FINANCIAL TIMES

44

November 6, 2011 10:27 pm

G20 seeks more talks on eurozone crisis

By Chris Giles in London and Gerrit Wiesmann in Berlin

The Group of 20 is seeking to meet again, possibly before Christmas, with the aim of resurrecting a deal to provide an international firewall around Greece, G20 sources have told the Financial Times, saying negotiators at the Cannes summit had been close to an agreement.

A source, who was party to the negotiations, told the FT that the three-part package of measures summit host France tried to broker fell apart because the German Bundesbank vetoed one element.

If the German central bank – which has independent control of the country's foreign exchange reserves – can be reassured, a G20 finance minister's meeting will be called and held in France this month or in Mexico after December, when it assumes the chair of the G20.

The idea of holding another G20 meeting before the scheduled February gathering was endorsed by Jim Flaherty, Canada's finance minister, on Saturday. Speaking in Berlin, Mr Flaherty told a panel discussion: "The consensus view is that we cannot wait that long [until February]. We do need to restore market confidence".

G20 nations were "nowhere near a consensus" on using IMF resources to fund the European financial stability facility, Mr Flaherty told the FT in an interview. "There is a view, which I share, that the eurozone countries are relatively rich in world terms and have the tools and resources themselves" to turn the EFSF into a contagion-fighting "firewall".

Mr Flaherty also cautioned that helping the eurozone could divert funds from emerging market countries that "may well need assistance in the next year" as the global economy splutters.

Last week's G20 communiqué was vague on timing, saying merely that the G20 asked finance ministers to draw up options for additional fire-fighting resources "by their next meeting".

The deal close to agreement on Thursday night, the G20 source said, involved three elements.

The first was additional funds for the IMF. Most of the money – put at "between $250bn and $300bn" – was to have been paid on a bilateral basis into the fund's general resources.

This money would not be able to boost the EFSF or invest in a special vehicle established by the EFSF because, as Christine Lagarde, IMF managing director, said in Cannes, "the IMF lends to countries, not legal entities".

A fund with more resources might be able to lend directly to Italy or another troubled country, however. Other ideas of bilateral lending directly to the EFSF special vehicle, with IMF scrutiny but without preferred creditor status, would sit alongside additional resources to the fund.

The second element of the package was for the IMF to allocate around another $250bn of special drawing rights – the reserve asset comprising dollar, euros, yen and sterling – according to individual country shareholdings in the IMF. This amount, the G20 source said, was acceptable to the US as the administration did not need congressional approval for such a sum.

The third element of the plan was for eurozone countries to pool their SDRs – about $60bn – and use them to invest in the EFSF special purpose vehicle so that other investors could add to the funds at EFSF disposal with little risk.

It was this last element that the Bundesbank rejected. The German central bank told Reuters on Saturday: "We know of this plan and we reject it".

Once that element of the potential deal fell, the US did not see any merit in taking a politically risky move of accepting increased SDR allocations and on Friday morning, with both elements of the G20 package gone, few countries saw benefit in an immediate boost to IMF resources.