



Re-Define Press Release - European Council Meeting 23rd October 17:30 CET

Please find below **Re-Define's** comments on the European Council. All comments are attributable to **Sony Kapoor, Managing Director of Re-Define an Economic Think Tank.**

General Comments

"Once again, good economics has fallen victim to bad politics."

"If EU leaders don't want to be criticized, they had better solve the crisis, quickly."

"By failing to agree on anything substantial today, EU leaders may have set themselves up for an even bigger fall."

"Having brought Europe to the brink, EU leaders must now pull us back. They owe it to Europe to pull a rabbit out of the hat now, but this seems to be beyond them."

"With Mr Berlusconi still at the helm, EU partners and a Draghi-led ECB would all find it politically hard to give Italy the support it urgently needs."

On Greece

"At this point, even a 60% haircut may not be enough to restore the sustainability of Greek debt."

"The structure of the revised private sector involvement for Greece, is at least as important as the size of the haircut. An outright haircut to the face value of debt would do the most to restore the sustainability of Greek debt."

"For the same Net Present Value reduction agreed, an outright haircut would be much better for Greece than the structure used in the July deal."

On the EFSF

"It's inevitable that the ECB will need to step up to the plate."

"The demands on the EFSF – 1) loans to program countries 2) bond guarantees for Spain and Italy 3) backstopping bank recapitalization and 4) bond guarantees to alleviate bank funding concerns all keep growing even as its potential size keeps shrinking."

"As a purely financial tool the partial insurance model of the EFSF will not work. As a political signalling device it may have some merit, particularly if the ECB keep saying no."

"Any agreement on the EFSF, even one that eventually fails the test of markets, may help by making it politically easier for the ECB to step in."

“The best thing that can happen between now and Wednesday is for the ECB to blink and agree to ramp up support for Italy and Spain, directly or through the EFSF. However, it will do no such thing.”

On strengthening the Banking System

“EU banks need funding support much more than they need capital, yet that discussion is lagging behind.”

“The failure to announce an EU-wide moratorium on dividend and bonus pay-outs is a missed political and economic opportunity.”

“The precedent of marking all sovereign bonds to market has set up a dangerous pro-cyclical trap which may have disastrous and unpredictable consequences.”

“The best way to support EU banks is to help illiquid but solvent countries such as Spain and Italy directly.”

“While the agreement on just over Euro 100 billion of bank capital is modest progress, the failure, so far, to agree on the provision of funding support to banks may overwhelm this.”

“The agreement to provide funding support to banks unable to borrow for the medium term was conspicuous by its absence.”

“There has been no progress in delivering much needed capital to weak banks in weak countries, which remains the biggest channel. Supporting such banks through EFSF sovereign lending may actually worsen the crisis.”

On Governance reforms

“The most concrete decision from the European Council is the thing we least need - the designation of yet another president, this time for Euro Summits”

“The last thing Europe needs now is yet another president jostling for power, yet that is exactly what we are going to get.”

On Growth

Where are the plans for growth?

“The pride of place given to the Single Market Act and the Digital Single Market is encouraging but will little to kick-start urgently needed growth in the short term.”

“Loosening the co-financing requirement for the use of EU funds and an enhanced role for the EIB may provide some real help to the troubled peripheral countries such as Greece and Portugal.”

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