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Data Flash (Euroland)

EFSF- Ratification: Remaining Agenda and Remaining Risks

Economics

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Recent press reports have been reflecting fears and uncertainties about the remainder of the EFSF ratification process. The ratification in all EMU countries is necessary to enable EFSF to (1) install precautionary credit lines, (2) buy sovereign bonds in both the primary and secondary market and (3) provide countries with additional money to recapitalise banks. After the successful ratification of EFSF in Slovenia yesterday, seven more countries remain on the ratification agenda.

Finland (28 September)

We expect a solid majority ratifying the reformed EFSF in the Finnish parliament.

Pressed by the populist opposition party the Finns (formerly True Finns), the government asked for collateral guarantees in exchange for further contributions to a second Greek bail-out. Even though it looks increasingly unlikely that substantial collateral pledges will be made in return for additional funding, the Finnish parliament is expected to ratify EFSF changes on Wednesday, 28 September. Last week all government members of the parliament's finance committee backed a statement supportive of the EFSF reform. On Monday 26 September, European Affairs Minister Alex Stubb said that a majority of more than 120 out of 200 MPs (the government holds 124 of 200 seats) already signalled their support.

Germany (29 September, 09.00-11.00 CET, results should be published at about 12.00 CET)

We expect a comfortable majority to ratify the reformed EFSF in the Lower House (Bundestag) and Upper House (Bundesrat) – with votes from the opposition.

Currently, Angela Merkel's majority looks comfortable. According to press reports, the number of opponents within CDU and FDP is shrinking. In a test vote two weeks ago, 25 opponents were counted among CDU and FDP. In another test vote on 27 September only 11 opponents (plus 2 abstentions) were left within the parliamentary group of CDU. The junior coalition partner FDP, however, did not test vote again. In the test vote two weeks ago 6 votes against EFSF came from the FDP. Irrespective of that, the Social Democrats (SPD) and the Greens have already announced their support of EFSF - so the ratification can be taken for granted.

However, the voting by roll call will unveil how many votes Merkel will be finally able to unite in her coalition. Ratification without the necessary majority of the

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governing coalition could be interpreted as a) a signal that the coalition would not hold until the end of the legislative period and b) a strengthening signal for the eurosceptic factions within CDU and FDP. But this would not put EFSF ratification itself at stake.

On 30 September, Bundesrat as the upper house will be asked for consent. Though its consent is not mandatory, the upper house insisted on that, making it conditional to its (mandatory) consent to ESM at the beginning of next year. The consent by the Bundesrat should be expected.

Estonia (29 September)

We expect a solid majority ratifying the reformed EFSF in the Estonian parliament.

Last week the Estonian legislators approved a resolution on the ratification of EFSF in the first reading - resulting in 61 votes approving and 21 votes against the bill. The ratification is accompanied by another bill recognising EFSF as a private law entity in order to make the ratified EFSF compatible with Estonian legislation.

Austria (30 September)

We expect a solid majority ratifying the reformed EFSF in the Austrian parliament - with votes from the opposition.

The Austrian ratification process started with some irritations. While the government planned a vote on EFSF for 21 September, the Greens opposed the change to the parliamentary agenda for that particular day, indicating they did not regard themselves adequately informed by the Chancellery. The differences between the governing grand coalition of SPÖ and ÖVP and the Greens (as opposition party) have now been settled. On 27 September, the parliament's finance committee accepted the EFSF ratification bill with votes from the governing coalition and the Greens, an outcome we also expect for the parliamentary vote on 30 September. Opposition parties FPÖ and BZÖ are expected to vote against the ratification.

Malta (6 or 7 October)

We expect the Maltese parliament ratifying the EFSF reform in the Maltese parliament.

On Wednesday, 28 September, government and opposition are to meet to discuss EFSF ratification. A draft bill has already been presented to the opposition. The first reading on EFSF is to take place on 3 October – the first day after the parliament's summer recess. The aim is to ratify EFSF by 6 or 7 October.

Due to the overall political consensus among both government (1 seat majority) and opposition, ratification can be regarded as unproblematic. This consensus should not even be challenged by the pending compromise in the collateral issue raised by Finland – which has also been supported by Malta.

Netherlands (6 October)

We expect a solid majority ratifying the reformed EFSF in the Dutch parliament – with votes from the opposition.

On Friday 30 September the Ministry of Finance will issue a draft bill on the ratification of EFSF. It will be discussed during the budgetary debate from 4 to 6 October. The decision has been delayed due to the request by various MPs for additional time in order to review the rules of EFSF. The voting was subsequently postponed to 6 October. The Liberal-Christian Democrat minority government of VVD and CDA only hold 52 of 150 seats in parliament and repeatedly required the backing of Geert Wilders' eurosceptic Freedom Party (PVV), which has 24 seats in parliament. PVV, however, made clear that it would by no means support the

extension of EFSF. Thus, the government of Mark Rutte needs the votes from opposition parties in order to approve the EFSF reform. The pro-European Labour party (PvdA) – with 30 seats – as well as GreenLeft (GL) and D66, each of which holds 10 seats, have so far supported euro zone bail-out measures.

Slovakia (25 October)

We think a majority for EFSF becomes increasingly likely over the coming weeks

Among EMU countries, the ratification of EFSF reforms by the Slovak parliament is subject to the highest degree of uncertainty. Even though Slovakia's government, led by PM Iveta Radicova, officially supports the reforms, the junior coalition partner Freedom and Solidarity Party (SaS) strongly opposes the endorsement of the euro-zone rescue package. The euroskeptic party holds 22 of 79 seats in the governing four-party coalition which itself has a four seat majority in the 150-member parliament. Richard Sulik, the leader of SaS, required Slovakia to be the last country voting on the EFSF reform. It is now expected to go to parliament on 25 October. Without SaS support, PM Radicova would have to team up with the largest opposition party, the social democratic Smer-SD, to ratify the euro zone rescue package. But Smer-SD leader, former PM Robert Fico, said his party would back the proposal only if the coalition voted for it unanimously.

In the event that the government fails to secure its own majority, a break-up of the coalition seems likely. A first concession by PM Radicova to SaS on Tuesday was an offer that the government authorities would have to vote on all individual EFSF disbursements. SaS dismissed the proposal but also said it would not be opposed to negotiations in general. Sunday evening, for example, a high ranking SaS MP demanded on TV that a holding company should be set up where borrowing countries would deposit assets against loans, a proposal similar to the Finnish request for collateral. Although PM Radicova has so far stopped short of tying the vote on the EFSF to a confidence vote, such a move would become more likely if SaS can be pushed into a more defensive position by facing sufficiently generous offers. With four more weeks before the vote is to be held, the government looks likely to engage in some more haggling and face increasing pressure from European partner countries as well as institutions such as the central bank and the Slovak president which have already raised their voices. The outcome of Finland's attempt to secure some loan collateral should prove interesting, and may serve as a template for a Slovak solution.

So far, the ratification of EFSF reforms in the remaining EMU countries looks likely.

Recent discussions on leveraging the effective intervention power of EFSF may cause further political quarrels. However, despite the huge media resonance, these debates should not negatively affect the ongoing ratification process. They should come up again in the context of the ESM treaty ratification in early 2012.

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Appendix 1

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