# Push for shake-up of EU rescue facility

By Peter Spiegel in Brussels

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European officials are considering measures to overhaul the eurozone's €440bn rescue fund, including using it to buy bonds of distressed governments, say people involved in the deliberations.

The changes would make it easier to aid debt-burdened economies without resorting to fully fledged bail-outs.

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Buying bonds of distressed countries to lower their borrowing costs is currently only being employed by the European Central Bank, a policy that has proved controversial.

Officials are also considering rule changes that would allow the fund – the European financial stability facility – to provide short-term lines of credit to countries struggling to borrow money but not in need of multiyear bail-out packages.

The proposals come amid growing international criticism that the European Union has been engaged in individual bail-outs in reaction to the debt crisis instead of devising systemic, Europe-wide financial backstops to halt market panic that risks engulfing more eurozone countries, particularly Portugal and Spain.

Although debt markets for so-called "peripheral" EU countries have stabilised since the ECB began an aggressive bond-buying programme at the start of the month, eurozone members will have to refinance or repay €560bn ($740bn) in 2011 – the largest amount since the launch of the single currency a decade ago and €45bn more than in 2010, according to UniCredit, the Italian bank.

Portugal is particularly at risk since it has to refinance or repay €20bn in debt by the middle of next year.

Some officials had hoped to discuss the proposals for systemic changes this week at a two-day summit of EU heads of government, which begins on Thursday.

But German officials have said they want to wait until early next year to table new measures. Instead, the summit is expected to focus on small changes to EU treaties that will allow for a permanent bail-out fund to replace the EFSF when it expires in 2013.

Angela Merkel, Germany's chancellor, has publicly rejected the two most high-profile proposals for changes to the EU's system of responding to the debt crisis – increasing the size of the EFSF or creating a Europe-wide bond – forcing officials to consider using the current fund more flexibly.

Among the measures being considered are ways of making the €440bn fund able to lend more money without increasing its size.

To gain a triple A rating, the EFSF must raise significantly more money than it can lend. The €440bn top-line figure represents the total backed by the 16 countries behind the fund but this includes an over-guarantee of 120 per cent on each bond raised and a "cash reserve" that must be held back.

Although details of how to change the EFSF rules are still being discussed, officials believe they can close the gap between the €440bn top-line and the fund's net lending capacity without risking the triple A rating from Moody's, Fitch and Standard & Poor's.

*Additional reporting by David Oakley in London*



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