



EUROPEAN CENTRAL BANK

EUROSYSTEM

The crisis response in the euro area

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**Pioneer Investment's Colloquia Series
Beijing, 17 April 2013**

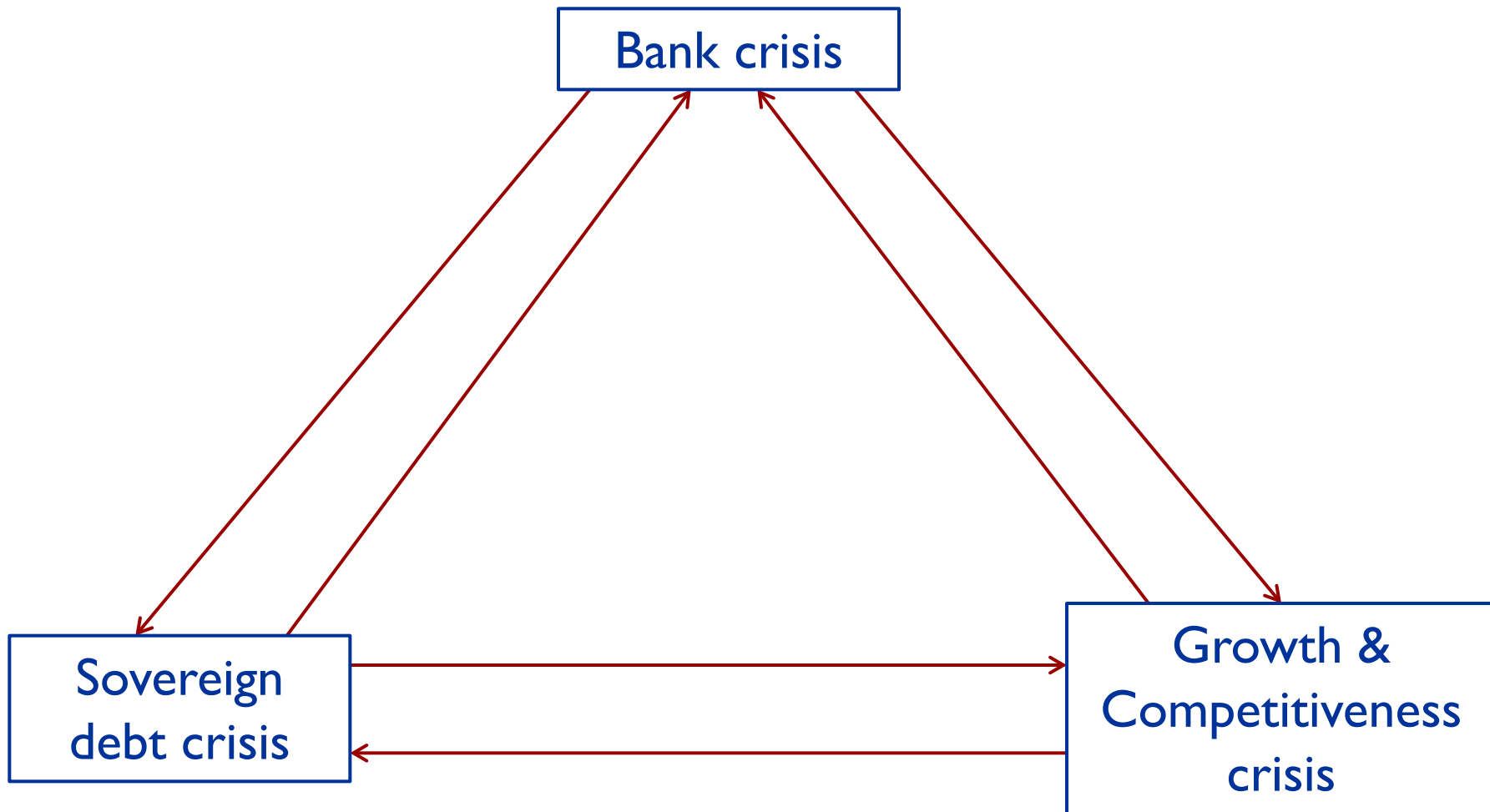
Outline

- A. How the crisis developed**
- B. Monetary policy response**
- C. Structural adjustment underway**
- D. Eurozone governance**

A. How the crisis developed



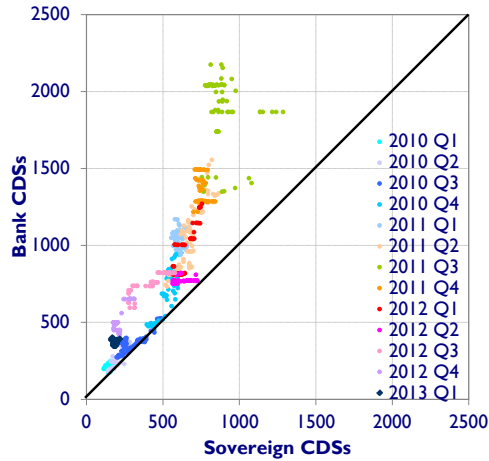
A. How the crisis developed: the feedback loops between banks, sovereigns, and economic growth



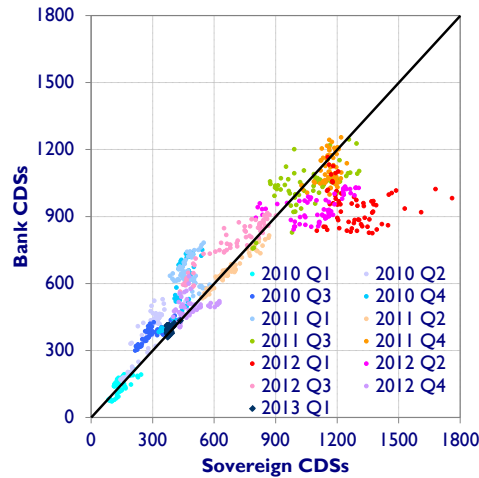
A: How the crisis developed: link between bank and sovereign risks

(in basis points)

