

## Statement by the Heads of State or Government of the euro area and EU institutions (21 July 2011)

**Caption:** On 21 July 2011, the Heads of State or Government of the Member States whose currency is the euro agree to increase the flexibility of the European Stability Mechanism with a view to improving the efficiency of financial assistance and preventing the risk of financial contagion.

**Source:** European Union Council, Statement by the Heads of State or Government of the Euro Area and EU Institutions. Brussels: 21.07.2011. 4 p. [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/123978.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/123978.pdf).

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**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 21 July 2011**

**STATEMENT BY THE HEADS OF STATE OR GOVERNMENT OF THE EURO AREA  
AND EU INSTITUTIONS**

We reaffirm our commitment to the euro and to do whatever is needed to ensure the financial stability of the euro area as a whole and its Member States. We also reaffirm our determination to reinforce convergence, competitiveness and governance in the euro area. Since the beginning of the sovereign debt crisis, important measures have been taken to stabilize the euro area, reform the rules and develop new stabilization tools. The recovery in the euro area is well on track and the euro is based on sound economic fundamentals. But the challenges at hand have shown the need for more far reaching measures.

Today, we agreed on the following measures:

**Greece:**

1. We welcome the measures undertaken by the Greek government to stabilize public finances and reform the economy as well as the new package of measures including privatisation recently adopted by the Greek Parliament. These are unprecedented, but necessary, efforts to bring the Greek economy back on a sustainable growth path. We are conscious of the efforts that the adjustment measures entail for the Greek citizens, and are convinced that these sacrifices are indispensable for economic recovery and will contribute to the future stability and welfare of the country.

2. We agree to support a new programme for Greece and, together with the IMF and the voluntary contribution of the private sector, to fully cover the financing gap. The total official financing will amount to an estimated 109 billion euro. This programme will be designed, notably through lower interest rates and extended maturities, to decisively improve the debt sustainability and refinancing profile of Greece. We call on the IMF to continue to contribute to the financing of the new Greek programme. We intend to use the EFSF as the financing vehicle for the next disbursement. We will monitor very closely the strict implementation of the programme based on the regular assessment by the Commission in liaison with the ECB and the IMF.
3. We have decided to lengthen the maturity of future EFSF loans to Greece to the maximum extent possible from the current 7.5 years to a minimum of 15 years and up to 30 years with a grace period of 10 years. In this context, we will ensure adequate post programme monitoring. We will provide EFSF loans at lending rates equivalent to those of the Balance of Payments facility (currently approx. 3.5%), close to, without going below, the EFSF funding cost. We also decided to extend substantially the maturities of the existing Greek facility. This will be accompanied by a mechanism which ensures appropriate incentives to implement the programme.
4. We call for a comprehensive strategy for growth and investment in Greece. We welcome the Commission's decision to create a Task Force which will work with the Greek authorities to target the structural funds on competitiveness and growth, job creation and training. We will mobilise EU funds and institutions such as the EIB towards this goal and relaunch the Greek economy. Member States and the Commission will immediately mobilize all resources necessary in order to provide exceptional technical assistance to help Greece implement its reforms. The Commission will report on progress in this respect in October.
5. The financial sector has indicated its willingness to support Greece on a voluntary basis through a menu of options further strengthening overall sustainability. The net contribution of the private sector is estimated at 37 billion euro.<sup>1</sup> Credit enhancement will be provided to underpin the quality of collateral so as to allow its continued use for access to Eurosystem liquidity operations by Greek banks. We will provide adequate resources to recapitalise Greek banks if needed.

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<sup>1</sup> Taking into account the cost of credit enhancement for the period 2011-2014. In addition, a debt buy back programme will contribute to 12.6 billion euro, bringing the total to 50 billion euro. For the period 2011-2019, the total net contribution of the private sector involvement is estimated at 106 billion euro.

**Private sector involvement:**

6. As far as our general approach to private sector involvement in the euro area is concerned, we would like to make it clear that Greece requires an exceptional and unique solution.
7. All other euro countries solemnly reaffirm their inflexible determination to honour fully their own individual sovereign signature and all their commitments to sustainable fiscal conditions and structural reforms. The euro area Heads of State or Government fully support this determination as the credibility of all their sovereign signatures is a decisive element for ensuring financial stability in the euro area as a whole.

**Stabilization tools:**

8. To improve the effectiveness of the EFSF and of the ESM and address contagion, we agree to increase their flexibility linked to appropriate conditionality, allowing them to:
  - act on the basis of a precautionary programme;
  - finance recapitalisation of financial institutions through loans to governments including in non programme countries ;
  - intervene in the secondary markets on the basis of an ECB analysis recognizing the existence of exceptional financial market circumstances and risks to financial stability and on the basis of a decision by mutual agreement of the EFSF/ESM Member States, to avoid contagion.

We will initiate the necessary procedures for the implementation of these decisions as soon as possible.

9. Where appropriate, a collateral arrangement will be put in place so as to cover the risk arising to euro area Member States from their guarantees to the EFSF.

**Fiscal consolidation and growth in the euro area:**

10. We are determined to continue to provide support to countries under programmes until they have regained market access, provided they successfully implement those programmes. We welcome Ireland and Portugal's resolve to strictly implement their programmes and reiterate our strong commitment to the success of these programmes. The EFSF lending rates and maturities we agreed upon for Greece will be applied also for Portugal and Ireland. In this context, we note Ireland's willingness to participate constructively in the discussions on the Common Consolidated Corporate Tax Base draft directive (CCCTB) and in the structured discussions on tax policy issues in the framework of the Euro+ Pact framework.

11. All euro area Member States will adhere strictly to the agreed fiscal targets, improve competitiveness and address macro-economic imbalances. Public deficits in all countries except those under a programme will be brought below 3% by 2013 at the latest. In this context, we welcome the budgetary package recently presented by the Italian government which will enable it to bring the deficit below 3% in 2012 and to achieve balance budget in 2014. We also welcome the ambitious reforms undertaken by Spain in the fiscal, financial and structural area. As a follow up to the results of bank stress tests, Member States will provide backstops to banks as appropriate.
12. We will implement the recommendations adopted in June for reforms that will enhance our growth. We invite the Commission and the EIB to enhance the synergies between loan programmes and EU funds in all countries under EU/IMF assistance. We support all efforts to improve their capacity to absorb EU funds in order to stimulate growth and employment, including through a temporary increase in co-financing rates.

**Economic governance:**

13. We call for the rapid finalization of the legislative package on the strengthening of the Stability and Growth Pact and the new macro economic surveillance. Euro area members will fully support the Polish Presidency in order to reach agreement with the European Parliament on voting rules in the preventive arm of the Pact.
14. We commit to introduce by the end of 2012 national fiscal frameworks as foreseen in the fiscal frameworks directive.
15. We agree that reliance on external credit ratings in the EU regulatory framework should be reduced, taking into account the Commission's recent proposals in that direction, and we look forward to the Commission proposals on credit ratings agencies.
16. We invite the President of the European Council, in close consultation with the President of the Commission and the President of the Eurogroup, to make concrete proposals by October on how to improve working methods and enhance crisis management in the euro area..