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Germany rejects direct bank aid for Spain

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By Quentin Peel and Gerrit Wiesmann in Berlin


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The parliamentary leadership of Germany's ruling Christian Democrats – the majority party in Angela Merkel's centre-right coalition government – has flatly rejected the use of eurozone rescue funds to recapitalise Spanish banks directly.

Instead they called on the Spanish government on Tuesday to decide urgently whether it will seek money from the €440bn European Financial Stability Facility according to the fund's normal rules, requiring agreement on a proper rescue programme negotiated with its European partners.

Volker Kauder, parliamentary leader of the CDU/CSU in Berlin and one of Ms Merkel's closest political allies, issued a blunt statement after a two-day trip to Brussels, backing the tough line of his government.

"Germany will demonstrate its solidarity with the other states in Europe in order to resolve the problems caused by the debt crisis," he said. "But the states of Europe must for their part undertake every endeavour to contribute to solving those problems themselves."

Mr Kauder's intervention came as the German government fleshed out its own twin-track strategy for the longer term resolution of the crisis, combining measures to boost economic growth with more fundamental reforms to closer integration between the 17 countries sharing the euro as a common currency.

A joint paper on growth, drafted by the economics ministry, with the approval of the chancellor's office, the finance ministry and the foreign ministry, spelt out a series of well-trailed measures to boost growth. They include financing training and job creation for young people, project bonds to finance cross-border infrastructure, structural reforms to improve competitiveness and increased capital to boost lending by the European Investment Bank.

There was no sign in Berlin, however, of more urgent emergency measures being contemplated to prevent contagion in the current crisis spreading from Greece to Spain and beyond. Instead, the timescale for Germany's proposed reforms would stretch until the spring of 2013.

Wolfgang Schäuble, German finance minister, held out the prospect on Tuesday of medium-term reforms, such as a "banking union" to provide deposit insurance for cross-border financial institutions, and even jointly guaranteed eurozone bonds – but only once a fully fledged "fiscal union" had been agreed for the whole eurozone.

In an interview with Handelsblatt, a business newspaper, he said that it was important to distinguish between immediate measures to resolve the present crisis and longer-term reforms to prevent its recurrence.

Both Greece and Spain, he said, must put their own economies in order.

It was up to Greek voters to decide for themselves whether they would remain members of the eurozone, he said. But he admitted that uncertainty over the outcome of the forthcoming Greek election had caused contagion to spread to Spain.

"The Spanish are doing everything right, and yet they are still facing pressure in the markets because of contagion from Greece. We must deal with that."

The first priority was for all concerned to "put into effect what we have agreed" – a clear reference to the need for Greece to implement the rescue programme decided with the European Commission, the European Central Bank and the International Monetary Fund.

On longer-term reforms, he said that joint guarantees of borrowing, such as for eurozone bonds, would give the wrong incentive, reducing the pressure for debt-laden countries to reduce their budget deficits. Before any such "common debt management" could be introduced, a "genuine fiscal union" was necessary.

The eurozone partners should proceed "step by step" towards greater integration, he suggested, "for example towards a banking union" as proposed by José Manuel Barroso, president of the European Commission. That required agreement on European banking regulation as a first step, followed by a European deposit insurance scheme.

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