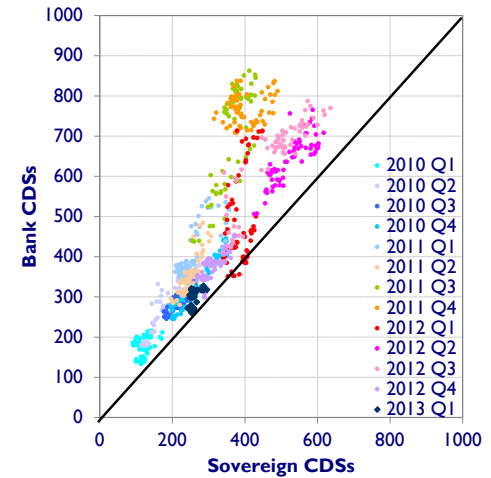
Ireland



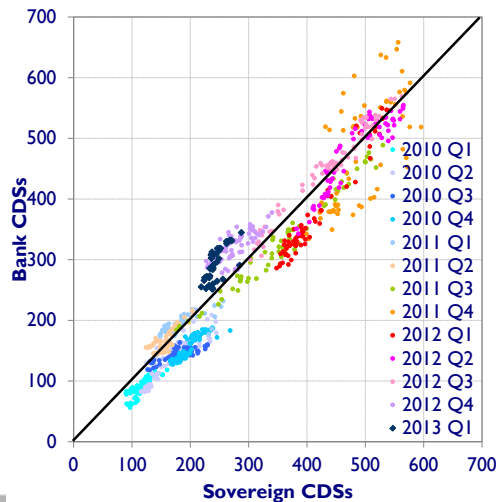
Portugal



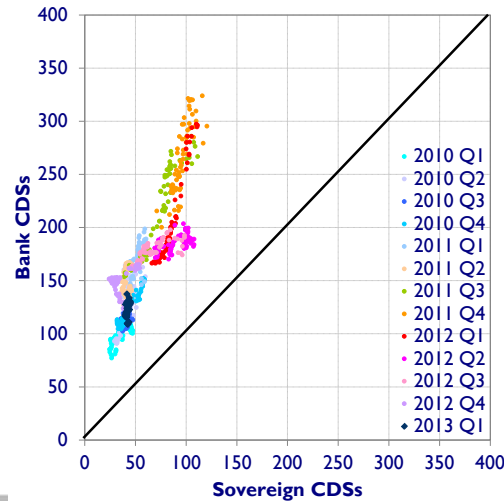
Spain



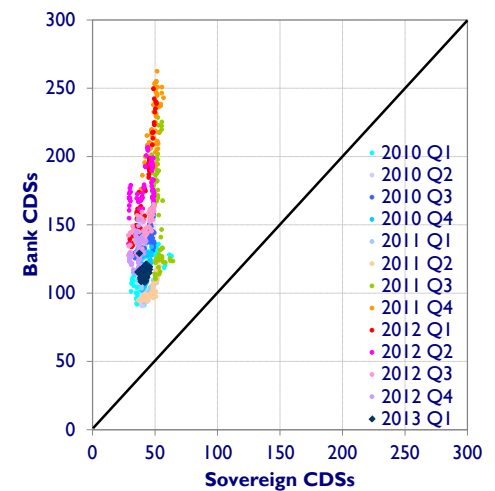
Italy



Germany



United States



- A. How the crisis developed**
- B. Monetary policy response**
- C. Structural adjustment underway**
- D. Eurozone governance**

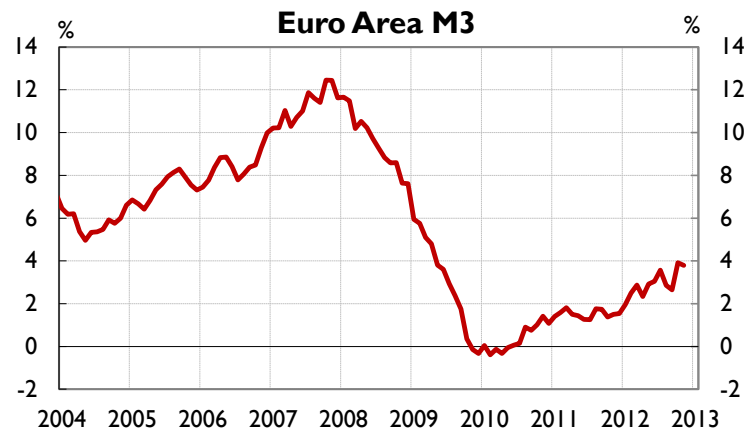
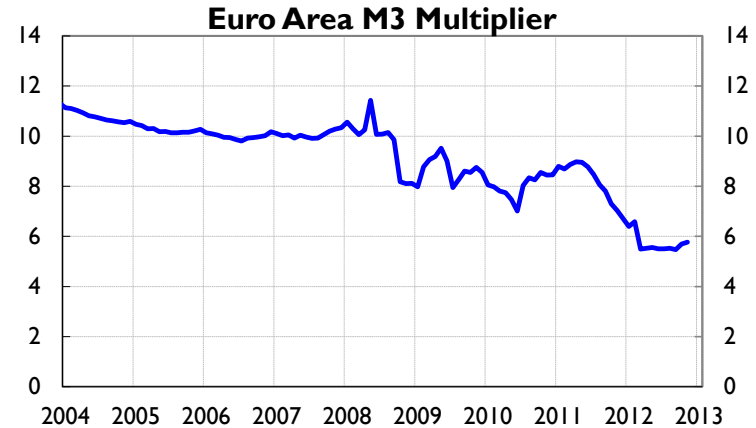
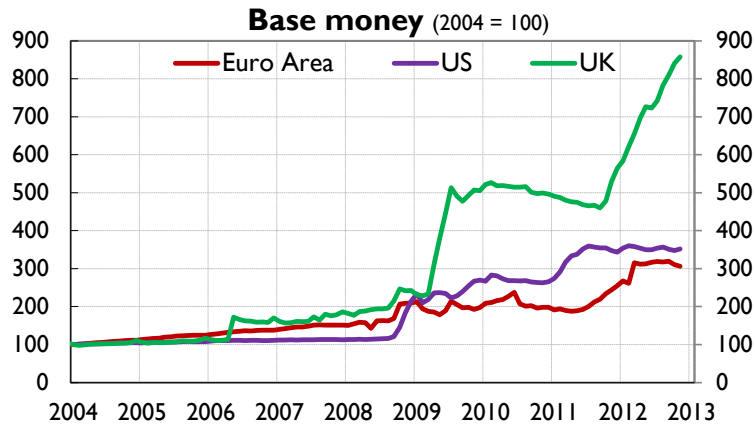
B. Monetary policy response: the ECB's standard and non-standard policy measures

In exceptional circumstances, the ECB took exceptional monetary policy measures:

- **Standard measures: historically low key ECB interest rates**
- **Non-standard measures:**
 - **Fixed rate full allotment**
 - **Extension of maturity of refinancing operations**
 - **Expansion of collateral pool**
 - **Securities Market Programme**
 - **Outright Monetary Transactions**
- **Overall stance of monetary policy is accommodative**
- **Non-standard measures facilitate the transmission of accommodative monetary policy stance to the euro area economy, in a context of impairment in the transmission mechanism**

B. Monetary policy response: base money, M3 and the money multiplier

(annual percentage change for M3, index for base money, 2004 = 100)

