Spivvy

The rescue fund has at last been set up but bond markets are still nervy.

IN THE early hours of May 10th, after a rocky few days in the bond markets and a tense weekend, European Union finance ministers agreed on a €500 billion ($600 billion) “stabilisation fund” for euro-zone countries that have trouble financing their debts. The EU itself, by pushing its existing credit lines to the limit, could raise only €60 billion of that total, and even that needed the backing of countries outside the euro, such as Britain. To fund the other €440 billion, euro-zone countries decided to create a new entity: a special-purpose vehicle (SPV) backed by the credit of its 16 members, plus Sweden and Poland, which said they would join in.

Four weeks later, on June 7th, euro-zone finance ministers announced that the SPV had at last come into being, even if it is not yet open for business. It has only one shareholder so far—Luxembourg, where the fund is registered—but other countries will soon back it in proportion to their economy’s muscle. Once nine-tenths of the shareholders have approval from their parliaments to guarantee the SPV’s debts (a hurdle that Germany and France have already cleared), it will be ready to issue securities. In a ruse to attract a AAA rating for the SPV’s bonds, each member will have to provide a guarantee for 120% of its pro rata share in the scheme. That way even if small countries’ pledges look flaky, the rest should be able to compensate.

In principle, the SPV relieves the European Central Bank (ECB) of one of its more vexing duties. As a sort of holding operation until the stabilisation fund is up and running, the ECB has been buying the bonds of troubled euro-zone countries. Its distaste for the job seems clear from its dwindling purchases. In the days after the May 10th agreement, it spent €16.3 billion on government bonds. In the week until June 4th it spent just €4.9 billion.

The ECB’s retreat is having an impact which the SPV’s creation has not yet offset. The ten-year bond yields of Spain, Greece, Ireland and Portugal are drifting up. The strains that the stabilisation fund is designed to prevent seem to be returning. That may in part be because there are still questions about the SPV. For instance, at which interest rate would it lend to troubled borrowers? If investors do not know when a country would have an incentive to use the SPV’s money, there is less downward pressure on market prices.

Another problem is that the SPV could poison existing markets. Investors may prefer the SPV’s guaranteed bonds to the riskier offerings of a small country such as Portugal. That worry is linked to a larger one. A painful lesson from the efforts to save Greece is that bond markets like to test the substance of guarantees. It took one crisis to bring the stabilisation fund into being. It may well take another one to push it into action.

Fonte: The Economist, June 10th 2010. Disponivel em: <www.economist.com>. Acesso em: 16 jun. 2010.