



Re-Define Press Release on the Eve of the Euro Group Finance Ministers Meeting, July 11, 2011, 17:00 CET

### **On Greece and decisions on handling the Euro crisis**

#### *On Spain and Italy being sucked into the crisis*

"It is now more urgent than ever to get Greece and the Euro crisis out of the headlines."

"Spanish and Italian leaders must push for a swift and decisive resolution to the farce that the decision on a second package for Greece has turned into."

#### *On the fact that some EU leaders are seeking a reduction in Greek Debt Stock*

"It's encouraging that policymakers have finally realized the importance of reducing Greece's debt stock and debt servicing. This will demonstrate that there is light at the end of the tunnel."

#### *On the continuing discussions on cosmetic private sector involvement*

"It may now be better to kill the idea of private sector involvement altogether than to continue with headline-grabbing discussions on any burden sharing that is merely cosmetic."

#### *On the choices facing EU leaders on Greece*

"We are at a fork in the road. On the left is Plan B involving a steep haircut or a wholesale heavily discounted buy-back of Greek debt and on the right a continuation of Plan A but with a heavy reduction in interest rates on EU loans to Greece." "I think its time for Plan B."

#### *On discussions that around 10% of Greek Debt may be bought back under a new plan*

"Any discussion on buybacks is pointless unless it includes a substantial portion of the outstanding debt."

"A buy back of 10% of debt achieves nothing."

#### *On the best way forward on Greece and the options being considered*

"At this point, a wholesale EFSF financed buyback of Greek debt at 60 per cent of face value or lower looks best."

"I am glad that the proposal made by the French banks has lost steam. It was bad for taxpayers and bad for Greece."

"By itself the maturity extension plan being discussed does nothing for the sustainability of Greek debt."

"Any plan that does not substantially reduce the stock of Greek debt and/or the cost of debt servicing simply does not go far enough."

### **On the signing of the treaty for the European Stability Mechanism**

#### *The size*

"The initial size of the ESM is on the lower side of what might be appropriate for such a facility in the longer run. However, given the level of capital that has been committed the effective size of the ESM could be doubled in an emergency without any additional commitments from member states."

### *The capital structure*

"The level of paid-in and callable capital committed to the ESM is very substantial and contains an implicit buffer that can be tapped in emergencies."

### *Credit rating and funding needs*

"The capital structure of the ESM may be inefficient and overtly conservative but has the advantage of allowing it to expand lending capacity under duress to as much as Euro 1 trillion."

"The inexplicable decision to waive the preferred creditor status for Greece, Ireland and Portugal is bad news for EU taxpayers without being good news for the troubled member states."

"It was a last ditch attempt to induce a voluntary participation by the private sector in the Greek bailout that failed."

### *Decision making process and conditionality*

"The onerous and inflexible conditionality arrangements included in the ESM treaty would make the ESM relatively ineffective as a crisis mitigation tool as troubled member states will continue to wait far too long to ask for help." "The combination of convoluted decision making and strict conditionality mean that the ESM will not be able to limit contagion effectively."

### *Toolkit of instruments*

"The ESM toolkit, comprising loans and primary purchases of bonds, is far too small to allow it to be an effective tool for crisis mitigation." "Political shenanigans and a flawed understanding of debt dynamics have meant that member states have killed the possibility of using guarantees and debt buybacks, the two most effective instruments for crisis mitigation."

**Please attribute quotes to Sony Kapoor, Managing Director Re-Define an Economic Think Tank**

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