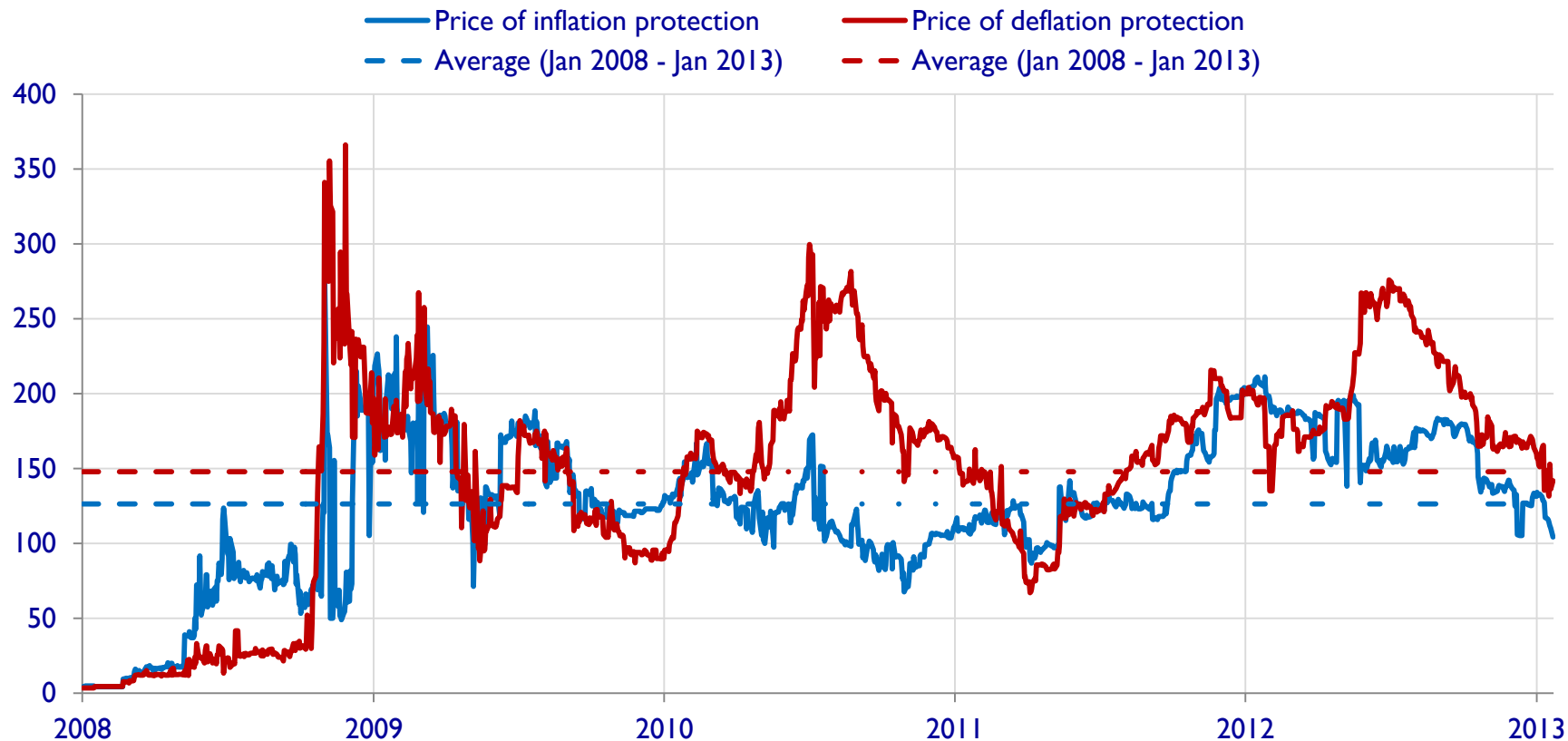


Source: ECB.

Latest observation: November 2012

B. Monetary policy response: price of deflation and inflation protection declined below 5-year average

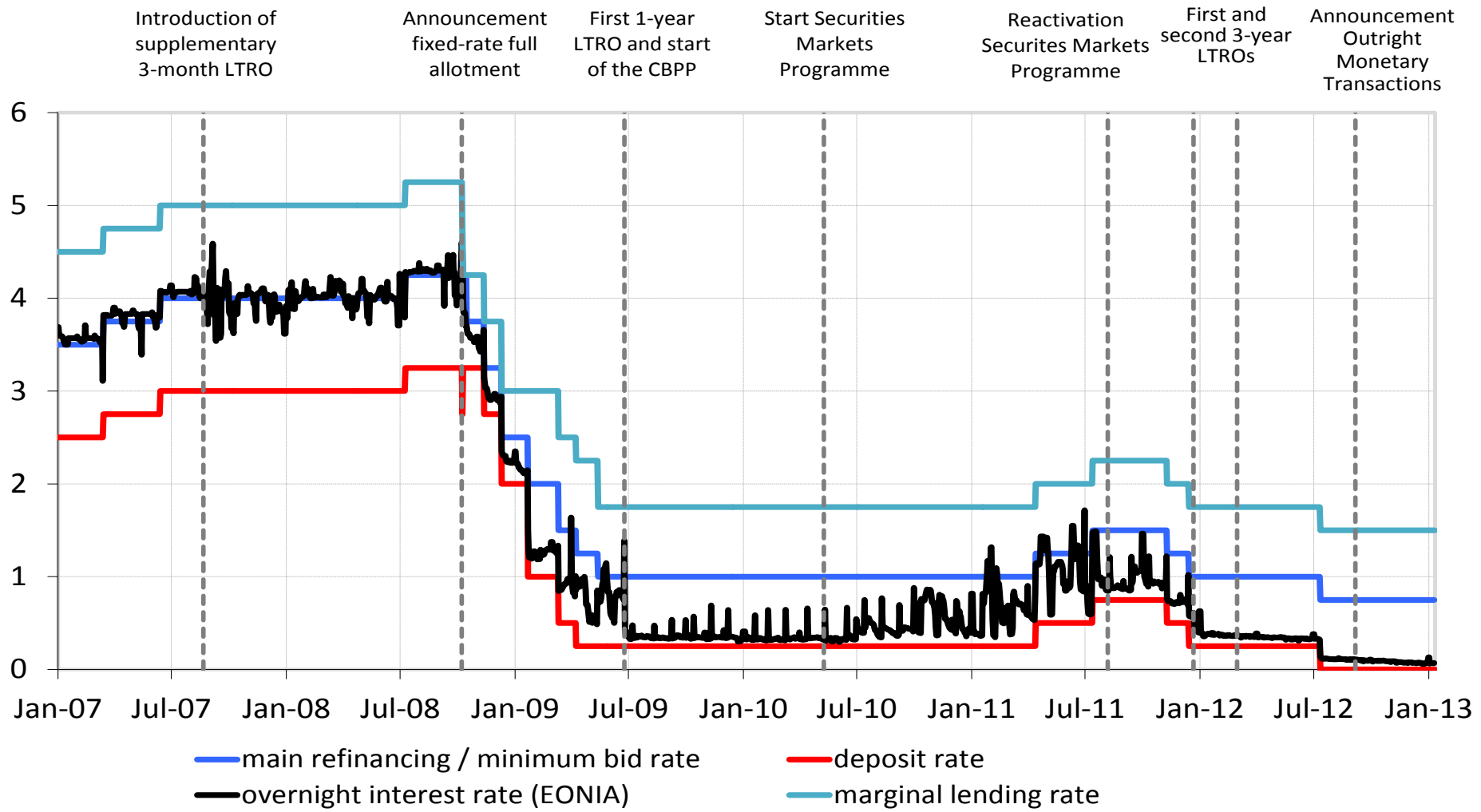
Price of floor and caps (year-on-year) on euro area HICP inflation – 5Y maturity



Sources: Bloomberg. ECB calculations.

