



## Re-Define Press Release 6<sup>th</sup> Oct 15:30 CET

### ECB's Decisions, EU Bank Recapitalization and the Merkel-IMF-EB-OECD meeting

Below you will find comments from **Re-Define** about the **ECB's** decisions, on-going discussions about **EU bank recapitalization** and the meeting of the heads of the **IMF**, **WB**, **OECD** and **WTO** with the **German Chancellor** and **ECB**.

Comments are attributable to **Sony Kapoor, Managing Director Re-Define, an Economic Think Tank.**

#### **General Comments**

*"In the **game of chicken** between the **ECB** and **EU** leaders, **neither seems ready to blink yet**. Europe will keep suffering."*

*"The **burden of stemming the panic** will eventually fall on the **ECB**. **The sooner it acts**, the less the economic & political damage to the European project."*

*"The ongoing discussions on **bank recapitalization** are distracting **EU** policy makers from the more important & urgent tasks of reducing **Italian** borrowing costs."*

*"The **EFSS** is **simply not large enough** to provide support to **both** troubled banks and troubled sovereigns."*

*"The international institutions will once again **put enormous pressure** on Germany and the **ECB** to **act decisively**, but may yet again be unsuccessful."*

*"The **limits** of the **ECB's narrow 'price stability' mandate** have once again been laid bare for everyone to see."*

#### **On the ECB's failure to take decisive action today**

*"The **ECB's failure to act decisively today** may now come back to haunt Europe."*

*"The **fate of the Eurozone** now rests in the hands of **two Italians**, Prime Minister **Berlusconi** who could **sink us** and Governor **Draghi** who will have to **save us**."*

*"Putting off decisive action will make the **final cost much higher**, both economically and politically."*

*"The failure of the **ECB** to promise **more support for troubled sovereigns** and cut interest rates today is **almost surely a mistake**."*

*"As an Italian, it would be **very hard for Draghi** to come in and **offer bold support** to troubled sovereigns, especially **Italy**."*

#### **On the need for a change to the ECB's approach and objectives**

"The case for a **broadening of the ECB's mandate** to include financial stability or full employment as additional primary goals **could not have been stronger.**"

"The crisis has highlighted the need for the ECB to **explore the use of additional quantity based tools** for exercising effective monetary policy. " "This could include money supply targets and credit reserve ratios that can be varied across countries and time."

#### ***On the expansion of the liquidity facilities and the reopening of the covered bond program***

"Increasing the duration and range of various liquidity facilities was **necessary** but does little to address the serious structural funding problems facing Eurozone banks."

"The launch of the new covered bond purchase program is a **useful signal** but the limited size means that it is **hardly a game-changer.**"

"The ECB will still be **providing crutches to European banks** many years from now."

#### ***On the discussions of and rumours about EU bank recapitalization***

"The news stories about a big bang recapitalization of EU banks are **overdone.**" "The EU has **neither the money, nor the political will** for action as such a scale."

"Focusing on bank recapitalization first is the **wrong priority** for the Eurozone. Putting to rest any doubts about **the solvency of Italy** and Spain is **far more urgent.** "

"While the recapitalization of some EU banks may be necessary, **it's not sufficient.**" "Unless the borrowing costs for Italy are brought down soon, **all bets are off.**"

"Without full confidence in the credit-worthiness of Italy, **it's impossible to have full confidence** in the solvency of the European Banking system."

"Even after its upgrade EFSF will **not be able to support weak banks in troubled countries** which are exactly the kind of institutions that most need its support."

#### ***On the ECB's continuing opposition to providing support for EFSF***

"In the absence of forthcoming ECB support for the EFSF, leveraging options **will need to focus on providing credit enhancements** to troubled sovereign bonds through collateral or partial guarantees."

"The EFSF is simply **not large enough** to provide support to both troubled banks and troubled sovereigns."

#### ***On the message that the IMF, the EB, the OECD and the WTO bring to the German Chancellor and the ECB President***

"Stop playing the **game of chicken**, for everyone's sake."

"The ECB and Germany are **both wrong in their inflexible approach to fiscal consolidation** and the IMF is right in advocating a more flexible and pragmatic approach that is more customised across countries."

"The **flaws** of the **EU's current prescription** of austerity, austerity and more **austerity** have been laid bare by the **IMF**"

"The international institutions will be making an **earnest appeal** to the Euro area institutions and leaders, **on behalf of the global economy**, to 'get their act together'

For further comments or interviews on the state of the union speech please call [+44-7986849865](tel:+44-7986849865) or email [media@re-define.org](mailto:media@re-define.org)

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Sent on behalf of Michelle Henery  
Media Adviser  
Re-Define