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G7 finance chiefs to discuss bank reform push



By William Schomberg
LONDON | Thu May 9, 2013 7:28am EDT

(Reuters) - Some of the world's most powerful finance chiefs will meet in an English stately home on Friday and Saturday to try to speed up banking and finance reforms, with Cyprus' near meltdown fresh in their minds.

Finance ministers and central bank governors from the Group of Seven industrialized economies probably will not break new ground on how to fix the weak world economy as discussions at the International Monetary Fund took place just three weeks ago.

Officials from two of the G7 economies said the talks - on Friday and Saturday at a 17th-century country house 40 miles northwest of London - were likely to focus more on the slow progress of reforms to banking and finance around the world.

"It's very rare for a G7 to focus on financial regulation," one of the officials said, speaking on condition of anonymity.

The emergency rescue of Cyprus in March acted as a reminder of the need to finish an overhaul of the banking sector, five years after the financial crisis began.

"It makes sense for the G7 financial leaders to send out a message, from high up, that global efforts to ensure financial stability via appropriate regulation must continue," the official said.

Germany may come under renewed pressure to give more support to a banking union in the euro zone as it did at the recent IMF/G20 meeting in Washington. The idea was proposed last year to

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help strengthen the single currency area but Berlin worries it may foot the bill for future bank bailouts.

While the first step - to create a single bank supervisor under the European Central Bank - looks set to be in place by mid-2014, a second pillar, a 'resolution' agency and fund to close failed banks, is in doubt. And there is little prospect that a third leg, a single deposit guarantee scheme, will ever see the light of day.

"We welcome those discussions," a senior U.S. Treasury official told reporters in Washington. "I think Cyprus just further highlighted the importance of moving to break that feedback loop between sovereigns and bank balance sheets."

Another G7 official said new rules for derivatives trading and the Basel III plan for minimum bank capital levels were running behind schedule and would be among the issues the G7 would discuss, as well as the risk of a reversal in soaring share prices in some countries which contrasts with weak growth.

But some of the officials said they said they did not know why Britain, which is chairing the G7, had called the meeting.

"I am really annoyed that I've got to give up my weekend for this," one complained, adding the talks could have taken place on the sidelines of IMF's meetings in Washington in mid-April.

A British finance ministry official said there was value in informal talks among the world's biggest industrialized economies but declined to comment on the agenda.

CHANGED ROLE FOR GROUP OF SEVEN

G7 finance ministers and central bank governors used to hold global markets in their thrall when they met, given the combined financial firepower of the group's members - the United States, Germany, Japan, Britain, Italy, France and Canada.

But it lost its mantle as the main forum for thrashing out differences over the global economy in 2009 when responsibility was passed to the wider Group of 20 which includes emerging heavyweights such as China, Brazil and India.

Since then, the G7 has met on the sidelines of G20 and IMF meetings but has held few standalone meetings although officials say the smaller grouping makes for more open discussion.

"As often is the case, the G7 is a photo opportunity. But it's important that it stays together as a forum to address the issues," said Marc Chandler, global head of currency strategy at Brown Brothers Harriman in New York.

The U.S. official said Washington would keep up its calls on Europe to boost demand and maintain its focus on Japan's aggressive monetary policy which has raised U.S. concerns about a weakening of the yen.

A Canadian official said discussions would again focus on the right degree of belt-tightening for debt-laden countries which are struggling to get their moribund economies growing and have relied heavily on massive central bank stimulus.

No communiqué and no formal decisions are expected at the meeting which would instead help prepare the way for a G20 leaders' summit in Russia in September.

It comes at a relatively good time for its host, UK finance minister George Osborne. He will be able to point to a few signs of life in Britain's stagnant economy that have taken some of the heat out of criticism of his austerity policies.

The meeting will also be a chance for the G7 to get to know new members of the group - such as the finance ministers of the United States and Italy - and to bid farewell to Mervyn King, who retires from the Bank of England in June.

(Reporting by members of the Reuters G7 team, editing by Mike Peacock)

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