

Secret EU Document: European bank bail-out could push EU into crisis

Toxic Assets Exposure in the Trillions

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Global Research, February 19, 2009

Daily Telegraph 10 February 2009

Region: [Europe](#)

Theme: [Global Economy](#)

A bail-out of the toxic assets held by European banks' could plunge the European Union into crisis, according to a confidential Brussels document.

"Estimates of total expected asset write-downs suggest that the budgetary costs – actual and contingent – of asset relief could be very large both in absolute terms and relative to GDP in member states," the EC document, seen by The Daily Telegraph, cautioned. "It is essential that government support through asset relief should not be on a scale that raises concern about over-indebtedness or financing problems."

The secret 17-page paper was discussed by finance ministers, including the Chancellor Alistair Darling on Tuesday.

National leaders and EU officials share fears that a second bank bail-out in Europe will raise government borrowing at a time when investors – particularly those who lend money to European governments – have growing doubts over the ability of countries such as Spain, Greece, Portugal, Ireland, Italy and Britain to pay it back.

The Commission figure is significant because of the role EU officials will play in devising rules to evaluate "toxic" bank assets later this month. New moves to bail out banks will be discussed at an emergency EU summit at the end of February. The EU is deeply worried at widening spreads on bonds sold by different European countries.

In line with the risk, and the weak performance of some EU economies compared to others, investors are demanding increasingly higher interest to lend to countries such as Italy instead of Germany. Ministers and officials fear that the process could lead to vicious spiral that threatens to tear both the euro and the EU apart.

"Such considerations are particularly important in the current context of widening budget deficits, rising public debt levels and challenges in sovereign bond issuance," the EC paper warned.

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