest and immigration pressures.

Czech Prime Minister Mirek Topolanek, who chaired Sunday's talks, promised that the EU would not leave any nation "in the lurch."

Some EU nations -- notably Hungary, Poland and the Baltic countries of Estonia, Latvia and Lithuania -- had urged the bloc to consider making it easier to join the euro currency. The 16-nation currency has so far proved a stable financial anchor in turbulent markets.

Polish Prime Minister Donald Tusk said his country did not support changes in criteria for joining the euro, but said it favors shortening the time prospective members are required to stay in an exchange rate mechanism, which demands low and controlled inflation, healthy public finances and a budget deficit below 3 percent of GDP.

Current rules set out a minimum two-year waiting period.

"This is not a Polish initiative, but we would welcome it," Tusk said.

Other EU states said existing economic requirements for joining the shared currency should not be relaxed.

Dutch Premier Jan Peter Balkenende joined Merkel in rejecting a "softening" of euro membership criteria that would allow weaker economies to join and possibly damage the strength of the currency. Balkenende said if a nation wants to join "it must meet the minimum economic criteria."

Sunday's summit was the first of three high-level talks EU leaders have planned to forge a common strategy to combat the worsening recession. Yet vague statements issued by the leaders hardly appeared a unified stance.

French and German leaders made separate calls for more EU funds to keep European car makers alive and insisted those subsidies would not be protectionist.

Merkel and Sarkozy called EU subsidy guidelines too stingy and said they needed to be updated. Sarkozy welcomed EU regulators' approval of France's euro7 billion ($8.95 billion) in loans for Renault and Peugeot Citroen PSA, which came only after France said it would not require the two to buy from French suppliers or safeguard jobs at French plants.

The Czech Republic had protested earlier that French auto measures were protectionist.

EU leaders also agreed on guidelines for how governments could buy up toxic assets from banks to try to unfreeze lending. Banks are putting cash aside to cover huge potential losses from complex investments that have tumbled in value during the financial crisis.

But Eurochambres, a business association that represents 19 million companies across the EU, criticized the leaders for failing to come up with concrete plans Sunday to stimulate the economy.

"This summit was yet another rather unproductive political showpiece, bringing no concrete solutions to the dramatic economic situation and showing a worrying lack of economic coordination among member states," said Arnaldo Abruzzini, head of Eurochambres.

Associated Press writers Raf Casert, Barbara Schaeder, Robert Wielaard and Aoife White contributed to this story.