TREASURY EXECUTIVE MINUTE

Minute No.

17 November 2011

Deputy Prime Minister and Treasurer

THE EUROPEAN SOVEREIGN DEBT CRISIS AND TIMING OF NEXT G 20 FINANCE MINISTERS MEETING

Timing: At your convenience.

Recommendation:

- That you note the following briefing.

Noted Signature: …../…../2012

KEY POINTS

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The escalation of the European crisis

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– The rate on Italian 10 year bonds is currently considered unsustainable at around 7 per cent. It is unsustainable in that Italy's debt to GDP ratio will continue to rapidly grow if its nominal GDP is stagnant and it is paying 7 per cent plus on its debt. Section 33

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– The ‘good news’ for Italy is that little funding is required for the next two months. However over the February to April period next year however, Italy is due to rollover an estimated €140 billion of its debt out of almost €2 trillion.

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The EFSF Section 33

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- Euro zone Finance Ministers have indicated that they will outline the details of scaling up the firepower of the EFSF by the end of November, with two options on the table: the EFSF providing limited insurance to holders of European sovereign debt, and the idea of a investment vehicle in order to attract private resources or investments from other countries/ sovereign wealth funds. Section 33

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– The EFSF raises its resources through bond issues that are guaranteed by the Euro zone countries, including Italy and Spain. Spreads on EFSF debt are rising in line with French spreads, which in turn have reached a record. Section 33

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- Section 33 There are signs that European banks are deleveraging, exacerbating the credit crunch and hitting already weak financial and economic conditions in the region. Furthermore, the recapitalisation plan threatens the fiscal positions and therefore credit ratings of euro area sovereigns, adding to the vicious feedback loop between the sovereigns and the banking sector. The deleveraging of European banks also poses risks to the Asia-Pacific region – especially for the provision of commodity and trade finance.

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