Euro Crisis Shifts to Spain as Merkel Faces G-20 Pressure

By Tony Czuczka and Nacha Cattan - Jun 19, 2012

World leaders told Europe to pull together to overcome its debt crisis, endorsing a road map for tighter integration to cut borrowing costs and prevent further damage to the global economy.

With Spain readying a request within days for as much as 100 billion euros ($127 billion) for its struggling banks, euro-area leaders at a Group of 20 summit in Mexico pledged to take “all necessary policy measures” to defend the currency union. The U.S. committed to cut spending while avoiding a “sharp fiscal contraction” in 2013.

“We have a profound interest in seeing Europe prosper,” President Barack Obama told reporters today in the Mexican beach resort of Los Cabos at the summit’s close. “Our friends in Europe clearly grasp the seriousness of the situation and are moving forward with a heightened sense of urgency.”

G-20 leaders arrived for their second consecutive summit dominated by Greece, as the country at the source of the debt crisis voted in elections that threatened to trigger the euro’s first exit. Within hours of victory for pro-bailout parties, investor focus shifted to Spain as borrowing costs breached the 7 percent level that forced sovereign bailouts for Greece, Ireland and Portugal.

Spanish Banks

Spanish Prime Minister Mariano Rajoy, attending his first G-20, was prodded to spell out the scope of Spain’s bank bailout as the deepening debt crisis in Europe exposed tensions among the world’s biggest economies. China led a group of developing nations that pledged more money for the International Monetary Fund to stem the turmoil while chastising the euro area’s guardians for damaging market confidence.

G-20 chiefs “talked about how we need clarity on Spain’s application as soon as possible,” German Chancellor Angela Merkel, head of Europe’s biggest economy and the key player in more than two years of crisis fighting, told reporters. “We all know that banks that aren’t properly capitalized are a real source of turmoil and risk for the economy.”

In its final statement, the G-20 backed Europe’s plans to consider a more integrated banking industry with common deposit insurance, a step that Merkel has resisted. With attention shifting to a summit of European Union leaders in Brussels on June 28-29, the G-20 supported EU plans for closer economic union “that lead to sustainable borrowing costs.”

The euro rose yesterday to near a one-month high against the dollar, while Spanish 10-year bond yields edged below 7 percent after reaching a euro-era record of 7.29 percent on June 18.

Global Concern

“The G-20 has been very helpful in underscoring for euro-zone leaders the concern and expectations of the global community,” Daniel Price, managing director of Rock Creek Global Advisors LLC, a Washington-based
consultancy, said in an e-mail.

With the global recovery slowing, emerging countries boosted their pledges to the International Monetary Fund’s global firewall, almost doubling the fund’s resources to $456 billion. Officials from China to India and Brazil also used the G-20 platform to signal growing exasperation with Europe’s response to the debt crisis now in its third year.

Brazil’s Finance Minister Guido Mantega said the crisis in the euro area was affecting global trade, and called for a “change of direction” to combat the turmoil. Indonesian President Susilo Bambang Yudhoyono touted a need for more “rigorous methods to manage the crisis,” warning a failure to deliver would bring “unsettling consequences to all of us.”

‘Unacceptable’ Interest Rates

French President Francois Hollande, who has clashed with Merkel on euro-region debt sharing and the balance between austerity and growth, called for faster action, saying that “it’s not acceptable” for Spain to shoulder such high borrowing costs.

“In this permanent race between events, speculation and political decisions, political decisions must get ahead of the uncertainty,” Hollande said in Los Cabos, attending his first G-20 since defeating Nicolas Sarkozy in May elections.

Crisis fatigue set after the summit’s first day when the U.S. president and the four euro-area leaders called off an after-dinner talk. Italian Prime Minister Mario Monti said that he, Merkel and Hollande agreed with Obama during a fireworks display that the day had already been “more than rich enough with debate.”

Election Year

While Obama has blamed the financial crisis in the euro region for slowing U.S. employment growth in a presidential election year, European leaders pushed back.

No one thinks the EU “is the only source of the problem,” Monti said. The crisis “had its origins in imbalances in other countries, including the U.S.”

“I don’t think there is a trend for the situation in the euro-zone getting worse,” Russian President Vladimir Putin told reporters. “My impression was that Europe wants to end the crisis by solving the institutional problems of the economy and bringing order and discipline to finances.”

The summit’s host, Mexican President Felipe Calderon, highlighted the risks policy makers face as they combine measures to stimulate growth with a longer-term drive to balance their finances.

Expanding deficits to stimulate growth is like “diving into a cave at the bottom of the sea,” Calderon said at the summit’s close. “The moment you enter you have to be sure you have the strength and oxygen to return.”

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