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Finance ministers to revive firewall debate

By Joshua Chaffin in Brussels

After helping to push through a Greek debt restructuring that is the largest in history, eurozone governments will revive a debate about boosting firewalls to shield Spain, Portugal and other vulnerable economies from the flames of the crisis.

Finance ministers from the 17-member club are set to discuss the issue at a meeting in Brussels on Monday evening, according to European Union officials, although no decisions are expected.

A leading option under consideration would be to combine the roughly €250bn remaining in the bloc's temporary rescue fund due to expire next year – the European Financial Stability Facility – with its €500bn successor, the European Stability Mechanism.

But doing so would require the approval of Germany, which has been reluctant to increase its taxpayers' exposure to unpopular bailouts.

The meeting will kick off a frenetic week in which member states will seek to return parliamentary approvals for a new €130bn Greek bailout that was tied to the debt restructuring.

The board of the International Monetary Fund will convene on Thursday to decide whether it will support the new bailout and – if so – how much money it will contribute.

On Friday, Christine Lagarde, the fund's managing director, said she would recommend a €28bn contribution – a marked decrease from its recent participation in rescue loans for troubled eurozone countries.

A key question will be whether the fund deems that Greece's debt will, in fact, be sustainable with the new bailout, which is expected to lower it to 120.5 per cent of gross domestic product by 2020. If not, then the IMF's rules would prevent it from making further loans to Greece.

The IMF has become central to the debate over the adequacy of the eurozone's bailout funds, which represent a key line of defence to prevent the crisis from spreading beyond Greece to the bloc's core economies.

Ms Lagarde warned in January that fundamentally solvent countries such as Spain and Italy could be forced into a financing crisis without a credible bailout fund.

The US and other IMF shareholders have since balked at handing more money to the fund to fight the crisis until the eurozone governments first move to augment their own €500bn bailout arsenal.

The European Commission, the EU's executive arm, and many member states – particularly those in the line of fire – have also lobbied for months for an increase in those funds.

Several crisis-hit countries, including Italy, view such a move as a quid pro quo for going along with a German-backed treaty to restrain public finances and for instituting unpopular economic reforms.

Speaking to reporters on Friday, Wolfgang Schäuble, the German finance minister, acknowledged his government had committed to discussing the matter in March, but then noted that there were 31 days in the month.

For Germany to increase its contribution chancellor Angela Merkel would have to seek approval form the Bundestag, where opposition to the bailouts has been fierce.

German officials believe that the recent calm that has prevailed in financial markets has lifted some of the immediate pressure to address the firewall.

They will be watching to see whether Italian and Spanish bond yields continue to fall in the wake of the European Central Bank's campaign to extend hundreds of billions of euros in cheap loans.

The success of last week's €206bn Greek debt swap, which has averted the prospect of a disorderly default by Athens – at least for now – could also improve sentiment.