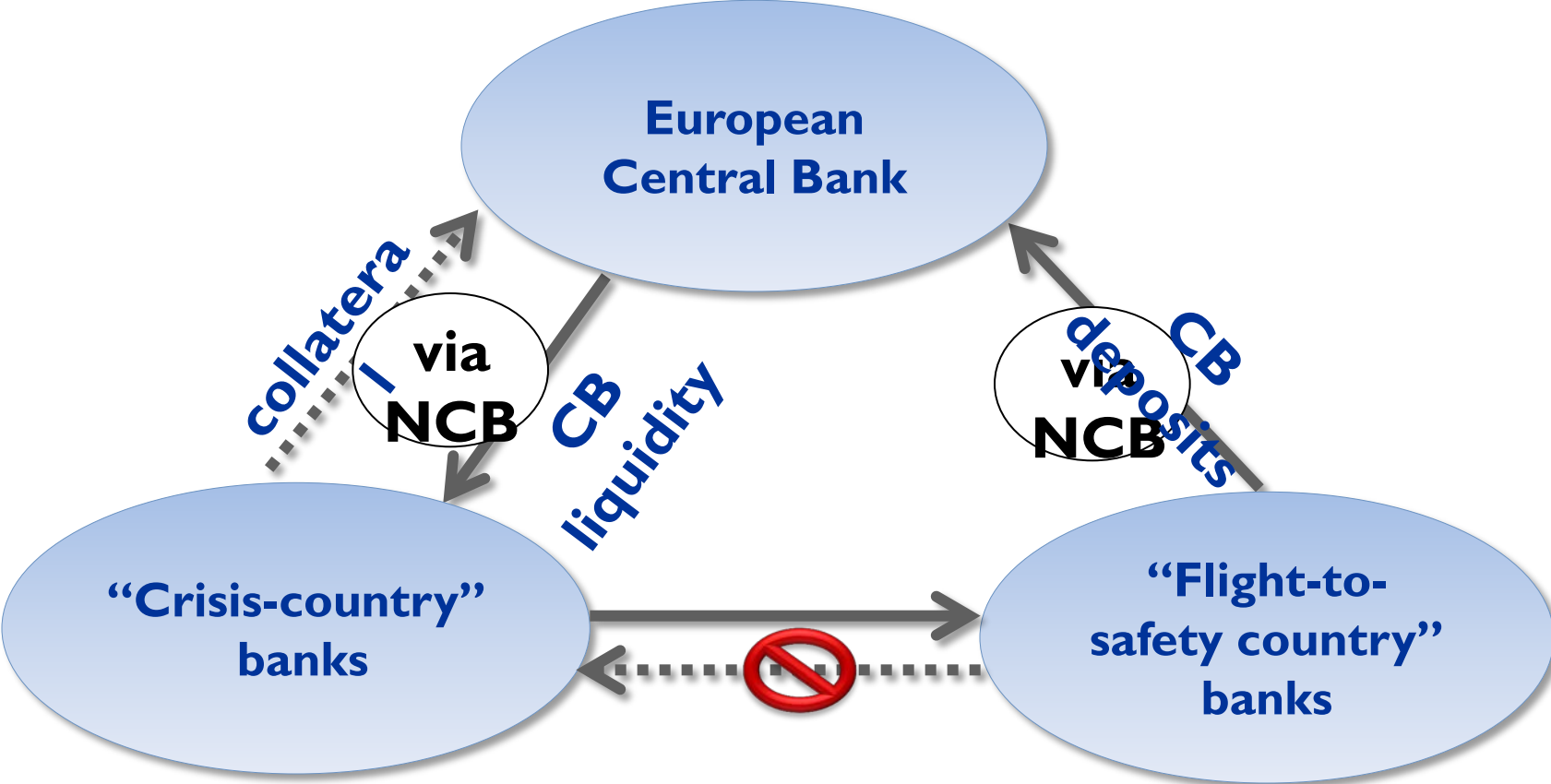
Note: The market for inflation-linked options is relatively illiquid and often heavily influenced by specific demand and supply patterns. Developments should therefore be interpreted with caution. The underlying instruments are for the inflation protection: year-on-year cap of 4% with 5 year maturity; for deflation protection: year-on-year floor of 0% with 5 year maturity.

