

Eurogroup

Finance ministers announce trillion-dollar firewall

By Sarah Collins in Copenhagen | Friday 30 March 2012

Eurozone finance ministers have upped the ceiling on crisis lending to €700 billion to convince markets they can cope with potential future bailouts. The figure includes money already dedicated to rescue loans for Ireland and Portugal, and a second bailout for Greece. In a statement, on 30 March, ministers said that taking into account the first Greek bailout, “the euro area is mobilising an overall firewall of approximately €800 billion, more than US\$1 trillion”.

The cap on crisis lending from the eurozone’s two rescue funds - the temporary European Financial Stability Facility (EFSF) and the permanent European Stability Mechanism (ESM) - previously stood at €500 billion. The cap was written into the ESM treaty to satisfy Germany, but EU leaders agreed last December to revisit it after heightened market pressure on Spain and Italy erupted last summer, casting doubt on whether the bloc could afford to rescue a larger economy. The EU hopes the boost will unlock extra funding from the International Monetary Fund, which had said it will double its own resources only after a first move from the eurozone. The IMF is to meet in April, when it is expected to announce a US\$500 billion boost (around €375 billion, with €150 billion coming from the eurozone).

“A big enough firewall is important during this crisis,” Dutch Finance Minister Jan Kees de Jager said on his way into the Eurogroup meeting, on 30 March. Eurozone ministers said in a statement that they had created “robust firewalls” as part of an overall strategy to save the euro. “The euro area made substantial progress over the past 18 months to address the challenges stemming from the sovereign debt crisis,” they said. “This comprehensive strategy has paid off and led to a significant improvement of market conditions.”

Under a deal, agreed on 30 March, the ESM will be the main source of crisis lending from July, when it officially comes into force. The EFSF (which has €240 billion left to lend) will be allowed to offer new bailouts until mid-2013, a provision made necessary because the ESM, while able to lend a potential €500 billion, cannot do so until it is fully capitalised, which will not happen until 2014. Ministers have, however, agreed to speed up their payments into the ESM, making two this year, two in 2013 and a final one in 2014. Until then, the ESM can only lend just over six times the amount of capital it holds - in other words, it must maintain a capital cushion equal to 15% of its total outstanding loans at all times.

However, Guy Verhofstadt (Belgium), the president of the Liberals and Democrats group in the Parliament, blasted the agreement, saying leaders were “fooling themselves”. “National finance ministers today have repeated the same mistake as in the past by failing to create a permanent firewall but rather just another expensive fire extinguisher that does not protect the bigger EU economies from contagion,” he said. “EU ministers, instead of fooling themselves, must look at long-term and structural solutions and stop just buying time.”

The Eurogroup statement is available at www.europolitics.info > Search = 311934

Rescue loans

Who funds eurozone bailouts? Two funds: the eurozone government-backed European Financial Stability Facility (440 billion euro) and the European Financial Stability Mechanism (60 billion euro), backed by the EU budget. Both are due to expire in mid-2013.

What happens then? A permanent fund, the European Stability Mechanism, will come into being in July. It can lend up to 500 billion euro based on an 80 billion euro capital base, to be paid in by eurozone governments between now and 2014. It must maintain a 15% capital to lending ratio at all times.

So how much can all of the funds lend in total? 700 billion euro, up from 500 billion euro previously.

Why the increase? Because the eurozone technically has only 300 billion euro left for new bailouts, given the EFSF has committed 200 billion to Ireland, Portugal and Greece. Markets were concerned this would not be enough to rescue Spain or Italy if it came to it.

Where does the 800 billion figure come in? This is reached by adding the 102 billion euro committed under the first Greek bailout (which was funded by the EFSM and bilateral loans from eurozone governments).

Copyright © 2012 Europolitics. Tous droits réservés.

Firewall not enough to save Italy or Spain - Fitch

Tuesday 03 April 2012

Fitch Ratings has said that a recent decision to boost the eurozone's crisis lending ceiling to €700 billion - freeing up €500 billion in new lending from July - will not be enough to match Italy's and Spain's funding needs. The decision, reached by finance ministers in Copenhagen, on 30 March, will, however, allow the funds to act as an 'anchor investor', providing confidence in eurozone government bond issues and potentially buying up bonds in the secondary markets to maintain prices. "This approach would use EFSF-ESM funds to keep issuers in the debt markets, rather than deploy the funds as an alternative to market funding, making it unnecessary to build a firewall equivalent to the entire gross financing requirement of peripheral countries," Fitch said in a note, on 3 April, adding that the move is "positive for vulnerable eurozone sovereigns".