



Alliance of Liberals and Democrats for **Europe**
Alliance des Démocrates et des Libéraux pour l'**Europe**

Greece and the eurozone

A Comprehensive Plan

21 June 2011

Last week the Standard's and Poor rating agency lowered the ranking of Greek bonds from B to CCC. This is the latest after a series of signals from the markets that they are almost giving up on Greece. It is also clear that we are heading towards a worst case scenario, not only for Greece, but also for the entire eurozone. If the markets perceive that Europe is retreating from its support and solidarity for one country, then they will target the next one.

The current approach concerning Greece that was adopted by our European leaders is running behind the facts. It is too soft, far too limited and modest to convince the markets that the euro crisis is under control, let alone that it has been overcome. In order to be genuinely convincing, a radically different package is required: a comprehensive, coherent strategy, an all-embracing approach, which goes to the root of the matter. This is necessary in order to solve the Greek problem, to stop the contamination within the eurozone and to keep the euro as such out of the danger zone.

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A new, deep-rooted strategy is needed. This strategy should be based on reforms and austerity, but also, in order to prevent a collapse of the economy, of investments and growth. An effort from all involved parties is necessary.

(1) From the Greek side more fundamental and radical reforms such as:

- A bolder, faster and more realistic fiscal consolidation programme based mainly on reducing government expenditure that would decrease the accumulation of public debt and positively surprise the markets. This should be based on a reduction of 2/3 in public expenditure and 1/3 of revenue.
- A long term institutional reform programme aimed at dealing with corruption and clientele-type political practices, with technical assistance from the relevant EU services and agencies.

On the other hand, we must give Greece new incentives for economic growth. We consider necessary an investment plan like the "Hercules Plan" with the following elements:

- reduction of the tax burden on business to promote growth.
- reallocation of resources from the European budget and/or from the EIB. An EU investment package shall aim to reanimate the Greek national economy, stimulate economic growth and reduce public debt to GDP ratio. This package should amount to €30 billion, of which €10 billion could already be taken from the funding period 2014-2020. Co-financing could be exceptionally dropped or covered by revolving funds.
- guarantees from the EU and the EIB for new private investments in Greece.
- part of the privatisation program (for example 25%) should be attributed to a fund for investments.
- the privatisation programme also has to be redesigned so that it does not end up with too rapid sales of Greek public assets, which are going to hurt both the country and the lending nations (they will receive less return on their loans). This can best be achieved if the sales - especially of real estate property - are given more time (e.g. 7 instead of 5 years), and the revenues are contractually divided between the Greek state (for the investment fund mentioned above) and the lending nations.

(2) From the side of the eurozone we must make an effort as well. Today the eurozone is strangling Greece by imposing an unnecessary high interest on the given loans. Therefore we should lower the interest to the level of the IMF (lending at 3.5%) rather than the rate imposed by the EU Member States of 5%.

(3) Efforts are also needed from the bondholders. There are basically two options: accept that on their Greek bonds the maturity will be extended, or, and this may be a

better option, accept to exchange the current bond package for a smaller package of secure AAA European bonds or EFSF bonds.

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The combination of reforms, investments and efforts from the bondholders and the eurozone countries is essential to save Greece and to appease the markets towards the eurozone. However, this is only going to work if:

- there is a political consensus in Greece to follow this strategy. Political parties must stop their political games. Without a real cross-party consensus, no further international effort will be made.
- the leaders of the European Union must stop creating confusion concerning the future of Greece in the eurozone. The European Union should be united as well and must back this necessary deep-rooted strategy for Greece and the entire eurozone.

Furthermore, the EU must stick its commitment to reinforce the Growth and Stability Pact. This requires coherence between public political statements and legislation. The current Economic Governance Package being negotiated offers the Council the possibility of ensuring greater automaticity through the use of Reverse Qualified Majority Voting as proposed by the European Parliament, and supported by the ECB. The reinforcement of the Stability and Growth Pact is essential if we are to prevent the reoccurrence of situations such as the one that led to the current crisis in Greece.