POSITION PAPER

PREVENTING A NEW EUROZONE CRISIS: TOWARDS A NEW DEAL FOR GREECE AND THE EMU

OUT OF THE CRISIS - A BETTER ECONOMIC MODEL FOR EUROPE

Economic union that works for you

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TABLE OF CONTENTS

INTRODUCTION

It is now clear that Greek people are rejecting policies against which European Socialists and Democrats have been fighting for years: abrupt fiscal consolidation combined with sharp labour cost cuts, leading to large-scale unemployment and poverty. They are also rejecting that the default solution for addressing Eurozone imbalances should be internal devaluation imposed by an unaccountable "Troika" (EC-ECB-IMF) in exchange for bailout disbursements.

Greece faces massive challenges to recover from five years of austerity and to shrink its sovereign debt which currently exceeds 170% GDP. **But Greece's problem is also a European one**: serious financial and political crisis risks emerging from the standoff between the Syriza-led government, which calls for debt relief, and those in Europe who insist on continued austerity for decades to come. The integrity of the Eurozone must be preserved; but how the present crisis is resolved will show how our Economic and Monetary Union is able to handle and prevent economic shocks and imbalances in the future.

The S&D and PES family has a major responsibility and a unique opportunity to help define a credible, fair and progressive political solution to this dispute. It needs to be based on a **reform and reconstruction plan for Greece, replacing the current bailout programme** designed by the “Troika”. It must be a joint plan, genuinely responding to the concerns of the Greek people, while remaining acceptable to other EU governments/institutions and the people they are accountable to. Therefore it should be negotiated between the Greek government and the European Commission and Council, under the supervision of the European Parliament. The plan would **create confidence** that a solution will be found for Greece’s prosperous future within the Eurozone. Its implementation would provide assurances required by Greece’s European partners in return for tangible solidarity.

Meanwhile, urgent action is needed to **stabilise markets and prevent further capital flight** from Greece, particularly after the ECB decided to make Greek government bonds ineligible as collateral in ECB refinancing operations. It is now crucial that the ECB enables continued provision of **emergency liquidity assistance** to Greek banks. Rather than forcing Greece into an extension of the Troika programme, the ECB should do its part to ensure the necessary funding of the Greek economy while a New Deal for Greece is being negotiated. Subsequently, eligibility of Greek bonds under the

ECB’s instruments can be linked to implementation of the new reconstruction and reform plan.

The reform and reconstruction plan for Greece should aim at achieving as soon as possible a turning point when the country’s debt/GDP ratio starts to decline, investment is promoted, jobs are created and social inequalities are significantly reduced. It should set out a **list of progressive reforms and investments** to be pursued for economic and social recovery, as long advocated by the S&D and PES family:

1. major reform of public administration;
2. stepped-up fight against tax avoidance;
3. a strategy to combat corruption and ensure efficient public procurement;
4. support to innovative enterprises and innovative social economy;
5. investment in education and other social investments to reduce inequalities;
6. implementation of the Youth Guarantee, based on a major reconstruction of the public employment service; and
7. development of basic public services to provide basic commodities and access to healthcare to all inhabitants, including migrants.

Given that Greece has already reached primary fiscal surplus, the above structural reforms should be accompanied by an **extended timetable for fiscal consolidation**, while preserving a small primary surplus. Solutions should also be found in the context of the SGP to enable Greece to **boost investment** and attract financing from the new European Fund for Strategic Investments, notably by applying the SGP’s investment clause also to countries in the corrective arm of the SGP and treating favourably Greek public co-financing of Structural Funds and EFSI investments. The **schedule for repayment of Greek sovereign debt should be renegotiated**, building on the Eurogroup agreement in 2012, in particular by further extending maturities and lowering interest rates. In addition, a **temporary moratorium on capital repayments** could be agreed until growth or output reach certain levels.

Despite many specificities of the Greek case, the crisis of the Greek economy and sovereign debt is closely linked to the **crisis of Europe's Economic and Monetary Union**, namely of its ability to deal with adverse shocks and restore Member States’ growth potential in a way that socio-economic convergence and balanced growth are possible. Without a readily available lender of last resort and a shared fiscal capacity, the EMU has responded to imbalances and asymmetric cyclical developments predominantly through harsh fiscal consolidation and internal devaluation. This has generated a deflationary spiral across Europe, rising debt/GDP ratios, high unemployment, deep internal divergences and financial fragmentation. Recent achievements of the S&D and PES family, such as the Investment Plan for Europe and the clarification of the flexibility within the SGP, are important to support economic recovery, but not sufficient to ensure the EMU's resilience against future crises.

Completion of the EMU will therefore be a key issue in 2015, starting with the informal European Council meeting on 12 February. It requires, in particular:

1. Financial Pillar: Full implementation of Banking Union; further progress on financial regulations; creation of a Capital Markets Union.
2. Economic Pillar: Better balancing economic and social concerns in EMU governance; symmetrical adjustment of imbalances, involving also surplus countries; real macroeconomic coordination based on a shared view of the Eurozone's optimal aggregate fiscal stance and current account position.
3. Social Pillar: Social dialogue on euro-area issues, including steps towards wage-setting coordination. Minimum social standards or national social floors, with universal coverage of social services as the core principle. Creation of a Social Eurogroup of ministers (euro-area EPSCO).
4. Fiscal Pillar: Tax coordination and convergence; stepped-up fight against tax avoidance; a Eurozone fiscal capacity enabling to counteract divergences in countries' investment capacity and helping to cope with asymmetric shocks.
5. Political Pillar: Clear democratic accountability of decisions taken at Eurozone level to be ensured through stronger involvement of the EP, cooperating with national parliaments. The "Troika" should be replaced by macroeconomic support programmes negotiated by the Commission and Council, under direct oversight of the EP.