



## Re-Define Press Release on the Evolving Euro crisis

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Dear colleagues,

Please find below Re-Define's quick comments on the evolving Eurocrisis, the state of EU banks, the need for ECB intervention, the EC's Eurobond proposal and the situation in troubled economies. You will also find links to our latest commentary on the [ECB here](#) and [on EU banks here](#)

Please attribute all comments to **Sony Kapoor**, managing director Re-Define, an economic Think Tank

*"The EU with its discretionary austerity policies and self-inflicted sovereign debt crisis is now flirting dangerously with a debt-deflation trap."*

*"The EU's latest rejection of the EBA proposed pan-EU term funding facility for banks will increase banking fragility and accelerate deleveraging."*

*"The proposed 'stability bonds' may be toothless without an explicit provision of a lender of last resort support by the European Central Bank."*

*"Further delay by the ECB will increasingly look like a dereliction of its duty as the guardian of the Euro."*

*"No matter what magic Monti conjures, he cannot save Italy without the ECB pulling its weight."*

*"Greece's debt remains unsustainable, growth negative, the banking system fragile, the politics impossible and the program assumptions still far too optimistic."*

*"Even more austerity may mean that the almost unmanageable unemployment problems of Spain spiral completely out of control."*

### General

*"History may see the G-20 and the preceding EU leaders' summits as the beginning of the end of the Euro project as we know it."*

*"The irresponsible talk of Euro-exits and the obstreperous stance taken by the ECB will have dire real consequences for the EU economy, employment and welfare."*

*"The austerity mantra in the EU has already spelled the death knell for growth."*

"As long as the ECB does not step up to the plate, austerity is replaced by a growth strategy and EU leaders are able to present a credible end-game, we will continue to accelerate towards economic Armageddon."

"The relatively insignificant assassination of Archduke Ferdinand eventually led to the death of 15 million people; the tractable problems of Greece have similarly been allowed to grow into a full-blown Eurocrisis that may herald the end of the European project."

"If only EU leaders and institutions were held accountable for the social and economic consequences of their reckless public utterances, we would have a better public discourse and a shallower crisis."

### **State of the European Banking System**

*You will find our latest commentary on the state of the EU banking system [here](#)*

"The Euro area banking system is now, by some measures, in a worse shape than in the post Lehman period."

"By far the biggest driver of growth-sapping deleveraging in the Euro area is not a lack of capital but a complete drying up of bank funding from all non-ECB sources."

"The EU's latest rejection of the EBA proposed pan-EU term funding facility for banks will increase banking fragility and accelerate deleveraging."

"Marking all sovereign bond exposures to market has been a mistake that has undoubtedly added fuel to the fire of the Euro crisis by reinforcing the links between banks and weak sovereigns."

"Asking weak banks to provide capital backstops and funding guarantees to their banks may be worse than useless as it will weigh on the sovereign without providing any help to the banks."

### **Eurobonds**

"The proposed 'stability bonds' may be toothless without an explicit provision of a lender of last resort support by the European Central Bank."

"The proposed 'stability bonds' will do little, if anything at all, to help with sorting out the current crisis."

"Some of the commission's proposals in its Eurobond Green paper may fit into a command and control economy but are unlikely to work in a democratic environment."

### **ECB**

*You will find our latest commentary on the limits of what the ECB can do [here](#)*

"The ECB increasingly appears to be institutionally and temperamentally incapable of doing what needs to stem the crisis."

"By the time the ECB does decide to up its ante in the face of an existential crisis, it may simply be too little too late."

"Unless it happens sooner rather than later, scaled up ECB support may eventually prove to be insufficient much as the delayed leveraged EFSF has."

"Further delay by the ECB will increasingly look like a dereliction of its duty as the guardian of the Euro."

### **Greece**

"Greece's debt remains unsustainable, growth negative, the banking system fragile, the politics impossible and the program assumptions still far too optimistic."

"Greece needs a mandatory debt reduction deal with much larger haircuts to have any chance of making its debts sustainable."

"Greece urgently needs pan-EU support to help recover fled capital much of which lies in tax havens such as Switzerland."

### **Spain**

"While having a government with a substantial majority may be helpful, the PP's policies are unlikely to be much different from those implemented by its predecessor PSOE."

"There remains a substantial risk of the vast as yet unrecognized losses in the Spanish real estate sector blowing up in the face of the new government."

"Even more austerity may mean that the almost unmanageable unemployment problems of Spain spiral completely out of control."

### **Italy**

"Italy cannot escape the downward spiral it is now caught up in without substantially higher external support from the ECB."

"No matter what magic Monti conjures, he cannot save Italy without the ECB pulling its weight."

"Many of Italy's fiscal problems can be addressed by a substantial wealth tax and a concerted effort to crack down on tax evasion. It remains to be seen if the reach of the Monti government can extend far enough to make this politically feasible."

Please email [Media@re-define.org](mailto:Media@re-define.org) for further Comments and Analysis or call [+32-489128094](tel:+32-489128094)

Media Adviser, **Re-Define**

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