B. Monetary policy response: key ECB rates were cut forcefully and stand at a record low since July 2012

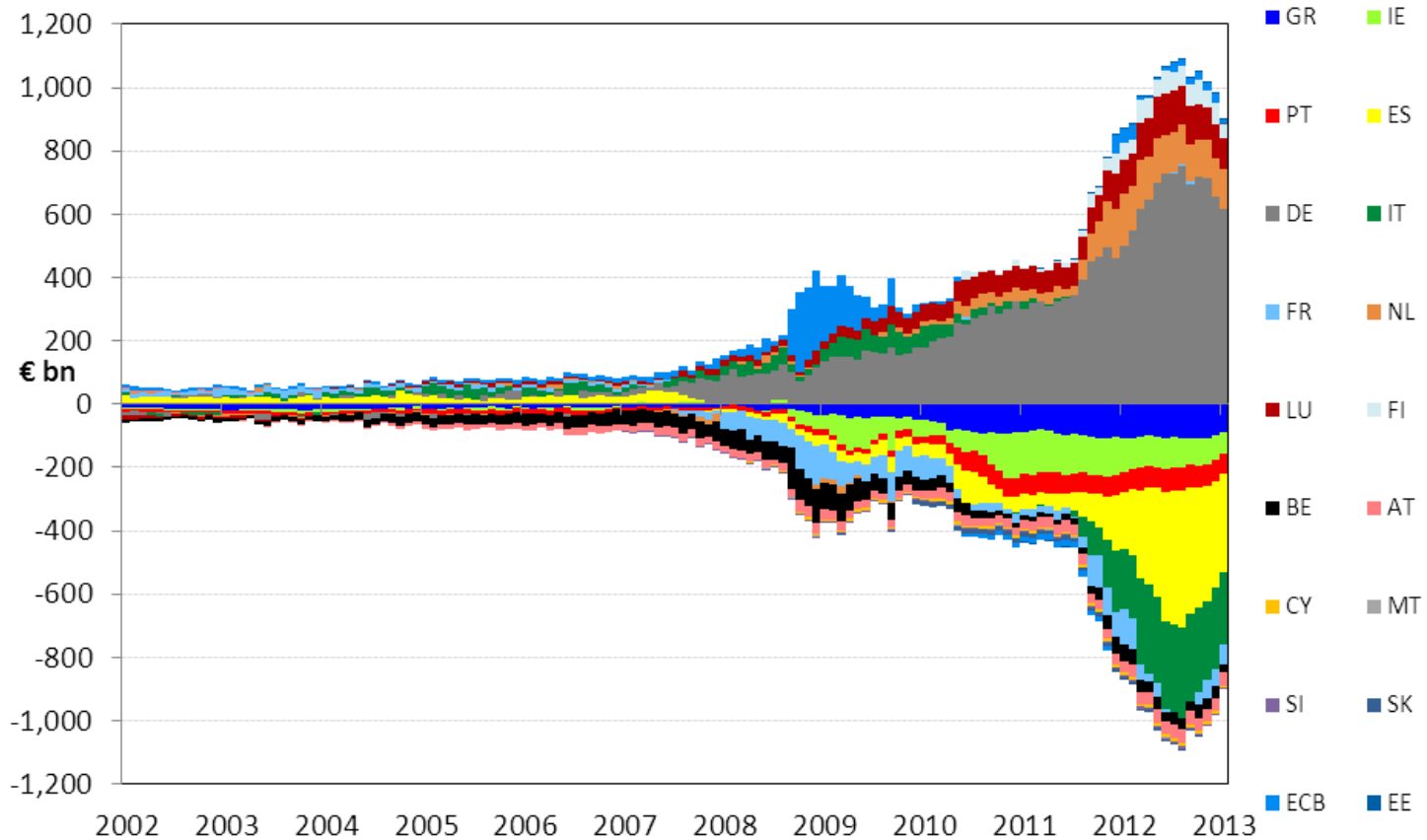


Source: ECB

B. Monetary policy response: central bank intermediation



B. Monetary policy response: Target2 balances



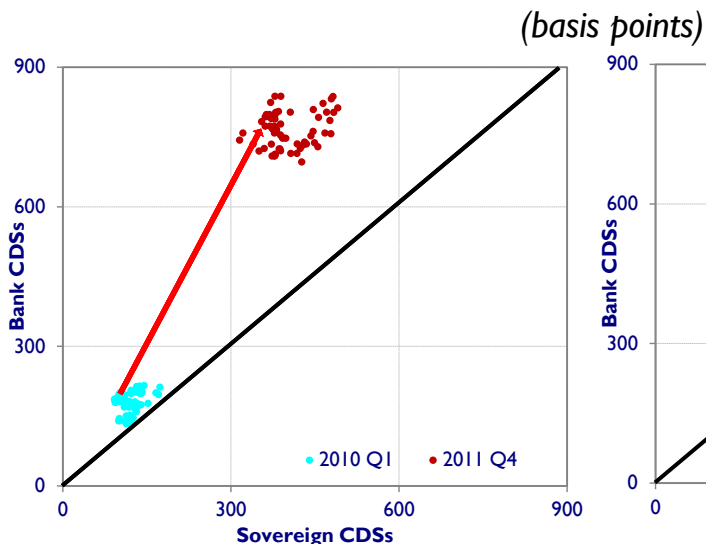
Source: ECB, NCB and IMF data and author's calculations (P. Cour-Thimann, Target balances and the crisis in the euro area, mimeo).

Notes: Last observation is end-January 2013.

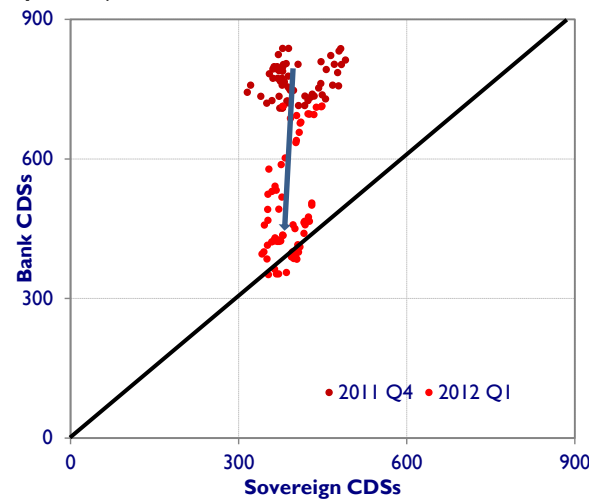
A positive (negative) sign reflects a net claim (liability) of the national central bank vis-à-vis the ECB in the TARGET2 payment system. Claims and liabilities (including that of the ECB) add up to zero.

