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G20 bid to cut cost of euro borrowing

By Chris Giles and George Parker in Los Cabos and Peter Spiegel in Brussels

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Eurozone members of the Group of 20 leading economies have committed to driving down borrowing costs across the single currency area, according to the communiqué from the summit in Mexico.

On the day that Spain was forced to pay more than 5 per cent to borrow money for one year, the need for action to stem the spiral of rising government bond yields was accepted on Tuesday by Germany, France and Italy, the G20's three eurozone members.

According to officials briefed on the discussions, Mario Monti, Italy's prime minister, raised the possibility of using the eurozone's €440bn rescue fund to buy peripheral bonds on the open market. But Angela Merkel, Germany's chancellor, was non-committal about the idea during a formal session on Monday night.

However, officials said Ms Merkel had subsequent conversations on the sidelines of the summit which led her interlocutors to believe "she may be willing to do more," said one European official. The official cautioned, however, that Ms Merkel was not yet ready to commit to any definite course of action.

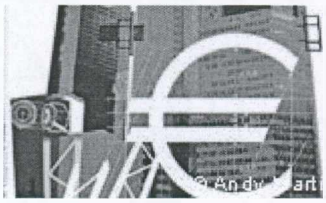
Speaking to journalists before he started the second day of negotiations, François Hollande, France's president, said the borrowing costs of Spain and Italy were unacceptable. "We must show a much faster ability to intervene," he added.

George Osborne, UK chancellor, said: "I think there are signs that the eurozone are moving towards richer countries standing behind their banks and standing behind the weaker countries."

The communiqué does not mention specific action to be taken by the eurozone countries, but aims to cut borrowing costs for countries such as Spain and Italy. It said recent eurozone policies, such as the fiscal compact and growth-enhancing measures, were "important steps towards greater fiscal and economic integration that lead to sustainable borrowing costs".

In depth

Eurozone in crisis



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

Mr Hollande said: "It's not acceptable that Spain, which just got a promise for support, has interest rates around 7 per cent".

The European Financial Stability Facility, the eurozone's rescue fund, was last year given the power to purchase sovereign bonds of struggling countries on the open market, a power previously reserved for the European Central Bank. Together with the European Stability Mechanism, expected to be established next month, the two funds command about €500bn firepower.

The ECB bought €210bn of sovereign debt last year.

Mr Hollande maintained his pressure on Germany after the end of the G20 summit, saying explicitly that the EFSF or ESM should be used to fight what he described as "speculation" in the government bond market.

"The EFSF already exists. The ESM will soon exist," he said. "Let's use them at the right moment and in the right way ... to be able to calm things down in the right way."

He also repeated his pre-election calls for the ECB to help fight high borrowing costs. Answering a question about Spain's access to finance, Mr Hollande said Spain would specify its applications for financing from the EFSF in the days to come and the application will be accepted. "As far as I am concerned, this should be achieved this week."

Ms Merkel did not comment specifically on what plans she would accept to reduce pressure on Spanish government debt but said she understood the seriousness of the situation. ""It is obvious that we have problems in the eurozone, and that it is necessary to act," she said. "But the important thing is ... that we (the Europeans) have made clear that we are determined to act."

Mr Hollande confirmed that Mr Monti had requested the use of European bailout funds to reduce interest rates on sovereign debt by purchasing debt in the secondary market of countries that had already put their fiscal houses in order. "Italy did put this idea forward," Mr Hollande said, "and we should look at it closely."

The communiqué commits eurozone countries to "take all necessary measures to safeguard the integrity and stability of the area, improve the functioning of financial markets and break the feedback loop between sovereigns and banks".

The US also stepped up pressure on the eurozone and Germany to agree concrete steps to defuse the crisis in the next few days, deliberately raising the stakes of the meetings at the end of the week. Tim Geithner, US Treasury secretary said: "You're going to hear more from the European leaders in the coming days about the specific proposals they're going to put in place. They're negotiating towards an agreement at their summit at the end of next week".