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George Soros On Euro Zone: Recapitalize Banks, Create Common Treasury, Protect Vulnerable States

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Policymakers have lost control of the economic crisis and financial markets are forcing the world into a depression, George Soros said on Friday, urging Europe to create a common Treasury, recapitalize its banks and protect vulnerable states.

Soros, chairman of Soros Fund Management who made a fortune during the 1992 sterling crisis, said the most important task was to "erect safeguards against contagion from a possible Greek default."

"Since a euro zone treaty establishing a common Treasury would take a long time to conclude, in the interim the member states have to appeal to the ECB (European Central Bank) to fill the vacuum," he wrote in an article for the Financial Times newspaper.

"Both the banks and bonds of countries such as Italy and Spain need to be protected ... To relieve the pressure on the government bonds of countries such as Italy, the ECB would lower its discount rate."

Soros said the ECB could then encourage countries to finance themselves with Treasury bills bought by banks. Those banks could then at some stage rediscount the bills with the central bank, allowing countries to refinance for about one percent a year during the "emergency period."

"Neither the ECB nor the EFSF (European financial stabilization facility) would buy any more bonds in the market," he said.

He said the EFSF should be used to guarantee and recapitalize banks who would then have to maintain credit flows under guidance and monitoring from the ECB.

"These measures would allow Greece to default without causing a global meltdown," Soros said. "That does mean that Greece would be forced in default ... How Greece fared would be up to the Greeks."

However, he said only public demand for his plan would make it happen, given likely resistance from banks and national governments.

(Reporting by Matt Falloon)

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