EMF debate ignores Europe's real problems, says leading bond manager

By Atholl Simpson | 08:01:00 | 10 March 2010

The debate around the creation of a European Monetary Fund to help the battered Greek economy is simply a way to 'bypass' the issue of the German public's scepticism about a rescue, according to European bond manager Daniel Varela.

The European Commission announced its willingness to set up the monetary fund on Monday and although Varela, fund manager at the Geneva-based Banque Piguet, sees the benefits of such an organisation, he believes it is an attempt to secure the German public's vote in favour of the rescue.

'It's a way to bypass the problems they have right now with the German public opinion,' he told Citywire. 'At the moment, Germany is the last line of resort for lending and it's hard to sell the German population the idea that Germany is going to save Greece. But with the EMF it could be easier.'

He believes that with the introduction of a European body which mirrors the current International Monetary Fund, it could ease the passing of a jagged rescue pill which the German people are reluctant to swallow as they would not be the sole contributors.

'This is a reaction to the Greek crisis and to put such a fund in place is a long process. There are a lot of hurdles to get over,' Varela, who runs the Piguet Global Fund International Bond fund said. 'Greece has short-term problems and they need to find a solution rapidly. The EMF is probably not the answer.'

A positive effect the EMF could have for European bond investors in particular is to provide a safer investment platform, according to Varela. However, it could result in every continent wanting to set up its own monetary fund, rendering the IMF obsolete.

Using organisations which are already in place, such as the European Central Bank, or letting the IMF intervene are options which would produce results a lot sooner than an EMF, according to Varela. However, member states could be very reluctant in accepting outside help to deal with the Greek crisis.

'It's a question of European pride,' said Varela. 'It probably would be easier if European countries didn't help them and they let the IMF do it. The problem is they want to get out of it without international assistance.'

He believes the idea of a European Monetary fund is an interesting one, but anticipates the ECB rejecting it as it would have to relinquish some of its power over the EU economy.

'And to go ahead with this kind of idea you would also have to have an agreement of all the different countries right now,' Varela said. 'Every country is Greece today because no country complies with the Maastricht treaty. During a big crisis, like the one we have experienced, all countries deviate from the criteria.

‘We already have a system where if countries deviate from the Maastricht agreement they risk being fined and we lack the political willpower to really adapt. The fines are conceptual and there should be clear rules when a country does not apply debt restrictions.

‘With the introduction of this type of fund, this could mean that with an independent body the fines are respected.’

In Citywire's pan- European fund manager rankings for the Bond EUR sector, Varela is ranked 7/140. In this period he has returned 22.57% with his Piguet Global Fund International Bond EUR fund, while the average manager in his sector delivered just 13.3%.