B. Monetary policy response: impact of VLTROs and OMT on crisis in Spain

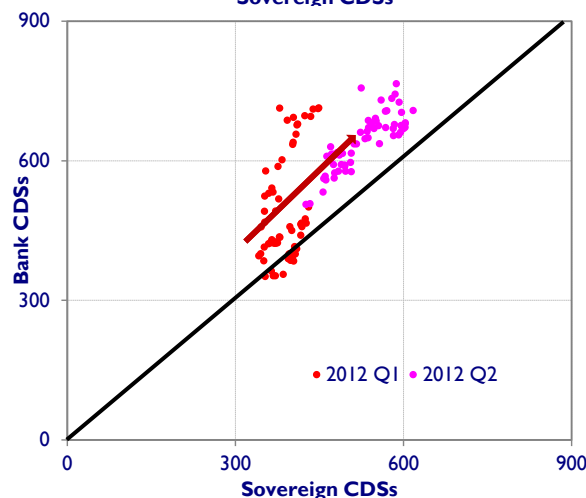
Deterioration in banking sector



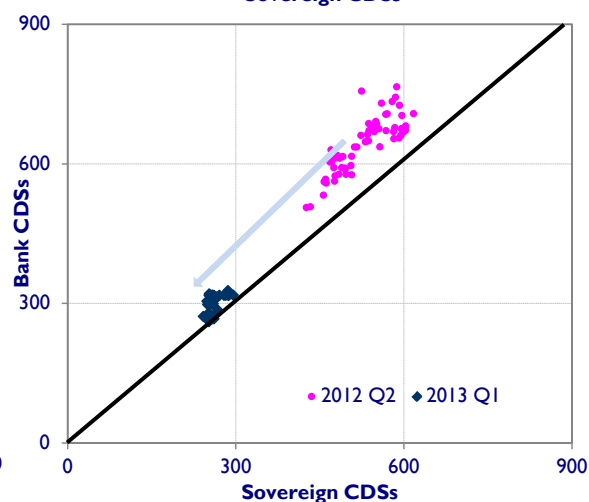
Impact of VLTROs



Summer 2012 intensification of crisis



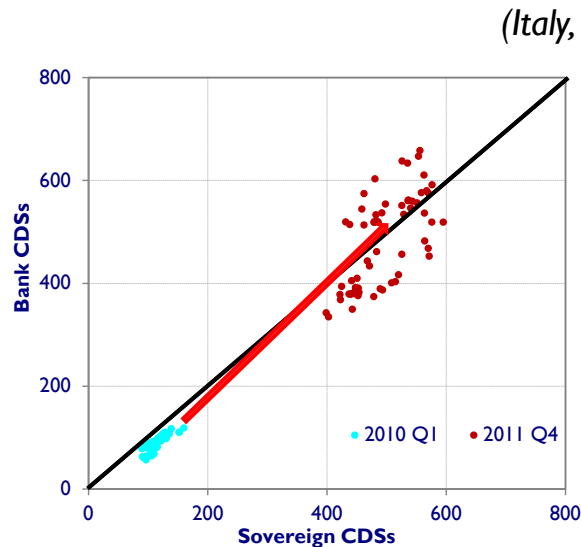
Impact of OMT announcement



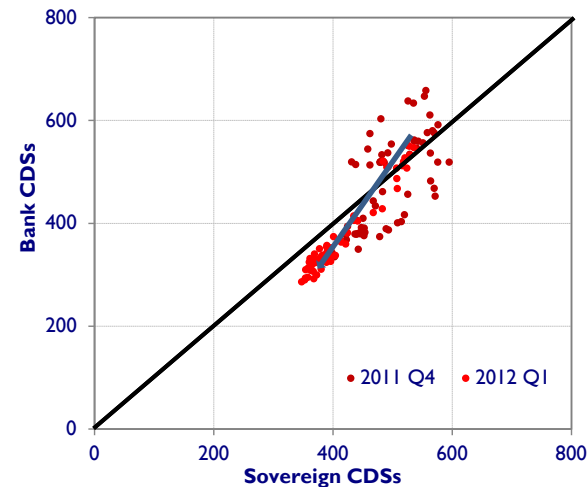
Source: ECB calculations. Last observation: 4 March 2013.

B. Monetary policy response: impact of VLTROs and OMT on crisis in Italy

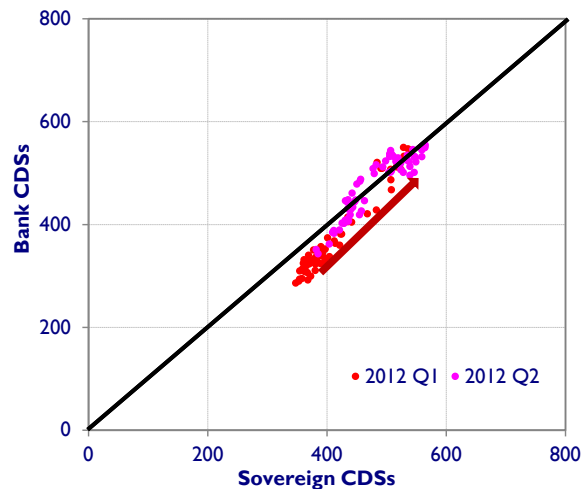
Deterioration in banking sector



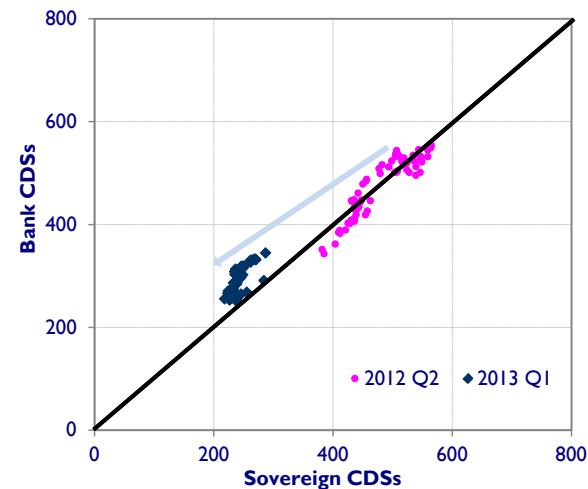
Impact of VLTROs



Summer 2012 intensification of crisis



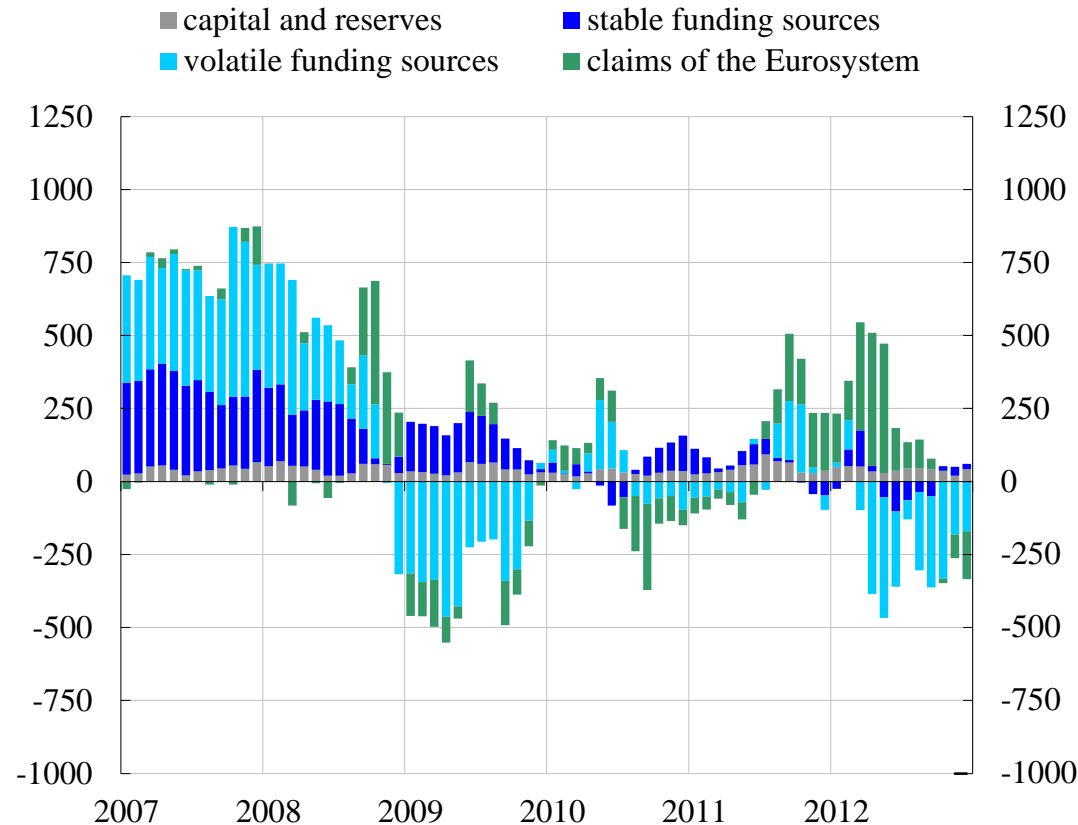
Impact of OMT announcement



Source: ECB calculations. Last observation: 4 March 2013.

