

#### Box 10

##### MEASURES TAKEN BY GOVERNMENTS AND CENTRAL BANKS TO PRESERVE THE STABILITY OF BANKING SYSTEMS

Against the background of the intensification of the financial market stresses in October 2008, a number of governments and central banks across the globe took extraordinary measures to preserve the stability of banking systems.<sup>1</sup> These actions, which should be distinguished from the prudential measures that had been initiated earlier and are discussed in detail in Special Feature A of this FSR, range from offers of government guarantees for bank debt issuance and retail deposits to the provision of additional capital resources to distressed banks. This box briefly discusses the measures taken in different jurisdictions, both in the euro area and in other major economic areas. A summary of these measures is given in the table below.

*Capital injections.* With respect to the government-assisted recapitalisation of banks, the euro area guideline for national rescue packages, the rescue plan in the United Kingdom and the Capital Purchase Program under the Emergency Economic Stabilization Act (EESA) in the United States all contain broadly similar concepts of injecting government cash into banks and taking preferential shares in return. In the euro area, public capital injections of € 82 billion had been announced by the cut-off date of this FSR.<sup>2</sup>

*Asset purchases or swaps.* In past episodes of distress, the creation of a government-owned asset management company to buy and wind up distressed loans was a policy measure often applied. Within the euro area, Greece, Spain and Italy have announced that they are prepared to help banks by purchasing some of their assets or by converting them into government obligations. In the

1 In the euro area, these measures followed the decisions taken at the Eurogroup summit in Paris on 12 October, where the euro area countries agreed on a concerted action plan with the aim of restoring confidence in the markets and promoting the proper functioning of the financial system. A few days later, on 15 and 16 October, the EU summit endorsed the principles laid down in the Paris declaration. The national measures were taken in accordance with the agreed principles on improving the liquidity and solvency conditions for financial institutions.

2 A special feature in some jurisdictions, such as the United Kingdom, was to require banks to raise new capital with the objective of their reaching a certain capital ratio. In the absence of private investors willing to provide the capital necessary to fill the gap, an injection of public capital had to be accepted. This could be effected by the government underwriting the new shares issued.

United States, the original idea of the USD 700 billion Troubled Assets Relief Program (TARP) to support illiquid markets of mortgage-related assets was eventually abandoned and funds were announced to be used mostly for capital injections. However, there are several other programmes in place in the United States to purchase troubled securities including loans, MBSs and ABCP from the market.

*Guarantees on bank liabilities.* To mitigate the pressure on banks' funding, the EU decided to raise the minimum guarantee to €50,000 per deposit account. Higher limits, blanket guarantees of all deposits – or even most of the banks' liabilities – have been established in several countries. Furthermore, there have been attempts in most jurisdictions to unfreeze the credit market by offering temporary government guarantees on all newly issued debt, against a fee.

Finally, figures quoted in this box should be interpreted with caution, as they represent maximum commitments, rather than amounts

that are likely to be actually spent. Furthermore, the various commitments are rather different in nature and are not necessarily comparable with each other. It should also be noted that several additional measures have been taken by governments and central banks to mitigate the stresses. These include further enhancements in the provision of liquidity by central banks, restrictions on short-selling, modifications in the rules for fair-value accounting that allow banks to re-classify assets previously held in trading books as banking book assets and, in some countries, various programmes to contribute to a restructuring of individual homeowners' mortgage loans. It is important that the banking sector takes fully into account these significant support measures adopted by governments to deal with the financial turmoil. These measures should be supporting trust in the financial system and should help to prevent undue constraints in the credit supply to companies and households.

**Table A Published national rescue packs with explicit commitments**

(EUR billions)

| Country             | Capital injection | Asset purchases/ swaps | Guarantees/ loans/credit lines |
|---------------------|-------------------|------------------------|--------------------------------|
| <b>Euro area</b>    |                   |                        |                                |
| AT                  | 15                | -                      | 85                             |
| BE                  | 13                | -                      | -                              |
| CY                  | -                 | -                      | -                              |
| DE                  | 80                | -                      | 400                            |
| ES                  | -                 | 50                     | 100                            |
| FI                  | 4                 | -                      | 50                             |
| FR                  | 40                | -                      | 320                            |
| GR                  | 5                 | 8                      | 15                             |
| IE                  | -                 | -                      | 485                            |
| IT                  | -                 | 40                     | -                              |
| LU                  | 3                 | -                      | -                              |
| NL                  | 37                | -                      | 200                            |
| PT                  | 4                 | -                      | 20                             |
| SI                  | -                 | -                      | 8                              |
| <b>Other EU</b>     |                   |                        |                                |
| HU                  | 1                 | -                      | 1                              |
| SE                  | 2                 | -                      | 150                            |
| UK                  | 61                | -                      | 306                            |
| <b>Other Europe</b> |                   |                        |                                |
| CH                  | 4                 | 42                     | -                              |
| NO                  | -                 | -                      | 40                             |
| <b>Other</b>        |                   |                        |                                |
| US                  | 683               | 1,318                  | 1,559                          |