

Eurogroup

Ministers debate crisis fund boost and interest rates

By Sarah Collins | Tuesday 18 January 2011

Eurozone ministers have held preliminary talks on bolstering the bloc's €440 billion rescue fund and lowering the interest rate on Irish and Greek loans. However, no decision was made at the meeting, on 17 January, with Eurogroup head Jean-Claude Juncker saying that ministers would continue examining "different elements that are the ingredients to a comprehensive and global response" to the crisis in the eurozone sovereign debt markets. They are expected to report back to EU leaders by March at the latest.

The talks on expanding the €440 billion European Financial Stability Facility, the eurozone government-guaranteed pot set up in the days immediately following the Greek bailout last May, are being held at the same time as European Commission and national officials are working on the details of a permanent bailout fund, which will come into effect in 2013. The temporary fund has so far been tapped only for Ireland, but worries have emerged that a requirement for it to maintain a massive capital buffer could limit its effectiveness. The buffer ensures the fund a 'triple A' credit rating in the market, but means it has only €250 billion at its disposal. The Commission last week announced a push to boost the size and scope of the fund - the same day as Portugal held a crucial bond auction - to ward off market speculation that the fund is not fit for purpose.

Options

"The decision taken in May says that the facility will make €440 billion available and we are looking at different ways we can do that," Juncker said. However, he refused to commit to a timetable for the work and would not be drawn on whether ministers discussed allowing the fund to buy bonds in secondary markets or extend preventive IMF-style credit lines to solvent countries with short-term cash shortages. "We were discussing all the ingredients which can be envisaged to enrich the existing mechanism of the facility and this work will be pursued," Juncker said. "It's too early to say what kind of conclusions we'll reach." He did admit that talks had taken place on "lowering the interest load for the countries concerned" - Ireland and Greece - but said ministers had not gone into the issue in great detail. Belgian Finance Minister Didier Reynders was insistent that the same rules apply for all countries, although Germany is dead set against reducing the rate, which was set up as a deterrent so that profligate countries should only tap the fund as a last resort.

Divisions

However, there are divisions emerging among the eurozone's 17 member states, not least over the timetable for work. Commission President José Manuel Barroso is keen to complete work by a 4 February summit - ostensibly dedicated to energy and innovation but which could be overtaken by pressing economic matters - while Germany and Austria say that there is no sense of urgency after last week's successful Spanish and Portuguese bond auctions. German Finance Minister Wolfgang Schäuble was focused on the permanent bailout fund on his way into the Eurogroup meeting, on 17

January, while Austrian Minister Josef Pröll said there is enough "room for manoeuvre" in the fund given the Irish bailout has eaten up less than 10% of the EFSF's resources. Meanwhile, the Netherlands and Spain are keen to ensure the fund has as much firepower as was agreed last May, with Dutch Minister Jan Kees de Jager insisting that countries should concentrate on budget cuts first. Reynders, meanwhile, has suggested the EU double the fund's firepower after 2013 to up to €1 trillion to fight off market pressure, while Irish Minister Brian Lenihan was pushing for a "better deal" for his country on the bailout loan. His government is currently paying an average of 5.8% to draw down money from the EU's two rescue funds - the EFSF, which has pledged €17.7 billion to Dublin, and the Commission-backed European Financial Stability Mechanism, which is lending Ireland €22.5 billion as part of the €85 billion package.

Stress tests

Economic Affairs Commissioner Olli Rehn announced that a new round of 'stress tests' will begin in February - running until June - to test the mettle of Europe's banks after a previous round failed to convince investors that bank balance sheets are able to withstand future shocks. However, Rehn blamed discrepancies in the way they tests were applied at national level - reserving particular blame for Ireland, which included only two banks in the exercise and announced a massive €50 billion recapitalisation for the sector just two months after the banks had passed the test. "The problem to my mind the last time was that there was a certain variety of quality of implementation in the different member states," he said. "The overall method was solid [...] but yes there were some weaknesses in some member states."

Other business

Ministers also discussed Estonia and two nominees to replace outgoing European Central Bank Executive Board member Gertrude Tumpel-Gugerell (nominees are Belgian National Bank Director Peter Praet and ex-Slovak central banker Elena Kohutikova),

Senior MEP calls for payback of bailout interest

Premiums paid by Greece and Ireland on their rescue loans should be repatriated to those countries once they have paid back their debts, a senior MEP has said. Sharon Bowles, head of Parliament's Committee on Economic Affairs (ECON), told colleagues at a meeting, on 17 January, that eurozone countries should not be profiteering from their neighbours' misfortune. "Fellow EU countries should be acting out of solidarity with their neighbours, not like investment banks," Bowles said. "It is fair that a country sponsoring a rescue package should not be out of pocket, and should be guarded against risk, but that does not mean they have to pocket windfalls." The European Commission charges Ireland 5.7% on its 22.5 billion euro share of an 85 billion euro bailout - including a premium of 2.925% - while the Luxembourg-based European Financial Stability Facility's fee is 6.05% (including a similar margin). Bowles says that these premiums should still be paid by bailed-out countries up-front, but should be ring-fenced during the life of the rescue loan and repaid if the country gets back on track. The money would be held in reserve during the life of the loan to pay back lender countries in the event of a default.