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Spain makes explicit plea for bank aid

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By Victor Mallet in Madrid and Peter Spiegel in Brussels

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Spain has made its most explicit call to date for European institutions to recapitalise the country's banks as concerns increase about its own ability to raise the billions of euros needed on bond markets.

Mariano Rajoy, Spain's prime minister, warned on Tuesday that the country was in a situation of "extreme difficulty".

He urged Europe to prove that the euro was "irreversible" by agreeing a banking union and embracing eurozone bonds.

Cristóbal Montoro, budget minister in the centre-right government, added his voice to the concerns, admitting that the high perceived risk of its sovereign debt meant Madrid "does not have the door to the markets open".

The comment startled analysts given that the Spanish treasury plans to auction up to €2bn of bonds on Thursday.

Germany remains opposed to allowing Spain's banks to be bailed out without a formal request from the Spanish government.

Late on Tuesday, Moody's lowered its ratings for Commerzbank and five other German banks as well as the three largest Austrian banking groups, noting "the increased risk of further shocks from the ongoing euro area debt crisis".

Mr Rajoy told a Senate session that Europe needed to "support those that are in difficulty", adding: "The most urgent and important thing is we have a problem of financing, of liquidity and of debt sustainability."

Spain's risk premium – the difference between its bond yields and those of low-risk Germany – soared last month after the government nationalised Bankia, a merged group of seven savings banks that has said it needs €19bn in extra capital.

The surge has fuelled predictions that Spain will need to follow Greece, Ireland and Portugal in seeking an international bailout.

Spanish authorities say a rescue of their much larger economy would be impossibly expensive. They are also reluctant even to ask for a limited bailout for their banks for fear of the conditions that would be imposed by the IMF and European institutions, something German and European officials say Madrid cannot escape.

Moody's cuts ratings

Moody's cited the "vulnerability to the adverse operating conditions in some of their core markets in central and eastern Europe and the Commonwealth of Independent States" as it cut its ratings for Raiffeisen Bank International, UniCredit Bank Austria and Erste Group Bank.

Senior debt and deposit ratings on Raiffeisen and UniCredit Austria were cut one notch while Erste was brought down two notches.

Long-term debt and deposit ratings for Commerzbank and five other German banking groups were cut by one notch, driven by risks related to the debt crisis in the eurozone and the banks' limited ability to absorb losses, the rating agency said. Moody's said Deutsche Bank is being reviewed in a separate process.

Mr Montoro said the sum needed to recapitalise Spain's banks, estimated at €40bn by some Spanish bankers, was not "astronomical". "The problem is where to get [the funds] from," Mr Montoro said. "European institutions must get moving and find this bank recapitalisation."

It was in Europe's interest to help Spain, he said. "It's not a procedure to help anyone in particular but to promote a European banking union so that we have a European financial system with the same guarantees for all."

Herman Van Rompuy, the European Council president, is leading efforts to produce a "master plan" for eurozone integration to present at an EU summit this month. It is expected to include elements of a banking union, complete with a common European deposit guarantee scheme and a eurozone-wide recapitalisation fund.

But Mr Van Rompuy and others have made clear that their plans are long term and not intended to address the crisis in Spain, and some senior officials have pushed EU leaders to come up with more immediate plans to assist Madrid.

The first elements of that union are to be laid out on Wednesday by the European Commission when it unveils a long-awaited bank resolution proposal.

Madrid has won some support in Brussels and Paris for its calls for a direct injection of capital into Spanish banks by the eurozone's €500bn rescue system. But neither the temporary bailout fund nor the soon-to-activate permanent facility are allowed to make such injections, or are likely to be able to do so soon.

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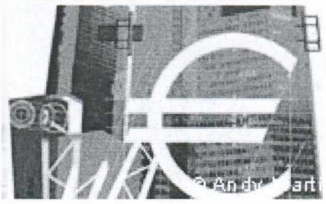

As the debt storm spreads Europe's leaders battle to save the eurozone

In an interview with the Financial Times on Tuesday, Stephen Harper, Canada's prime minister, said: "We're four years into the crisis and we're still trying to get a sense of what the game plan is.

"We need measures that are going to be decisive," Mr Harper said. "If the eurozone is serious about the fact that it's a single economic bloc, then it has to be prepared to take all measures necessary to stabilise its fiscal and banking situation."

The European Central Bank, meanwhile, saw demand for seven-day liquidity surge on Tuesday to €120bn – more than double the previous week's figure. The increase followed the return of four Greek banks previously excluded from regular ECB liquidity operations, but may also have reflected tensions elsewhere the eurozone.

Additional reporting by Claire Jones and Ravi Mattu in London, Ralph Atkins in Frankfurt and Nicole Bullock in New York

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