



José Manuel Barroso
President
European Commission

Brussels, 7th March 2010

Greece and the euro-area need a crisis-management mechanism

An Open letter
to European Commission President Barroso
from PES President Poul Nyrup Rasmussen
On a proposal for a European Mechanism for Financial Stability

Dear President Barroso,

I am writing to you to express my deepest concerns about the current situation in Greece – and its implications for the entire euro-area.

Greece has been suffering, since the end of last year, from speculative attacks directed against its sovereign debt. These speculative attacks have in turn greatly increased the price for Greece to access market financing. This euro-area Member, which was already heavily burdened by the cost of its debt created by its former government, has now been placed on the road to sovereign default by hedge funds and other speculators. If Greece is to recover from the financial and economic crisis, if the Government of George Papandreou is to bring the lasting change that it is committed to delivering, it will need to access funding at a fair price. This price – which must of course take account of the current state of Greece's public finances – is not the current market price, which has been grossly inflated by speculation.

Having yourself recently pledged the solidarity of the EU towards Greece, a solidarity which has been requested by the Greek Government, I understand that you are willing and committed to addressing the very serious problems caused by speculative attacks against euro-area Members' sovereign debt and the single currency. We need to send the speculators a clear signal that they cannot bully EU countries who stand together.

Now is the time to identify solutions, not just for Greece, but those which ensure that this crisis is the last time that *any* Member State should undergo the humiliation of announcing, not one, not two, but three sets of austerity measures on the basis of the markets' requests. The 'Greek crisis' demonstrates once again that there is a need for real mechanisms of economic policy coordination in the euro-area, and in particular a *genuine crisis-management mechanism*. We need to collectively rise to the challenge by addressing the great institutional imbalance in the design of the Economic and Monetary Union.



We need a mechanism to ensure that not a single euro-area Member State should be forced to borrow on the markets at excessive prices due to speculation. Such a mechanism must provide real protection to all Member States against speculative attacks – and send a strong message to the financial markets that the European Union will not let any of its Members be driven to a sovereign default because of speculation.

With a view to contributing to your efforts, the Party of European Socialists has on Tuesday 2nd March 2010, proposed a stabilisation plan to set up a long-term crisis-management mechanism in the euro-area. *It represents a truly European solution to a truly European problem.* I believe this plan is a sensible, thorough and readily operational contribution, and I would be grateful if you were to consider it with all the attention that the gravity of the situation requires.

Our plan, the “European Mechanism for Financial Stability”, relies on the two mutually reinforcing principles of solidarity and responsibility. It has been designed in accordance with Article 122 of the EU Treaty, which allows for the “spirit of solidarity” of the Member States to become operational in a scenario such as a speculative attack against any Members’ sovereign debt.

The European Mechanism for Financial Stability consists of the establishment of a *trustee fund* by the euro-area Member States, which can borrow funds on the markets. The fund can then provide a conditional loan to a Member State facing difficulties in accessing financing at a fair price due to speculative pressures. As you can see, this plan does not involve any transfer of funds from the Member States to their partner. It is only intended to ensure that speculative attacks on sovereign debts in the euro-area will quickly become a thing of the past. The euro-area should be equipped with an anti-speculation mechanism as the non-euro EU Member States are with the well-functioning EU facility for balance of payments.

The granting of loans by the European Mechanism for Financial Stability is linked to a fiscal consolidation programme, which must start the benefiting country on the road towards sustainable public finance, while not jeopardizing its economic recovery. The conditionality package attached to a loan should be up to the Economy and Finance Ministers of the euro-area, and be based on objective criteria. Euro-area Member States should never again have their economic policy dictated to by the markets.

The last informal EU Council on 11th February called for stronger action for EU solidarity. The Greek Government has made outstanding efforts to rebalance its public finances. Now it is time for the EU to transform political principles into financial solidarity. If we fail, it will be a defeat not only for the euro-area, but for the EU as a whole. The Commission, as Guardian of the Treaties, should therefore have a clear proposal.

I hope that we will have the opportunity to discuss this plan further, and I am available to provide you with any additional information.

Yours sincerely,



Poul Nyrup Rasmussen
President
Party of European Socialists
CC: College of the European Commission

