Chancellor Angela Merkel’s spokesman said that Spain knows where to look for aid if it’s needed, giving no ground to Prime Minister Mariano Rajoy’s pleas that Germany consider new ideas to resolve the debt crisis.

With markets bracing for further deterioration in Spain’s finance sector and a possible Greek departure from the 17-member euro area, Rajoy on June 2 added his voice to calls for a “banking union” in Europe involving a centralized system to re-capitalize lenders. Merkel shut off another crisis-fighting avenue the same day as she toughened her opposition to euro-area debt sharing, saying that “under no circumstances” would she agree to euro bonds.

Options “that resemble euro bonds” are conceivable after a process of European integration lasting “many years,” Merkel’s chief spokesman, Steffen Seibert, told reporters in Berlin today. For now, “it’s up to national governments to decide whether they want to avail themselves of aid from the backstop and accept the conditions linked to it, and that of course also applies to Spain.”

As euro-area unemployment reached its highest level on record, manufacturing output contracted for a 10th straight month in May and the currency plunged close to a two-year low against the U.S. dollar, leaders continued to wrangle over the details of support for the currency bloc. President Barack Obama meanwhile laid the blame for sluggish U.S. employment at the feet of euro-area leaders, saying they haven’t done enough to resolve the crisis, now in its third year.

Bailout Pressure

European and Asian stocks fell, with Chinese shares in Hong Kong headed for a bear market. The Stoxx Europe 600 Index (SXXP) slid 0.2 percent at 12:49 p.m. in Frankfurt after the Hong Kong Hang Seng Index dropped 2.3 percent. The euro was up 0.03 percent against the dollar to 1.2438.

Merkel will discuss proposals on closer banking coordination when she meets today in Berlin with European Commission President Jose Barroso, Commission spokeswoman Pia Ahrenkilde-Hansen said today in Brussels. Merkel and Barroso will make a statement at 7 p.m. local time.

The German government will await European Union proposals on a banking union, Finance Ministry spokesman Martin Kotthaus said today.

“With the term ‘banking union’ there are not only a lot of different concepts,” Kotthaus told reporters in Berlin. “The term is used in many contexts with many different ways of understanding it.”
French Proposal

Merkel’s isolation was underlined yesterday by the new French Finance Minister Pierre Moscovici, who said that aid for troubled European banks should come through the European Stability Mechanism rather than through governments, a proposal that Germany opposes. “We need to go toward a banking union,” Moscovici said on RTL radio.

Merkel and Finance Minister Wolfgang Schaeuble have urged Rajoy to accept an international bailout, Der Spiegel magazine reported in this week’s edition, without saying where it obtained the information. Spain’s El Pais said yesterday that the EU is also pressing Spain to accept funds, citing unidentified officials in Brussels.

“If aid is needed, everybody knows that Europe stands ready, that Europe shows solidarity and that Europe has aid instruments available,” Seibert, Merkel’s spokesman, said, when asked about the report. “But the decision on that rests solely with the Spanish government.”

Spain Capable

In Madrid, Maria Dolores de Cospedal, the deputy leader of Spain’s ruling People’s Party, told reporters that “Spain is capable of getting out of this on its own.”

Yields on German two-year notes fell below zero for the first time ever last week as investors fled riskier sovereign debt. Spanish bonds dropped for a fourth week, pushing the country’s 10-year yields above 6.5 percent -- nearing the 7 percent threshold which triggered the three earlier bailouts.

Spain plans to sell bonds maturing in 2014, 2016 and 2022 on June 7. The amount hasn’t yet been set.

Cyprus, the bloc’s third-smallest economy, is meanwhile increasingly likely to seek a bailout if recapitalization efforts for Cyprus Popular Bank’s fail, ECB Governing Council member Panicos Demetriades said yesterday. Greece, Ireland and Portugal have already received assistance.

Struggling to shore up confidence in Spain’s banking industry, Rajoy used his weekend speech to urge euro-area nations to “cede more sovereignty” to a central fiscal authority and endorsed the European Commission’s call for a banking union that would entail a single regulator and a deposit-guarantee fund.

‘Long Path’

Such a union, comprising a central rescue fund for lenders and centralized deposit guarantees, would only emerge “at the end of a long path,” Bundesbank Vice President Sabine Lautenschlaeger told the June 2 edition of Frankfurter Allgemeine Zeitung.

The shared risk implied by a supranational euro fund “can only be a success in a fiscal union with central controls and intervention rights,” Lautenschlaeger told the newspaper.

The chancellor’s hard line on debt sharing has been challenged by Italian Prime Minister Mario Monti, who told Greece’s To Vima yesterday that euro bonds will...
occur in some form. Monti will host a meeting with Merkel, Rajoy and French President François Hollande in Rome on June 22, ahead of the next EU summit at the end of the month.

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