The European Response to the Financial Crisis

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The European Response to the Financial Crisis

- European monetary policy
- Government policies
- Regulatory reform
ECB response: strong decline in ECB interest rates

Percentages per annum; daily data
Role of banks in the funding of corporations & households

Note: Breakdown of the sources of external financing of non-financial corporations, in percent, average 2004 – 2008
Source: ECB Monthly Bulletin, April 2009
Non-standard measures – ‘enhanced credit support’

- Full allotment at a fixed rate in refinancing operations
- Easing of collateral requirements
- Refinancing operations with a maturity of up to 12 months
- Provision of liquidity in foreign currency
- Purchases of covered bonds
Short-term money market rates

12-Month EURIBOR/LIBOR
(percent p.a.)

- EURIBOR 12M
- USD LIBOR 12M
Stress in money market rates decreases

Spread between 12-Month EURIBOR/LIBOR and EONIA/OIS* (percent p.a.)

EUR SPREAD 12M
USD SPREAD 12M

0.44
0.75
0.44
Composition of stimulus measures (2009)

Euro area, Procent

- Public investment (excl. infrastructure) 20%
- Infrastructure 10%
- Tax relief for enterprises 20%
- Tax relief for households 40%
- Labour market measures 10%

Source: European Commission
Government response: fiscal challenge

Government net lending (+) / borrowing (-) and gross debt
Euro area, percent of GDP

Source: European Commission
Government response: government debt

Government debt
Euro area (Euro-12), Per cent of GDP

Source: European Commission (AMECO)
Regulatory reform: key topics

• Further strengthening of the prudential framework for banks

• Extending the scope of regulation to all systemically important institutions, markets and instruments

• Strengthen oversight of systemically important financial institutions