



Committee on Economic and Monetary Affairs  
The Chairwoman

Ms Erminia Mazzoni  
Chair of the Committee on Petitions

304023    06.03.2012

Subject:    *Petition 0453/2011, by Athanassios-Miltiadis Kokkinos (Greek), on the situation in the euro area and the failure of the European Central Bank (ECB) to impose loan obligations*

Dear Ms Mazzoni,

Thank you for transmitting petition No. 0453/2011 to the Committee on Economic and Monetary Affairs for comments.

Among many arguments, as far as we could interpret, the petitioner raises two main issues:

1) The petitioner considers that it is unacceptable and unlawful that some less indebted countries of the European Union "benefit" from holding bonds of heavily indebted other Member States, since holding those bonds was, so his argument, recorded as a surplus in their national accounts.

In response to this first issue, I would recall that, according to Article 125 of the Treaty on the Functioning of the EU, a Member State "*shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another member state, without prejudice to mutual financial guarantees for the joint execution of a specific project*". It follows that Germany, for example, just as any other Member State, does not hold Greek government bonds, as it is not allowed to do so. Private individuals and corporations, such as banks, may well choose to hold bonds from other Member States but this is clearly a very different scenario to the claim where the German government would directly be holding Greek bonds.

When responding to this first issues raised by the petitioner, I think it would also be useful to point to the actions taken in the European Union in order to alleviate the stress stemming from the financial markets on the budgetary situation of highly indebted Member States. In particular, an intergovernmental agreement in May 2010, which led to creating a new support mechanism, the European Financial Stability Facility (EFSF), is devised to provide temporary financial assistance to euro area Member States in difficulty, alleviating their financing cost on the financial markets.

2) The petitioner considers that the ECB should directly lend money to Member States.

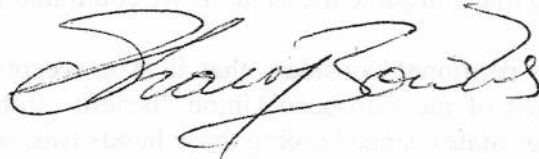
On this second issue, I would remind the petitioner of the earliest discussions on the design of economic and monetary union, when the question regarding the interaction between monetary and fiscal policy was a major debated issue. While the link between central bank purchases of sovereign debt and inflation is not completely mechanical, based on solid theoretical and empirical grounds there is little doubt that regular monetary financing of deficits will ultimately lead to high inflation. For this good reason, and since the ECB's main role is to keep prices stable, Article 21 of the Statute governing the ECB prevents the direct purchase of bonds from governments.

However, this "no bailout" clause does not prevent the ECB from purchasing sovereign bonds in secondary markets, through the so-called Securities Market Programme, in order to calm stresses from financial markets on highly indebted countries. Since August this year, for example, the ECB has been active in purchasing Spanish and Italian bonds.

More generally, on the two above-mentioned issues, I should mention that since the petitioner makes multiple legal references in support of his request, responding thoroughly to his legal analysis would require a legal expertise that is beyond the competence of the ECON Committee.

You may inform the petitioner along the above lines.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Sharon Bowles', written in dark ink.

Sharon Bowles