

Is the European stabilization package convincing?

Elements collected through EIN experts - Ross Walker and Fernando Navarette

Decided by the Council on 9 May, the European stabilization package includes **four instruments**, which require detailed explanations due to the complexity:

- **A bailout plan for Greece and prepared by the IMF:** this is a complex instrument for the Greek debt restructuring which has been the object of an intergovernmental agreement. The granted warranties reach an amount of € 110 bn.
- **A proactive intervention by the ECB** on the markets to decrease interest rates in the high-risk countries; this is the a-political element but the most important one among the Council's proposals. The ECB no longer only guarantees the price stability in the Eurozone, it also takes responsibility for the rate stability (...): by drawing from the Central Banks' reserves of the European System of Central Banks, the ECB will buy back the private and public debt of fragile and uncompetitive states for which markets could be tempted to charge high interest rates. Until now, the ECB had always refused to play this role. It is doing so under politics pressure, without revealing the triggering thresholds of its intervention be known by people. Reserves and debt capacities of Central banks of the most competitive economies will be put together to (artificially) decrease the less competitive countries' cost of debt. It is a historical step for world. Once the warranted temporary fund is operational, we can foresee that the ECB will stop doing this new work.
- **A permanent European Financial Stabilization Mechanism of € 60 bn** based on an intergovernmental agreement between the Eurozone governments, as set up in the article 122.2 of the Treaty: it is a "tontine", an emergency reserve which constitutes a crisis management tool. *It is part of the margin of the European budget.* Conditions to apply to this mechanism will be on terms similar to the IMF.
- **A temporary fund (3 years) backed up by the Member States of the European Union and the IMF:** it is a new instrument of mutual debt which is bringing a financial solidarity as never seen before between the Member States of the EU. Warranties given by the MS and the IMF will reach € 440 bn. *This borrowed money will be used to buy back the public and private debt of the MS.*

The outcome of the Council is clear on the 3 following points:

- **None of the created instruments is really communitarised:** except for the European Financial Stabilization Mechanism, created plans and instruments are intergovernmental, outside of the Union budget, without Treaty legal base, *managed by the IMF, without the Commission.*
- **The implementation of a European Monetary Fund failed** in favour of a more flexible temporary mechanism of rates stabilization, first by the ECB, then with a temporary fund.
- **The necessary condition to benefit from the new instruments is, at the moment, intergovernmental and overseen in a political manner:** no clear, restrictive and automatic rules (such as Maastricht criterias) ; no early warning mechanism either penalty mechanism as wake-up call for MS on a wrong way. At this stage, there is no threat of being excluded from the new European Stabilization Mechanism for the States which are not complying with the budgetary discipline.

There are numerous remaining issues concerning the four elements of the European plan:

- 1) **Are the guarantees given by Greece sustainable?** Will the rescue plan (€ 110 bn) be enough? Will Greece comply with its commitments towards European public lenders? Will the rates charged to Greece be socially acceptable for the Greek People? Will we avoid a contagion crisis linked to the unavoidable restructuring of the private Greek debt?
- 2) **On which bases will the ECB intervene regarding the increasing rates?** According to which threshold? Will they proceed to their own country risk evaluation? Following which political injunctions?
- 3) **Who will manage the European stabilization Mechanism?** The Commission? An ad-hoc structure depending from the Council? Which type of professional experience? Is the intervention mechanism degree enough in comparison to the potential risks coming from Spain, Portugal and Ireland?
- 4) **Who will be responsible for the temporary fund?** The ECB? A separated entity? When will this mechanism be able to take over from the ECB intervention to decrease rates?

The 9 May Summit is an historical step

The monetary solidarity between the Europeans is temporarily going further than what the Treaty said. The proposed warranties are impressive. The creation of a "usine à gaz" was avoided by the Union.

However, there are still remaining important doubts concerning the elements of the European Stabilization Plan.

The intergovernmental dimension of the planned arrangements, followed by the risk of democratic deficit and a politicization of the ECB decisions, is reducing the role of the communitary institutions - Commission and Parliament.

After a period of relief and euphoria, there are few probabilities for the markets to be fully reassured and to stay, for some weeks, in a certain hesitation.

There will be a strong request for explanation and control of the new mechanism within Civil Society.

Document edited by Franck Debié, Policy Director of the EIN