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US upbeat after eurozone debt crisis talks

By George Parker and Chris Giles in Los Cabos

The destinations change but the story stays the same. From Toronto to Seoul to Cannes to Los Cabos, world leaders gather for G20 summits apparently powerless to grip the eurozone crisis. On Tuesday, on the Mexican Pacific coast, there was a glimmer of hope that this might be about to change.

The chatter at the poolside bars – initially fatalistic – was galvanised by what the White House called an “encouraging” 45-minute meeting between Barack Obama and Angela Merkel, German chancellor on Monday, where the debt crisis in Spain and Italy dominated discussion.

Mr Obama appeared satisfied that something was about to be done, and postponed at short notice a planned meeting on Monday with other European members of the G20. Ms Merkel, according to one European official, had told him what he needed to know about the eurozone’s planned response.

But what? George Osborne, Britain’s chancellor of the exchequer, has engaged in wishful thinking in the past, but he claimed that the eurozone was “inching towards” a plan that would see the €500bn of new money in the single currency bailout fund used to buy government bonds, particularly in Spain.

The chatter among the summit “Sherpas” on Monday night was that Ms Merkel had conceded the need to help Spain ride out the market storm, setting the eurozone on a path towards the mutualisation of debt in the single currency area.

G20 officials speculated that Ms Merkel would move decisively within days: either at a meeting in Rome of the eurozone’s biggest economies on Friday or at an EU summit next week.

European officials poured cold water on the idea. But François Hollande, France’s president, fuelled the speculation on Tuesday when he bemoaned the fact that Spain was being targeted by markets in spite of the planned €100bn bailout of its banks and its tough austerity programme.

Mr Hollande said the interest rates being paid by Spain and Italy on their debts were “not acceptable” because Italy’s public finances were improving and Spain had received a promise for aid from other European countries.

"It's not acceptable that Spain, which just got a promise for support, has interest rates around 7 per cent," Mr Hollande said. "It's not acceptable that countries that are making efforts, like Italy, to improve their public finances," were paying high interest rates on their bonds.

"We must show a much faster ability to intervene," Mr Hollande said before the summit's second day of talks began. He said he and Ms Merkel agreed that "Europe must have its own response".

The market pressure on Spain may force the hand of eurozone leaders, especially given the fact that the Greek elections – which removed immediate speculation about the country remaining in the euro – have done nothing to stabilise the situation.

One German official remarked last week: "If we have an accident, we will have to use the tools at our disposal."

The guidelines on the EFSF bailout fund's secondary market purchases sound like they were almost written exactly for Spain, especially in light of the comments by Mr Hollande.

"In the course of the ongoing sovereign debt crisis in several occasions and for different countries price dynamics have emerged which are difficult to explain by economic fundamentals," it says.

"One objective of EFSF secondary market interventions is to pre-empt and counteract such pricing dynamics."

British officials, who have long argued for a more aggressive eurozone response, believe that a new intervention in the bond markets is coming. One said it was "a bazooka, but not necessarily the big bazooka" demanded by David Cameron, prime minister.

Additional reporting by Quentin Peel, Peter Spiegel

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