

Brussels, 3rd August 2011

Dear Colleagues,

Developments in the sovereign bond markets of Italy, Spain and other euro area Member States are a cause of deep concern. Though these developments are clearly unwarranted on the basis of economic and budgetary fundamentals and the recent efforts of these Member States, they reflect a growing scepticism among investors about the systemic capacity of the euro area to respond to the evolving crisis. Markets remain to be convinced that we are taking the appropriate steps to resolve the crisis.

The 21st of July bold decisions on the Greek package and the increased flexibility of the EFSF (precautionary use, recapitalisation of banks and intervention in secondary bond markets), are not having their intended effect on the markets. Markets highlight, among other reasons, the global economic uncertainties due to both economic growth and the protracted decision on budgetary adjustments in the US but, first and foremost, the undisciplined communication and the complexity and incompleteness of the 21st July package.

Whatever the factors behind the lack of success, it is clear that we are no longer managing a crisis just in the euro-area periphery. Euro-area financial stability must be safeguarded, with all EU institutions playing their part with the full backing of euro area Member States. We need also to consider how to further improve the effectiveness of both the EFSF and the ESM in order to address the current contagion.

Concretely, I would like to call on you to accelerate the approval procedures for the implementation of these decisions so as to make the EFSF enhancements operational very soon. These changes should also avoid introducing excessive constraints in terms of either additional conditionality or collateralisation of EFSF lending. I trust that governments and national Parliaments will rapidly approve these decisions necessary to improve the EFSF flexibility.

I also take the opportunity to urge a rapid re-assessment of all elements related to the EFSF, and concomitantly the ESM, in order to ensure that they are equipped with the means for dealing with contagious risk.

Finally the Commission stands ready to contribute to the improvement of working methods and crisis management in the euro area.

Yours faithfully,

José Manuel BARROSO

A handwritten signature in black ink, consisting of a vertical stroke on the left, a long horizontal stroke, and a small hook at the end.