



Re-Define Press Release on the downgrade of Italian sovereign debt

20th September 2:30 AM CET

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

On the worsening crisis in Italy and the Euro area

“Italy is now struck in a self-fulfilling downward spiral from which it is unlikely to be able to extract itself without external help.”

“Unless Italian refinancing costs can be brought down close to the 4% level, for example by bold ECB action, all bets are off.”

“This is a downgrade of EU and Italian politicians.”

On the likely reaction from EU leaders

“Once again the EU leaders will blame the ratings agencies and once again they would be wrong.”

“One can only hope that the downgrade will help concentrate the minds of our decision-makers, but the signs do not look encouraging.”

“The miserable failure of EU leaders to tackle the problems posed by Greece does little to inspire any confidence that the much larger and more urgent problems faced by Italy would be managed any better.”

On the effect on the EU banking system

“Without full confidence in the credit-worthiness of Italy, it’s impossible to have full confidence in the solvency of the European Banking system.”

“Unless the sovereign-bank loop is broken through Eurobonds or full-blooded intervention from the ECB, banks and sovereigns in the EU will continue to drag each other down towards disaster.”

On the effect on other EU sovereigns

“No country and no bank in the Eurozone is crisis-proof. This will undoubtedly have negative repercussions for France for Germany and for all large EU banks.”

“France’s AAA no longer looks sacrosanct. The downgrade of its large banks and now Italy cannot be good for its credit-worthiness.”

On the way out of the crisis

“The only two options that will work to stem this systemic crisis now are an open-ended commitment by the ECB to do ‘whatever it takes’ or a swift move towards Eurobonds issuance. Everything else is likely to fall short.”

“Instead of shooting the messenger as they did when the markets, the IMF and Tim Geithner have highlighted the seriousness of the Euro crisis, our leaders should use this as a wake-up call instead of condemning the ratings agencies.”

“Germany and France need to act before they too get caught in this downward spiral.”

“The downgrade highlights the limits of what austerity alone can achieve. Europe is caught in an excessive austerity-low growth – low confidence trap now.”

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