B. Monetary policy response: euro area bank funding developments

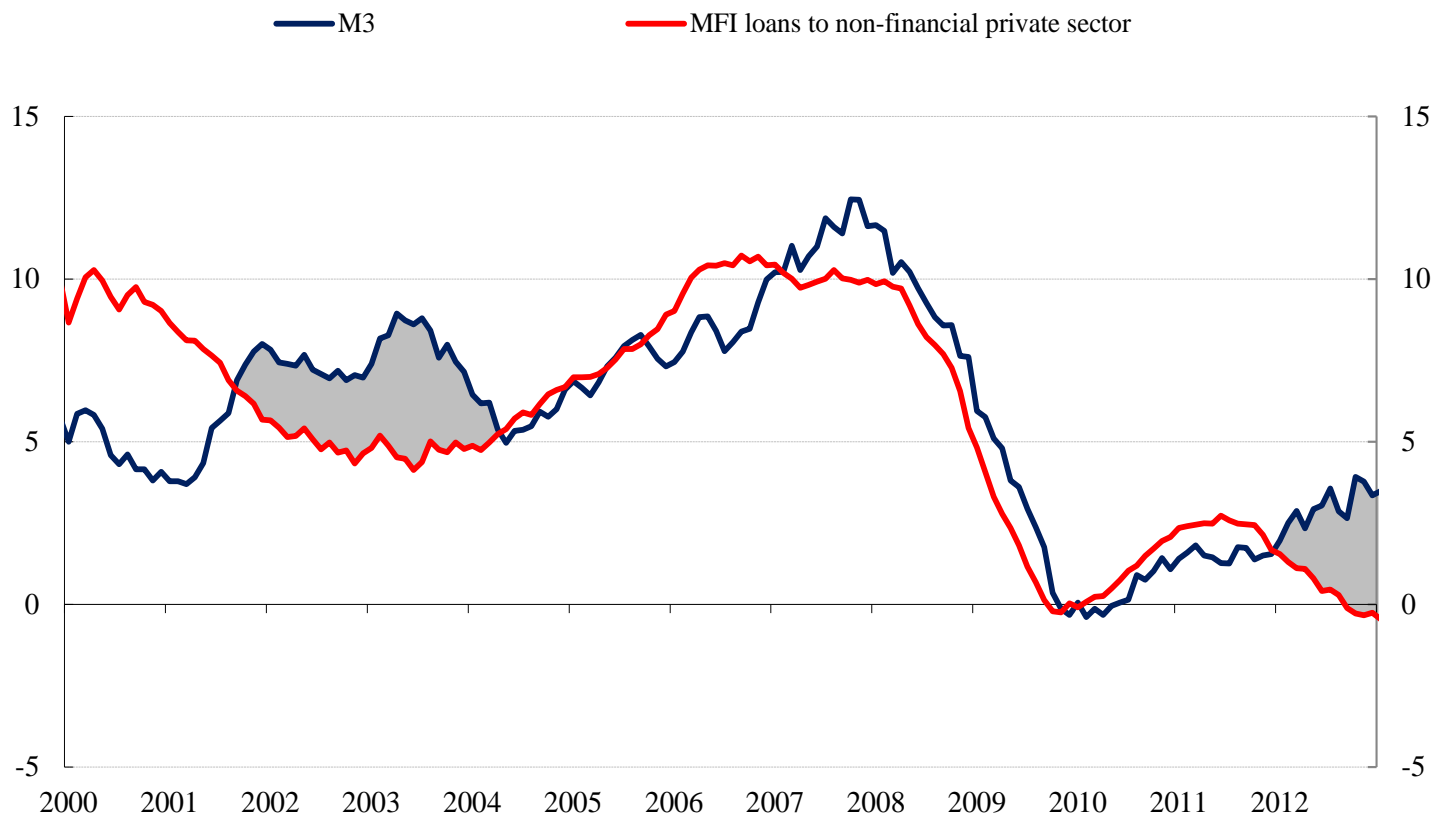
Main liabilities of euro area credit institutions
(three-month flows in EUR billion, adjusted for seasonal and calendar effects)



Source: ECB. Latest observation: December 2012. Note: Reporting sector is MFIs excluding the Eurosystem. Stable funding sources include deposits of the non-financial sector excluding central government, longer-term deposits of non-monetary financial intermediaries, deposits of non-resident non-banks and MFI debt securities with a maturity of more than one year. Volatile funding sources include deposits of MFIs excluding the Eurosystem, short-term deposits of non-monetary financial intermediaries, deposits of central governments, deposits of non-resident banks and MFI debt securities with a maturity of up to one year.

B: Monetary policy response: money / credit growth disconnect

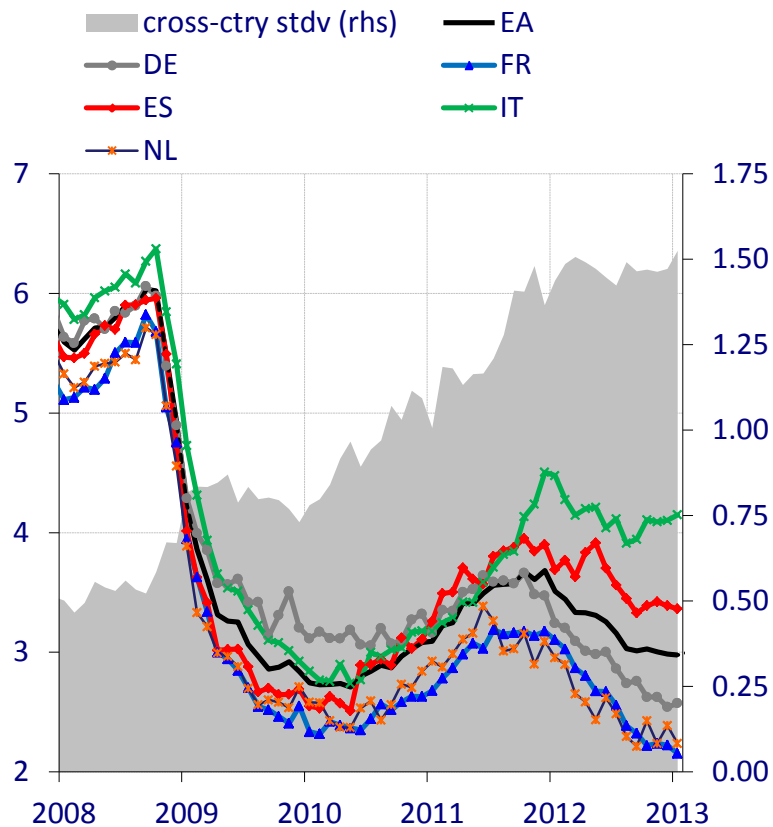
*M3 and MFI Lending to Non-Financial Private Sector
(annual percentage changes)*



