BANQUE DE FRANCE
EUROSYSTÈME

The European rescue plan

A clear commitment from governments

To ensure the proper financing of the economy, especially SMEs and households.
No financial institution will go bankrupt. Savers and depositors will therefore be protected.

Government action will take two forms

Reinforcing the capital of financial institutions to ensure their solvency

- By subscribing to securities issued by banks to increase their own funds.
- By taking stakes, where necessary, in troubled banks.

*In France, these two types of intervention will take place via a state-owned company set up to acquire shareholdings in financial institutions (***société de participations publiques***), with funds of EUR 40 billion, which will in particular be able to subscribe to issues of subordinated debt and preferred shares. Banks will thus be able to support their lending activities through an increase in their capital, even in the event of them being unable to raise the funds they need on financial markets on account of market conditions.*

An example of the second type of intervention is that of Dexia, with the French government contributing EUR 1 billion to the bank's recapitalisation.

State guarantees to help banks to secure long-term funding in order to stimulate the financing of the economy

*In France, this will be facilitated by the setting-up of a fund for the refinancing of credit institutions (***caisse de refinancement des établissements de credit***). This fund will borrow on the markets under State guarantee in order to lend to banks up to a maximum amount of* ***EUR 320 billion****.*

This will allow credit institutions to improve the medium-term refinancing (1-5 year maturities) of their loans to businesses, housing and consumer loans and those to local government, when refinancing at this maturity is very difficult or impossible to obtain on financial markets under current conditions.

The Eurosystem is providing increased liquidity to banks

In concrete terms:

- **the Eurosystem is providing more liquidity** in order to ease tensions in the interbank market: the total amount of refinancing supplied to banks is currently in excess of **EUR 960 billion** (part of which is in dollars), compared with a total of around **EUR 450 billion** before the crisis;

- **the technical specifications for tenders have recently been radically altered**: banks now have access to unlimited fixed-rate Eurosystem lending. These changes, combined with the cut in policy rates (which were lowered by 0.50 percentage point – from 4.25 to 3.75 – on 8 October in a move co-ordinated notably with the Fed) have resulted in **a more than 1.25 percentage point drop in the interest rate paid by banks**;

- **the maturity of loans granted to the banking system has been extended** and the Eurosystem is lending greater amounts mainly at 3 and 6 month maturities;

- in addition, **the list of eligible collateral that banks must provide the Eurosystem with in order to have access to its loans has been considerably expanded, almost doubling banks' refinancing capacity**;

- finally, **thanks to co-operation agreements between central banks (swaps), European banks also have access to fixed-rate dollar and Swiss franc denominated refinancing at maturities of up to 84 days**.