Re-Define Press Release on the Conclusions of the Euro Area Leaders' Summit

July 21st, 2011 21:30 in Brussels

(For a paragraph by paragraph analysis of the final communiqué, Click Here)

Dear Colleague,

Please find Re-Define's comments on the outcome of the Euro Leaders' summit today. Please attribute these to **Sony Kapoor**, Managing Director, Re-Define an Economic Policy Think Tank.

"EU leaders have missed the boat, yet again."

"Everyone will emerge diminished from this." "There have been no heroes in this crisis."

"All this does in terms of private sector involvement is to allow leaders to save face."

"The headline Euro 106 billion figure for the involvement of the private sector is nearly meaningless as the risks remain largely with EU taxpayers."

"This is mere debt relief when what was needed was debt cancellation."

"The leaders pay lip service to the need for growth and investment in Greece but this is no Marshall Plan." "The debt overhang will hurt growth and investment even as EIB and other EU funds seek to stimulate it."

"The fear-mongering around selective default has been shown to have been without basis"

"It has already taken ten summits and a near death experience last week to come up with this and it remains inadequate."

"This is not the victory for taxpayers it will undoubtedly be sold as; far from it."

On the decisions to increase the maturities of EFSF loans and reduce their interest rates

"With maturity extension and interest rate reduction alone, the stock of Greek debt will remain unsustainable."

"Reducing the interest on EFSF loans and extending their maturity is overdue but will do little for increasing the sustainability of Greek debt at this stage." "This will have a bigger effect on Ireland and Portugal."

"The interest rate reduction and maturity extension agreed is necessary but no longer sufficient."

On the self-defeating nature of credit enhancements

"Offering credit enhancements for what is likely to be only a minimal sacrifices by private bondholders will come either at the cost of EU tax payers or the sustainability of Greek debt."

On the inadequacy of the private sector participation agreed

“The insistence on keeping private sector participation ‘voluntary’ means that it will neither be substantial nor have much real burden sharing. It will, however, allow the leaders to save face.”

"Any private sector involvement that does not significantly reduce the stock of Greek debt is almost pointless."

On the EFSF flexibility

"The broader the array of instruments the EFSF can use, the more effective it is likely to be."

“There is nothing about whether this flexibility will be extended to the ESM, an essential step in our view.”

“While making the EFSF more flexible is welcome and long-overdue, this will first need to be approved by national parliaments. The EFSF is still not able to issue guarantees, can only buy in the secondary market under exceptional circumstances and excessive conditionality remains a problem.”

On Ireland’s commitment to engage in discussions on the common corporate tax base

“A common corporate tax base is good and will provide a much needed boost for the single market if Ireland and other countries drop their opposition to it.” “So this is a good step.”

On selective default

“A selective default rating may not be harmful as long as Greek banks continue to receive funding support from the ECB or alternative sources such as the Greek central bank or a consortium of private banks.”

"The fear-mongering around selective default has no basis in market reality, if it is planned and well-managed"

On recapitalizing the Greek banking system

“Restoring confidence in Greek banks is critical to stop deposit flight and maintain the availability of credit in the economy.”

The Good

“The reduction in the interest rate and extension of the maturity of EFSF loans”

“An agreement to increase the flexibility of the EFSF though it will need to be agreed to by parliaments”

The Bad

“Insignificant reduction in the stock of Greek debt, which remains unsustainable”

“Little private sector involvement or effective burden sharing made worse by credit enhancements”

The Ugly

“Throwing in the phrase ‘Marshall Plan’ without any substance”

“A misleading reference to Euro 106 billion private sector involvement which has little impact on the sustainability of Greek debt and keeps most of the risks with taxpayers”

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