



Press Release



Re-Define on the Informal EU Leaders Summit, Spanish Banks, Greek Exit, the Eurocrisis & the European Parliament vote on Financial Transaction Taxes!

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Please find below Re-Define's Comments on the Informal EU leaders summit today, the dire state of the Spanish banking system and economy, the discussion of a Greek exit from the Eurozone and the European Parliament's vote in favour of Financial Transaction Taxes.

All comments are attributable to Sony Kapoor, Managing Director of Re-Define an Economic Think Tank.

Please also find links to 1) our FT Op-Ed on the need for an IMF program for the Eurozone "[Only the IMF can break the Euro logjam](#)" recent Bloomberg interviews on 2) [the Growth Compact](#) 3) [German Politics & the Eurocrisis](#) and 4) a [Reuters Insiders interview](#) on the discussion of a Greek exit.

EU leaders remain divided on the best way forward

“While there is now a broad agreement, including from Germany, of the need for a [growth compact](#) of some kind, there is much less agreement on what this compact should be about.”

However “Appearing to strike some form of a compromise on the growth vs. austerity debate is politically very important for both Merkel and Hollande.”

“While a broad agreement on increasing the resources of the European Investment Bank is now likely what really matters is by how much and how soon. On this, the answers currently being proffered by EU leaders remain highly inadequate.”

“The German government may have publicly rebuffed any talk of Eurobonds yet again however the position of key policy makers within Germany is more nuanced in private.”

“While many EU policymakers have run out of patience with Greece and are angry at what they see as posturing by Greek leaders, no one actively wants Greece to leave the Eurozone and is prepared for the consequences of such an event, no matter what they say in public.”

“It was highly irresponsible of Austria and Luxembourg to have vetoed the European Commission's proposal for a more robust, collective approach to tackling tax avoidance and tax evasion last week. Despite that, the issue will not go away and some form of an informal arrangement or even a more formal 'enhanced cooperation' on this is likely to be considered seriously by EU leaders.”

“The fact is that any policy measures taken to support Spanish banks or promote growth in the Eurozone would not work as long as the growing uncertainty about the possibility of a Greek exit from the Eurozone is not settled by putting to rest doubts about such an event.”

As the divergence between various Eurozone economies widens

The Eurozone is stuck in a [dumbbell trap](#) wherein the economic and political divergence makes a collective solution harder.

“The new record low negative real borrowing costs being enjoyed by Germany and other AAA rated Eurozone countries are less a reflection of their strength and more a symptom of investor desperation amid all the talk of a Greek exit.”

“As long as the new record highs being tested by German bonds is seen by some as a reflection of German economic strength, rather than as a sign of a Eurozone in crisis, it will make a political solution harder.”

“When asked if they have worthwhile positive return public projects they could invest in, officials from all the safe-haven countries in Europe say yes enthusiastically. When asked why they are not borrowing at negative yields to make these investments, they have no answer.”

All talk of a Greek exit is irresponsible and dangerous

“Many of those talking lightly about the possibility of a Greek exit are either idiots who don't know what they are talking about, charlatan traders who have short positions or demagogic politicians with a nationalist agenda.”

“The scary thing is that given all the talk of a Euro exit, it is individually rational for people to withdraw their Euros from Greek banks.” “However, any such action would be collectively disastrous as the bank run that results would probably trigger the event people would like to guard themselves against.”

“In the event of a bank run, there is little the Greek government could do to stem the panic. The Greek government cannot credibly guarantee the repayment of all outstanding deposits in Euros.”

“The only action that can reliably stem a Greek bank run once it starts is a European guarantee that depositors would get repaid in full in Euros. Unfortunately the political will for such a Euro 150 billion guarantee does not exist, at least not yet.”

“Needless to say, the impact of the uncertainty surrounding all the talk of a Greek exit has already pushed the Greek program significantly off-track.”

“The IMF's more measured approach to the Greek political imbroglio is the right way to go. Further concessions on terms for the Greek package are needed if the social, economic and political fabric of Greece and the Eurozone is to be held together.”

The downward spiral in Spain continues

“With every passing day, the need for European support for the Spanish banking system becomes clearer. The Spanish banks are caught in a [perfect storm](#) from which neither they, nor the Spanish government can extricate them.”

“It is almost inevitable that either the EFSF or the ESM will need to inject capital into Spanish banks directly. The real question is how long before this happens and at what terms.”

“Spain is caught in a vicious downward spiral of cutting government spending, which is deepening the recession, weakening its already fragile banking system, rising unemployment and falling tax revenues which then create European pressure for further spending cuts.”

“Unless something is done to arrest the decline in Spain, it is headed towards needing a fully-fledged bailout. It's far from obvious that the financial resources and political willingness for this exist in the Eurozone.”

“The LTRO funded purchase of Spanish government bonds by the Spanish banks and the injection of capital into Spanish banks by the government have reinforced the dangerous sovereign-bank links. This [dance of death](#) between the fragile banking system and a weak sovereign now threatens to bring both down unless the link between the two is broken through European intervention.”

“EU policy makers are rightly, if somewhat belatedly, starting to discuss changing the terms of the ESM treaty to allow the crisis fund to directly inject equity into troubled banks. However, the proposal remains controversial and many aspects such as the what form the injection should take and who should supervise the banks and on what terms remain unclear with a wide range of opinions.”

The European Parliament vote on Financial Transaction Taxes represents progress

Meanwhile the EP has adopted many of our suggestions on [how to improve the](#) European Commission's proposal on financial transaction taxes.

“The European parliament’s proposal represents a significant improvement on the original Financial Transaction Tax proposal by the European Commission.”

“The addition of the issuance principle in the design of the Financial Transaction Taxes by the European Parliament makes the proposal more workable and robust against efforts at avoidance and evasion.”

“The parliament’s insistence that the title to securities on which a financial transaction tax has not been paid is not secure and may not be enforceable in courts is a powerful principle that will dissuade tax avoidance.”

“The European parliament’s recognition that the financial transaction tax could be adopted in a more limited form at a national level or by a group of countries will make it much more likely that such a tax will be introduced sooner rather than never.”

“Loosening the link between the revenues from Financial Transaction Taxes and the European Commission budget has made the adoption of such a proposal by a number of member states much more likely.”

For further comments or interviews please contact:

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