



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 14 October 2008

14239/08

**POLGEN 104
ECOFIN 411**

NOTE

from: Presidency

to: Delegations

Subject: Summit of the Euro Area countries
– Declaration on a concerted European Action Plan of the Euro Area countries

Delegations will find attached the Declaration adopted at the Summit of the Euro Area countries on 12 October 2008.

SUMMIT OF THE EURO AREA COUNTRIES

**DECLARATION ON A CONCERTED EUROPEAN ACTION PLAN OF
THE EURO AREA COUNTRIES**

- 1) Financial systems contribute essentially to the sound functioning of our economies and are therefore a necessary prerequisite for growth and a high level of employment. Millions of depositors have trusted their wealth to our financial institutions. The consequences of the current financial market crisis jeopardize the crucial economic role of the financial system.
- 2) Since the beginning of the crisis, we have acted to address the challenges posed to our financial system: we have committed ourselves to take decisive action and use all available tools to support relevant institutions and prevent their failure and have effectively acted in several cases; we have increased transparency and disclosure on banks exposure; we have enhanced retail deposit guarantee protection.
- 3) Further concerted action is urgently needed given the persistent problems of bank financing and the contagion from the financial crisis to the real economy.
- 4) We confirm today our commitment to act together in a decisive and comprehensive way in order to restore confidence and the proper functioning of the financial system, aiming at restoring appropriate and efficient financing conditions for the economy. In parallel, Member States agree to coordinate measures to address the consequences of the financial crisis on the real economy, in line with the Ecofin conclusions of 7 October. In particular, we welcome the EIB's decision to mobilise 30 billion € to support European SMEs and its commitment to step up its ability to intervene in infrastructure projects.

5) As members of the Euro area, we share a common responsibility and have to contribute to a common European approach. We invite our European partners to adopt the following principles so that the European Union as a whole can act in a united manner and avoid that national measures adversely affect the functioning of the single market or the other Member States.

This requires the European Union and Euro area governments, central banks and supervisors to agree to a coordinated approach aiming at:

- ensuring appropriate liquidity conditions for financial institutions;
- facilitating the funding of banks, which is currently constrained;
- providing financial institutions with additional capital resources so as to continue to ensure the proper financing of the economy;
- allowing for an efficient recapitalisation of distressed banks;
- ensuring sufficient flexibility in the implementation of accounting rules given current exceptional market circumstances;
- enhancing cooperation procedures among European countries.

In the current exceptional circumstances, we stress the need for the Commission to continue to act quickly and apply flexibility in state aid decisions, continuing to uphold the principles of the single market and of the state aid regime.

Ensuring appropriate liquidity conditions for financial institutions.

6) We welcome the recent decision by the European Central Bank and other Central Banks in the world to cut their interest rates.

7) We also welcome the decisions by the European Central Bank to improve the conditions for the refinancing of banks and to provide more longer term funding. We look forward to Central Banks considering all ways and means to react flexibly to the current market environment.

We welcome the intention of the ECB and the Eurosystem to react flexibly to the current market environment, in particular in considering to further improve its collateral framework with regard to the eligibility of commercial paper.

Facilitating the funding of banks, which is currently constrained.

8) With a view to complementing the actions taken by the European Central Bank in the interbank money market, the governments of the Euro area are ready to take proper action in a concerted and coordinated manner to improve market functioning over longer term maturities. The objective of such initiatives should be to address funding problems of liquidity constrained solvent banks.

We welcome the initiatives put forward in some Member States to facilitate medium term funding of banks notably through purchase of high quality assets or through swaps of government securities. The worsening of financial conditions in the last four weeks requires additional coordinated actions.

To this aim, Governments would make available for an interim period and on appropriate commercial terms, directly or indirectly, a Government guarantee, insurance, or other similar arrangements for new medium term (up to 5 years) bank senior debt issuance. Depending on domestic market conditions in each country, actions could be targeted at some specific and relevant types of debt issuance.

In all cases, these actions will be designed in order to avoid any distortion in the level playing field and possible abuse at the expense of non beneficiaries of these arrangements. As a consequence:

- the price of those instruments will reflect at least their true value with respect to normal market conditions;
- all the financial institutions incorporated and operating in our countries and subsidiaries of foreign institutions with substantial operations will be eligible, provided they meet the regulatory capital requirements and other non discriminatory objective criteria;
- Governments may impose conditions on the beneficiaries of these arrangements, including conditions to ensure an adequate support to real economy;
- the scheme will be limited in amount, temporary and will be applied under close scrutiny of financial authorities, until December 31 2009.

While acting quickly as required by circumstances, we will coordinate in providing these guarantees as significant differences in national implementation could have a counter-productive effect, creating distortions in the global banking markets. We will also work in cooperation with the European Central Bank so as to ensure consistency in the management of liquidity by the Eurosystem and compatibility with the operational framework of the Eurosystem.

Providing financial institutions with additional capital resources so as to continue to ensure the proper financing of the economy.

9) So as to allow financial institutions to continue to ensure the proper financing of the Eurozone economy, each Member State will make available to financial institutions Tier 1 capital, e.g. by acquiring preferred shares or other instruments including non dilutive ones. Price conditions shall take into account the market situation of each institution involved. Governments commit themselves to provide capital when needed in appropriate volume while favouring by all available means the raising of private capital. Financial institutions should be obliged to accept additional restrictions, notably to preclude possible abuse of such arrangements at the expense of non beneficiaries.

10) Given the exceptional market circumstances, we urge national supervisors, in accordance with the spirit of Basel 2 rules, to implement prudential rules also with a view to stabilising the financial system.

Allowing for an efficient recapitalisation of distressed banks.

11) Governments remain committed to support the financial system and therefore to avoid the failure of relevant financial institutions, through appropriate means including recapitalization. In doing so, we will be watchful regarding the interests of taxpayers and ensure that existing shareholders and management bear the due consequences of the intervention. Emergency recapitalisation of a given institution shall be followed by an appropriate restructuring plan.

Ensuring sufficient flexibility in the implementation of accounting rules given current exceptional market circumstances.

12) We welcome the recent initiatives of the Commission regarding conclusions of the 7th October Ecofin regarding the classification of financial instruments by banks between their trading and banking books, notably to ensure a level playing field with our competitors.

Under the current exceptional circumstances, financial and non-financial institutions should be allowed as necessary to value their assets consistently with risk of default assumptions rather than immediate market value which, in illiquid markets, may no longer be appropriate.

We ask the competent authorities to take the next steps within the coming days.

Enhancing cooperation among European countries.

13) In such circumstances, efficient crisis management requires constant and immediate monitoring. We will therefore set up and strengthen procedures allowing the exchange of information between our Governments, the President of the European Council, the President of the European Commission, the President of the European Central Bank and the President of the Eurogroup. We look forward to the European Council next Wednesday setting up a mechanism to improve crisis management between European countries.

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14) The Ecofin Council, with the support of the Commission and in cooperation with the European Central Bank, will report in due time to the European Council on the implementation of these decisions.