



Re-Define Press Release on Italy, Greece, ECOFIN, Euro Group and the Euro Crisis

8th November 18:00 CET

Please find below Re-Define's comments on recent developments in the EU. Please attribute to Sony Kapoor, Managing Director Re-Define an Economic Think Tank

"If the expectation that the Euro itself may have a limited shelf life becomes widespread, a lame-duck ECB may no longer be able to salvage the situation no matter what it does."

"The Eurozone now faces political, economic, financial and institutional crises all at the same time."

"There is nothing Italy can do from within that will restore confidence, though without Berlusconi external help would become far more forthcoming and probably less necessary."

"Most of Greece's problems still lie in the future not in the past."

"Helping a Euro zone intent on committing hara-kiri would be throwing good money after bad."

"The EU still has no convincing way of providing weak banks in troubled economies with the capital and term funding support that they urgently need."

"What happens in Frankfurt at the ECB is even more important than what is going on in Rome or Athens."

"If Germany and France are actually as serious about FTTs as they seem to be, why not start by implementing a UK-like stamp duty model unilaterally? What is stopping them?"

On the politics in the EU

"The events of the past few days demonstrate clearly that this is now a political crisis."

"Incalculable economic, social and political damage is being inflicted on the European Union by its current crop of leaders from both troubled and strong economies."

"Petty parochial politics and procrastination has transformed a treatable birth-defect into a near-fatal malady."

On the urgency of dealing with Italy

"Short of booting Berlusconi out, there is nothing else Italy can do to restore confidence."
"Even that is unlikely to be enough at this stage and Italy will need large ECB support."

“Unless the spiking Italian yields are brought under control now, even a large scale ECB intervention may no longer be enough.”

“If Berlusconi still cannot be dislodged, it may be time to offer him an amnesty to go. He has inflicted incalculable damage on Italy and the European Project by staying on so long already.”

"Italy is solvent as long as borrowing costs stay below a critical 4.5 % threshold."

“While Italy is fundamentally solvent with its low stock of private debt, solvency is always conditional on reasonable costs of refinancing. This, Italy no longer has.”

On the developments in Greece

"While the appointment of Papademos is a good development, it is important to remember most of Greece's problems still lie in the future not in the past."

“It may be time for EU partners to offer Greece still bigger haircuts on private debt , lower interest rates on public debt and a significant EIB and structural fund financed investment program to give the incoming government any chance of succeeding.”

On the urgency for the ECB to act

“While it has not been inactive, the ECB refuses to do what it takes and is playing a high-stakes game of chicken with politicians the consequences of which can be fatal.”

“Unless the ECB starts supporting Euro sovereigns in a big way and the EFSF is allowed to directly recapitalize EU banks, downgrades for both banks and sovereigns will come thick and fast.”

“Without much bigger ECB support, troubled Euro area countries simply do not have the economic and political space to enact the fiscal and structural reforms that are needed.”

“If it continues to refuse to increase its support for troubled member states, it is just a matter of time before the ECB’s inactions start looking like a dereliction of its duty as the guardian of the Euro.”

“The truth: Without massive on-going action by the US Fed, the Bank of England and Bank of Japan we would all have been doomed already. Unless the ECB joins the act, we are all still probably doomed.”

On the possibility of emerging markets coming to the aid of the Eurozone

“Without ECB support, external help would only be a band-aid and if the ECB acted, no external help is necessary. “

“As we have witnessed in the past two weeks, any talk of external help, no matter how vague, simply gives EU leaders and institutions room to procrastinate some more.”

“The EU remain arrogant enough not to offer emerging economies a fair share of power in global institutions that they would doubtless demand in return for their financial support. It may want to be helped, but only on its own terms. “

On the continuing problems facing banks that need recapitalization

“Unless the EFSF is allowed to directly recapitalize EU banks, troubled EU banks and sovereigns will continue to drag each other down in a spiral of death.”

“Expected losses on Greek government bonds inflicted on Cypriot banks led to a downgrade of government debt in Cyprus. This is an illustration of the cross-border contagion and sovereign-bank interdependence that has made this crisis so hard to control.”

“The EU still has no convincing way of providing weak banks in troubled economies with the capital and term funding support that they urgently need.”

On the economic governance package

“While the package contains some useful measures on increased surveillance and monitoring which will generate useful information and warnings, at its core it is more of the same – the stability & growth pact that failed miserably.”

“The economic governance package and the accompanying euro plus pact may further exacerbate the widening gap between the shrinking policy space available to member states to act and the increasing set of economic variables they are being asked to deliver on.”

On the discussion on financial transaction taxes

“It is hard to see how Osborne can shoot down the concept of FTTs and keep a straight face while the UK stamp duty continues to rake in billions of Euros of tax revenue.”

“Sweden screwed up in their implementation of the FTTs in the 90s that does not mean that there is no sensible way of implementing them.”

“While well-designed FTTs are in general a good idea, the present proposal from the European Commission does not meet that test.”

“If Germany and France are actually as serious about FTTs as they seem to want to be, why not start by implementing a UK-like stamp duty model unilaterally? What is stopping them?”