



## **Re-Define Press Release – Euro Leaders Meeting 27th October 5:30 CET**

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

### ***General***

“This is underwhelming at best.” “This is certainly no summit to end all summits.”

“Once again, good economics has fallen victim to bad politics.” “EU leaders needed to pull a rabbit out of the hat. They have failed to do so.”

“Only the ECB can provide a big Bazooka, it had better be getting it ready.”

“We find the lack of anything concrete on growth very disturbing.”

“This is no ‘comprehensive deal’” “The numbers are too small, the timelines too long and details too thin on the ground.”

### ***On Greece***

“An invitation to agree to a haircut is not the same as a haircut.”

“If finalized, a 50% nominal value haircut will do far more for Greece than the 21% Net Present Value haircut agreed in July did, which was nothing.”

“At the negative rates of growth that it faces, all that Greece should care about is a nominal reduction in the value of its debt and it seems to have got it, at least in theory.”

“Every Euro of loss for banks should now translate into a Euro of lower debt for Greece.” “The July deal managed to combine the worst of both worlds, a loss for banks without any gain for Greece.”

“Re-Define had argued very strongly for an outright haircut. However, it may have come too late to really restore Greek debt sustainability.”

“Both the size and the shape of the Private Sector Involvement deal is much better than what was agreed in July, provided there is a deal.”

### ***On the EFSF***

“The true effective size of the EFSF is unknowable in advance, but is likely to be in the hundreds of billions, not the trillions.”

“The acid test for the EFSF will come from its ability to bring down the borrowing costs for Spain and Italy down to sustainable levels.”

“Both of the proposed models for the EFSF are economically equivalent. They provide credit enhancements to try reduce the borrowing costs for Italy and Spain.”

“No matter what they do with the EFSF, the need for more ECB support is inevitable.”

### ***Term funding guarantee scheme for banks***

“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 support 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.”

“Linking funding support to lending targets is the only sensible thing to do.”

### ***Bank recapitalization***

“By far the biggest capital needs are in weak countries, which are exactly the countries that will have the toughest time mobilizing money.”

“Without endowing the EFSF with the ability to directly inject funds and guarantee bank bonds, it is hard to see how the weak bank in weak country problem can be addressed.”

“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.”

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