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G7 to hold emergency eurozone talks

REUTERS

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TORONTO/BERLIN – Finance chiefs of the Group of Seven leading industrialised powers will hold emergency talks on the eurozone debt crisis on Tuesday in a sign of heightened global alarm about strains in the 17-nation European currency area.

With Greece, Ireland and Portugal all under international bailout programmes, financial markets are anxious about the risks from a seething Spanish banking crisis and a June 17 Greek election that may lead to Athens leaving the eurozone.

“Markets remain sceptical that the measures taken thus far are sufficient to secure the recovery in Europe and remove the risk that the crisis will deepen. So we obviously believe that more steps need to be taken,” White House press secretary Jay Carney told reporters.

Canadian finance minister Jim Flaherty said ministers and central bankers of the US, Canada, Japan, Britain, Germany, France and Italy would hold a special conference call, raising pressure on the Europeans to act.

“The real concern right now is Europe of course – the weakness in some of the banks in Europe, the fact they’re undercapitalised, the fact the other European countries in the eurozone have not taken sufficient action yet to address those issues of undercapitalisation of banks and building an adequate firewall,” Mr Flaherty told reporters.

The disclosure of the normally confidential teleconference came as EU paymaster Germany said it was up to Spain, the latest eurozone country in the markets’ line of fire, to decide if it needed financial assistance, after media reports that Berlin was pressing Madrid to request aid.

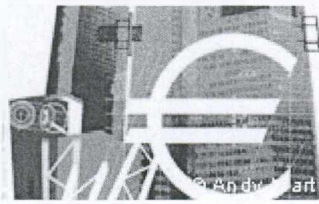
Angela Merkel, German Chancellor, and leaders of her centre-right coalition said in a statement: “All the instruments are available to guarantee the safety of banks in the eurozone.”

They effectively ruled out Spanish calls to allow eurozone rescue funds to lend money directly to recapitalise Spanish banks, which are weighed down with bad property debts, without the government having to take a bailout programme.

Berlin is pressing reluctant eurozone partners, including close ally France, to agree to give up more fiscal sovereignty as part of a closer European fiscal union.

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A G7 source, speaking on condition of anonymity because of the sensitivity of the issue, said there were concerns about the risk of a bank run in Spain, which is struggling to recapitalise nationalised lender Bankia and smaller banks stricken by the collapse of a property bubble.

“There is concern on whether there will be a bank run in Spain that could have repercussions beyond the eurozone,” the source told Reuters.

The US, which holds the G7 chair, has long pressed Europe to deal more forcefully with its crisis. President Barack Obama, seeking re-election in November, has pointed to Europe's crisis as a problem for the weakening US economic recovery.

“European leaders appear to be moving with a heightened sense of urgency,” a US Treasury Department official said.

“We're hoping to see accelerated European action over the next several weeks, including in the run-up to the Leaders' G20 meeting in Mexico,” the official said, referring to a G20 summit in Mexico on June 18-19.

“Movement to strengthen the European banking system will be of particular importance in this time period.”

Spain's borrowing costs have soared to about 6.6 per cent for 10-year bonds with the risk premium over safe haven German Bunds reaching a euro-era record. Madrid plans to issue €1bn-€2bn in 10-year debt on Thursday in a key market test.

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