CRISIS WATCH

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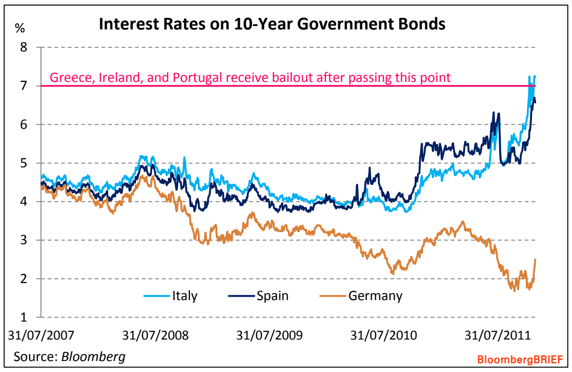
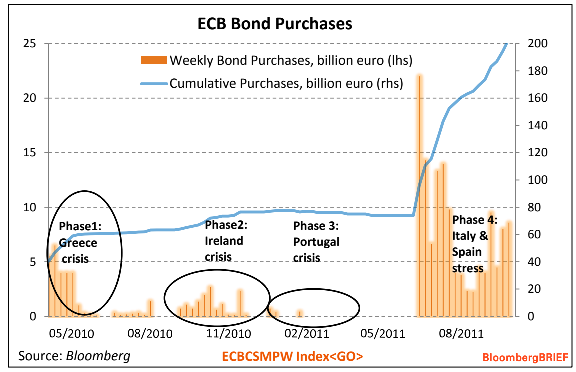
Euro-Area Finance Ministers Stage Reprise as Previous Measures Flop

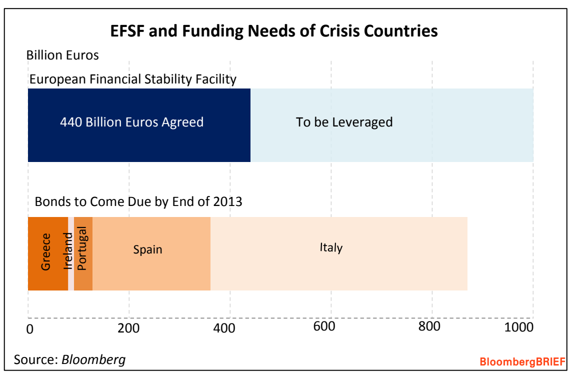
Finance ministers meet in Brussels today in an attempt to regain investor confidence as Italy seeks to raise as much as 8.8 billion euros. The euro-area debt crisis deepened last week on fears that Germany is being affected by contagion following a failed bond auction.



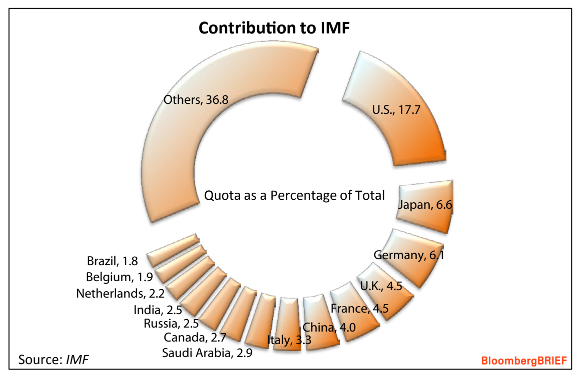
Bond yields have increased across the euro area. Italian 10-year yields remained above 7 percent yesterday while German borrowing costs continued to rise after the government failed to get bids for 35 percent of its new 10-year bond at an auction last week.



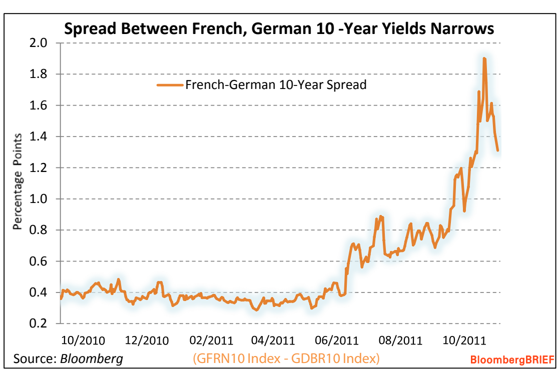
The ECB stepped up bond purchases last week, settling 8.6 billion euros of bond purchases in the week through Nov. 25, up from 8 billion euros the previous week. The ECB has refused to become the lender of last resort for fear of undermining its credibility.



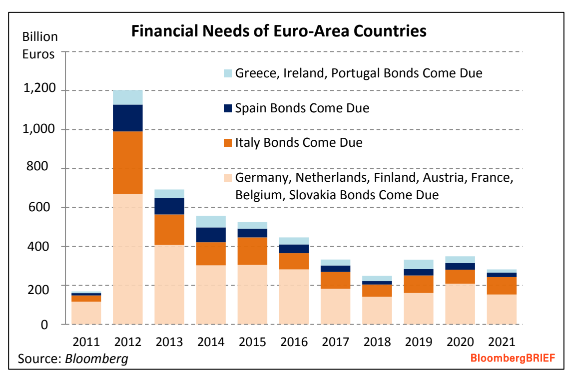
The European Financial Stability Facility, which may insure the bonds of debt-stricken countries with guarantees of as much as 30 percent of each issue, is unlikely to start until 2012. There is concern the fund will not achieve 1 trillion euros through leveraging.



While the BRIC nations are reluctant to lend to the EFSF, they may provide support through the IMF, which has 285 billion euros available for new lending. The U.S. is less keen. The IMF yesterday denied it is preparing a 600 billion-euro loan for Italy.



France and Germany are discussing an accord committing euro states to tighter budget discipline without treaty changes. Germany's Council of Economic Experts proposes a debt redemption fund to pool government debt exceeding 60 percent of countries' GDP.



With little euro sovereign issuance remaining in 2011, the next market crunch is more likely to appear in the first few months of 2012. Governments are due to pay out more than 1.2 trillion euros in 2012, including 458 billion euros of Spanish and Italian bonds.

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