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Has Europe learnt from the mistakes made in Greek debt crisis?

The markets seem to have coped relatively well with "the biggest sovereign restructuring ever" last week. But they are already focusing on the next possible victim: Portugal's bond yields have soared to levels close to those on Greek bonds a few months ago.

European authorities have declared that Greece was unique and that there will be no more debt restructuring. Undoubtedly, though, they will be tested in the coming months. Two strategies are possible.

One is to behave in the same way as in the past. This means helplessly observing the widening of credit default swap spreads on sovereign bonds until it becomes obvious that the country in question will not be able to refinance itself in the markets; then publicly denying that restructuring is even an option, but privately considering involving private creditors and even discussing the details with some market participants; finally, hastily putting in place an additional package and asking the various countries' parliaments for approval, which they might be willing to consider... but only in exchange for debt restructuring.

Unless this approach is quickly abandoned, Greece will turn out not to be an exception after all. Markets would turn to the next prey, like in Agatha Christie's *Ten Little Indians*. Who will be next? Ireland? Spain? Italy? Where would the process stop?

The alternative strategy is to immediately build a firewall that would ensure Greece is an exception. First, it should be recognised right away that Portugal may not be able to return to the markets next year and needs an additional bailout package. If it is unable to finance itself until 2016, it will need approximately €100bn. The European Financial Stability Facility has sufficient capability to provide these funds.

Second, the same could be done for Ireland, which requires an additional €80bn. The procedure to allocate these funds should be started right away by the national and European authorities. Third, the size of the EFSF and European Stability Mechanism should be further increased to allow them to provide additional funds to other countries. Fourth, the International Monetary Fund's European shareholders should arrive at its spring meetings with sufficient support from other advanced economies, including the US, and from emerging markets to obtain an increase in the funds available to the IMF.

The problem with this strategy is avoiding moral hazard. How can it be ensured that countries receiving increased financial assistance, starting with Portugal, will implement the agreed adjustment programme and not become complacent, as happened with Greece?

One way is to agree that the rules and procedures foreseen by the proposed fiscal compact, including sanctions, become immediately enforceable, even before ratification. There must be stronger monitoring of whether budgetary adjustments are being implemented, to avoid a repeat of the embarrassing situation in Spain, where it was discovered on Monday morning that the budget deficit was 30 per cent higher than expected the previous Friday. Countries receiving upfront assistance should also be required to present privatisation programmes, involving their banking system, that would be automatically triggered if the country failed to meet the adjustment target.

Only by acting forcefully, in anticipation of what the markets will focus on next rather than under their pressure, can European authorities convince us that Greece was an exception and prove their commitment to do all that is needed to preserve the euro as a currency.

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