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EU finance ministers break no new ground on debt crisis

By Jan Strupczewski and Gareth Jones
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(Reuters) - EU finance ministers broke no new ground in dealing with the euro zone debt crisis in discussions over the weekend, instead absorbing some ideas and rejecting others and taking stock of progress on agreed steps.

Ministers and central bank governors from the 17 countries using the euro and the broader 27-nation European Union met on Friday and Saturday in the Polish city of Wroclaw to discuss Europe's slowing economic growth and progress in beefing up euro zone defenses against the sovereign debt crisis.

In an unprecedented visit to the informal talks of top EU financial officials, U.S. Treasury Secretary Timothy Geithner made an appearance in Wroclaw on Friday to urge Germany to provide more fiscal stimulus to the slackening euro zone.

But Geithner's call for action by those who can afford it was rejected because the euro zone believes that market trust in the sustainability of its public finances, and therefore consolidation, is more important than spending on growth.

"Fiscal consolidation remains a top priority for the euro area," said Luxembourg's Jean-Claude Juncker, chairman of euro zone finance ministers.

GREECE: DEFAULT TALK "RIDICULOUS"

Greece's finance minister on Saturday dismissed talk that the debt-strapped country was headed for default, while saying Prime Minister George Papandreou canceled a trip to the United States because tough decisions had to be made imminently.

"The comments and analyses about an imminent default or bankruptcy are not only irresponsible but also ridiculous," Finance Minister Evangelos Venizelos said in a statement.

"Every weekend Greece ... is subject to this organized attack by speculators in international markets," he added.

Venizelos said Papandreou decided to return to Athens not because of an economic emergency but because the government had to take tough decisions as talks resume with its international lenders before a next bailout tranche is released.

Greece has been falling behind with agreed fiscal and structural reforms that have been set as a condition for continued support for Athens by international lenders.

U.S. LECTURING NOT WELCOME

Several euro zone ministers in Wroclaw seemed peeved that the United States, itself burdened with a large budget gap and debt, was lecturing Europe on what should be done.

"He (Geithner) conveyed dramatically that we need to commit money to avoid bringing the system into difficulty," Austrian Finance Minister Maria Fekter told reporters after the meeting.

"I found it peculiar that even though the Americans have significantly worse fundamental data than the euro zone, they tell us what we should do."

Geithner also pointed out that euro zone finance ministers could boost the firepower of their bailout fund, the 440 billion euro European Financial Stability Facility, through leveraging.

This could ease market concerns that the euro zone does not have enough money to help Spain and Italy if needed.

The idea was not discussed at the meeting with Geithner, but it will be studied by the European Commission as it offers a way to boost EFSF intervention power without more taxpayer money, according to euro zone officials.

RESERVATIONS

Yet German central bank Governor Jens Weidmann expressed reservations about the idea of EFSF leveraging on Saturday.

"It depends on how leverage is done. If it is done so that in the end the euro system is at risk, then that does not fulfill the requirements," he said.

"If it is done in a way that EFSF should get a banking license, then it has to be clarified whether the EFSF is actually doing banking business. I would set a big question mark on that," he said, echoing comments by euro zone sources that the leveraging idea might encounter numerous legal challenges.

Leveraging would mean that the EFSF could guarantee to cover potential losses of the European Central Bank on purchases of bonds of distressed euro zone sovereigns, boosting the fund's intervention potential even fivefold, officials said.

"It has not been rejected and it has not been endorsed -- it is being discussed," a senior euro zone official said. "But the priority is the implementation of the current EFSF reform."

The euro zone agreed on July 21 to grant the EFSF powers to intervene on bond markets, give precautionary credit to governments and recapitalize banks.

But the changes have to be ratified by euro zone countries. The head of the EFSF, Klaus Regling, said he expected the new powers would be in place by mid-October.

Euro zone officials expressed confidence that Greece, which relies on the euro zone and the International Monetary Fund for emergency financing support, would get the next tranche of aid, if it meets EU/IMF conditions, by October 14.

"TECHNICAL SOLUTION" FOR GREECE?

Euro zone leaders promised Greece on July 21 a new emergency loan package worth 109 billion euros. But the payout of the money depends on finding a solution for Finland's demands to get collateral from Greece for more loan guarantees from Helsinki.

"A technical solution is within reach," French Finance Minister Francois Baroin told reporters. Euro zone sources said however, that a deal is likely only in early October because of its complexity.

EU finance ministers also agreed on Saturday that European banks must be strengthened in the follow-up to July stress tests, as a report said a "systemic" crisis in sovereign debt now threatened a new credit crunch.

"We reached the conclusion that we need to make our financial system more robust," Spanish Economy Minister Elena Salgado told reporters.

The agreement does not mean European banks are likely to get large, additional capital injections from public coffers -- it is just an acknowledgement of the results of the European bank stress tests in July.

The tests showed a financing gap for banks of only 6 billion euros -- a sum many investors believe could be much higher if the debt crisis worsens, and which is to be primarily covered by private capital.

(Reporting by Ecofin team in Wroclaw and George Georgiopoulos in Athens; writing by Jan Strupczewski; editing by Mark Heinrich)

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