Slovakia Clears Road to Complete Approval of Enhanced Euro Bailout Fund

By Radoslav Tomek and Peter Laca - Oct 12, 2011

Slovakia will approve Europe’s enhanced bailout fund today or tomorrow, completing the ratification process across the 17 euro countries as the region’s leaders prepare for a summit this month.

Party leaders in Bratislava yesterday secured backing for the European Financial Stability Facility in a second vote, Robert Fico, head of the largest opposition party Smer, said. Prime Minister Iveta Radicova’s SDKU party in exchange agreed to back early elections to be held on March 10.

“We will proceed with ratification of the bailout mechanism immediately after the constitutional law on early elections is approved,” Fico told reporters. The timing of the EFSF vote depends on how quickly lawmakers get through tomorrow’s debate and ballot on the early election, said Mikulas Dzurinda, the chairman of Radicova’s party.

Enhancing the powers of the EFSF, the temporary bailout fund is crucial for adopting the key element in the strategy to prevent contagion from the debt crisis that has spread from Greece to other countries in the region.

European Commission President Jose Barroso yesterday called for a reinforcement of crisis-hit banks, the payout of a sixth loan to Greece and a faster start for a permanent rescue fund to master Europe’s debt woes. Global stock and currency markets rebounded from earlier losses on optimism Slovakia will approve the EFSF changes.

**Expanded Powers**

The expanded powers of the 440 billion-euro ($600 billion) EFSF would allow the fund to buy the debt of stressed euro-area nations, aid troubled banks in the region and offer credit lines to governments. The EFSF’s current role is to sell bonds to finance rescue loans.

Fico’s party didn’t back the measure on Oct. 11 because the vote was tied to a no-confidence motion against Radicova’s Cabinet, which fell when the bailout’s overhaul was rejected.

“Political uncertainties, such as this one,” threaten to prolong the euro-region debt crisis, Fitch Ratings said in a statement from London yesterday. While the nation “appears to be heading toward an agreement,” a second rejection would leave the European Central Bank with “little choice.”
The ECB would have to continue to buy the bonds of the currency bloc's most-indebted nations or increase the risk of systemic sovereign default, the ratings company said.

**Stocks, Euro Rise**

European stocks climbed to a two-month high and the euro strengthened as European Union Economic and Monetary Commissioner Olli Rehn said the debt crisis can be resolved. The benchmark Stoxx Europe 600 Index rose 1.7 percent to 239.16 at the close of trading, the highest since Aug. 4. The euro rose 1.2 percent to $1.3810 from $1.3640 yesterday.

German Chancellor Angela Merkel said yesterday she is “certain” Slovakia will approve the package before EU leaders meet Oct. 23.

“European officials are quite good at suggesting revotes or different tactics if votes don’t come out in line with what is required,” Steven Saywell, head of foreign-exchange strategy for Europe at BNP Paribas SA in London, said in a telephone interview. “Assuming we do get a revote from Slovakia later in the week, it’s likely to be a ‘yes’ vote. Certainly the market seems to believe that.”

German and French leaders at a meeting on Oct. 9 pledged to devise a plan to recapitalize banks, help Greece and strengthen Europe’s economic governance. Merkel, after meeting French President Nicholas Sarkozy, said Europe will do “everything necessary” to ensure that banks have enough capital.

“The government crisis in Slovakia illustrates one thing: the political price Europe has to pay is extremely high,” Commerzbank AG analysts led by Frankfurt-based Ulrich Leuchtmann wrote in an e-mailed note yesterday.

To contact the reporters on this story: Radoslav Tomek in Bratislava at rtomek@bloomberg.net; Peter Laca in Prague at placa@bloomberg.net

To contact the editor responsible for this story: James M. Gomez at jagomez@bloomberg.net

©2011 BLOOMBERG L.P. ALL RIGHTS RESERVED.