



Re-Define Press Release on the European Council Statement on Bank Capital and Liquidity

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Please attribute to **Sony Kapoor**, Managing Director of Re-Define an Economic Think Tank.

“Banks in weak states would need to be able to access capital and funding guarantees directly from the EFSF since the sovereigns are in no position to take any more debt to support banks.”

On the possible provision of bond guarantees to banks

“The amount of space devoted to tackling funding problems is a good sign. The liquidity problems that EU banks face are far more serious than any capital shortfall in the EU banking system.”

“Unless EU banks soon get access to longer-term funding, Europe is headed into a massive credit crunch exiting from which would be very hard.”

“With an average funding maturity of just above three years, EU banks have their back against the wall and external funding support is urgently needed.”

“For it to work well, such a bond guarantee program would need to be supported as between Euro 500 bn and Euro 1,000 trillion of bond issuance.” “This is also roughly the size of bond guarantees offered in the wake of Lehman’s collapse.”

On the plans for bank recapitalization

“Linking capital requirements to the market value of sovereign debt would reinforce the links between sovereigns and the banks located in them, which is dangerous for both.”

“The restriction of bank dividends and bonuses is probably the most efficient way of building capital in the short term and would minimise the burden on tax-payers.”

“Unless Spanish and Italian borrowing costs are brought down soon, no amount of bank recapitalization would be enough.”

“Any number on recapitalization requirements announced before Italian, Spanish and Greek problems are addressed, would not have been credible.”

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