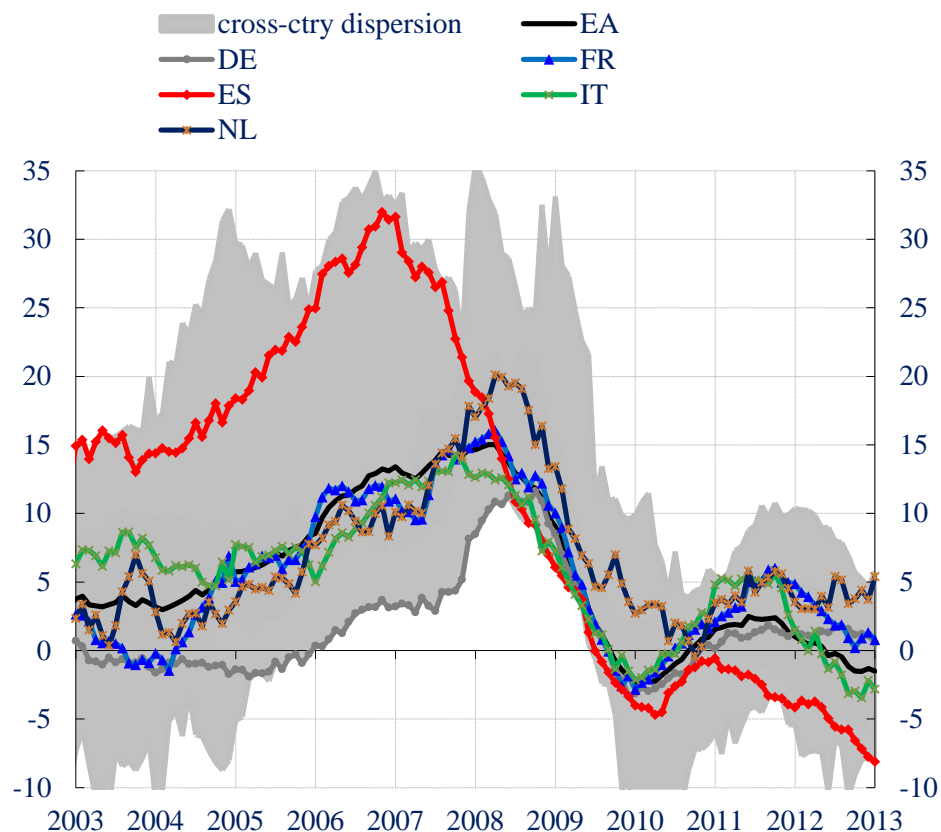
Source: ECB.
Notes: Last observation: January 2013.

B. Monetary policy response: dispersion in credit conditions

Composite Nominal MFI Bank Lending Rates to NFCs (% p.a.)



MFI Loans to NFCs (annual growth rates in %)



Source: ECB, MIR Statistics, ECB calculations.

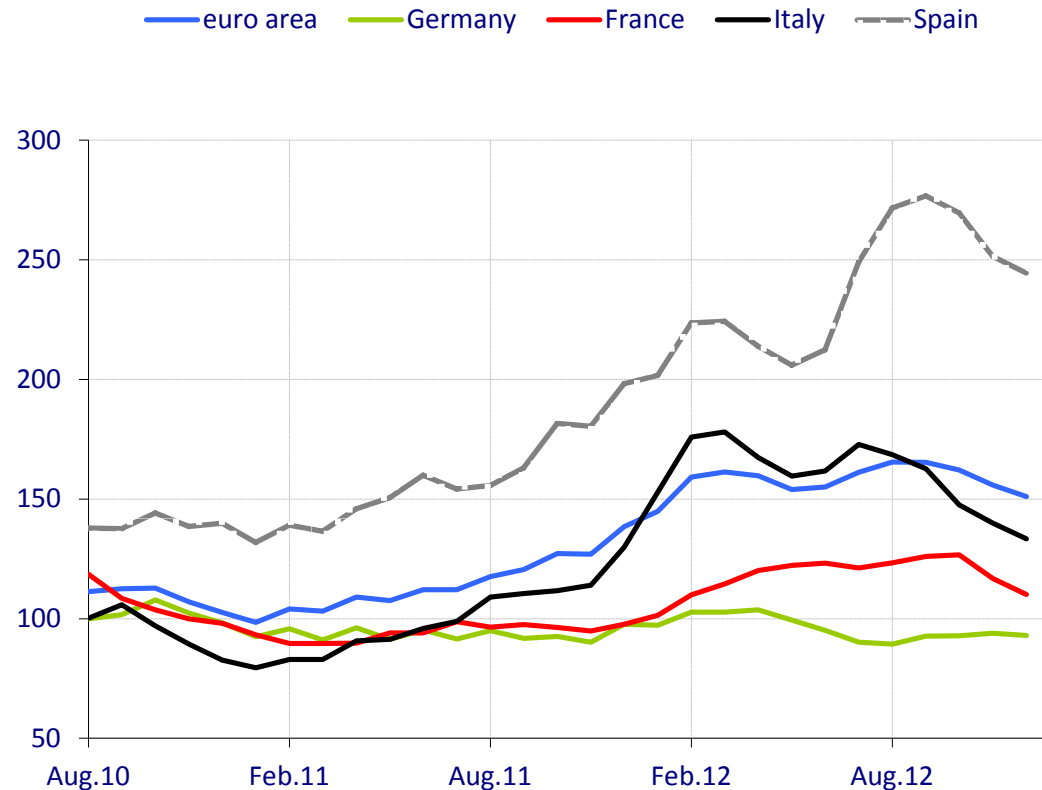
Notes: Last observation: January 2013. Aggregations based on new business volumes of loans.

Sources: ECB calculations based on ECB BIS statistics.

Note: Last observation: January 2013.

B. Monetary policy response: declining spreads between small/large loans and further decline in volumes

Spread between lending rates on small and large loans
(bps; three-month moving averages)



Source: ECB., MIR data base.

Last observation: January 2013.

Notes: Small loans are defined as loans of up to 1 EUR millions; large loans are above 1 EUR million.

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C. Structural adjustment underway: euro area real GDP growth and HICP developments

(annual growth rates, percentages)

1999-2007

2008-2013

Real GDP

average growth

2.3

-0.2

variance

1.0

4.2

HICP

average growth

2.1

2.0

variance

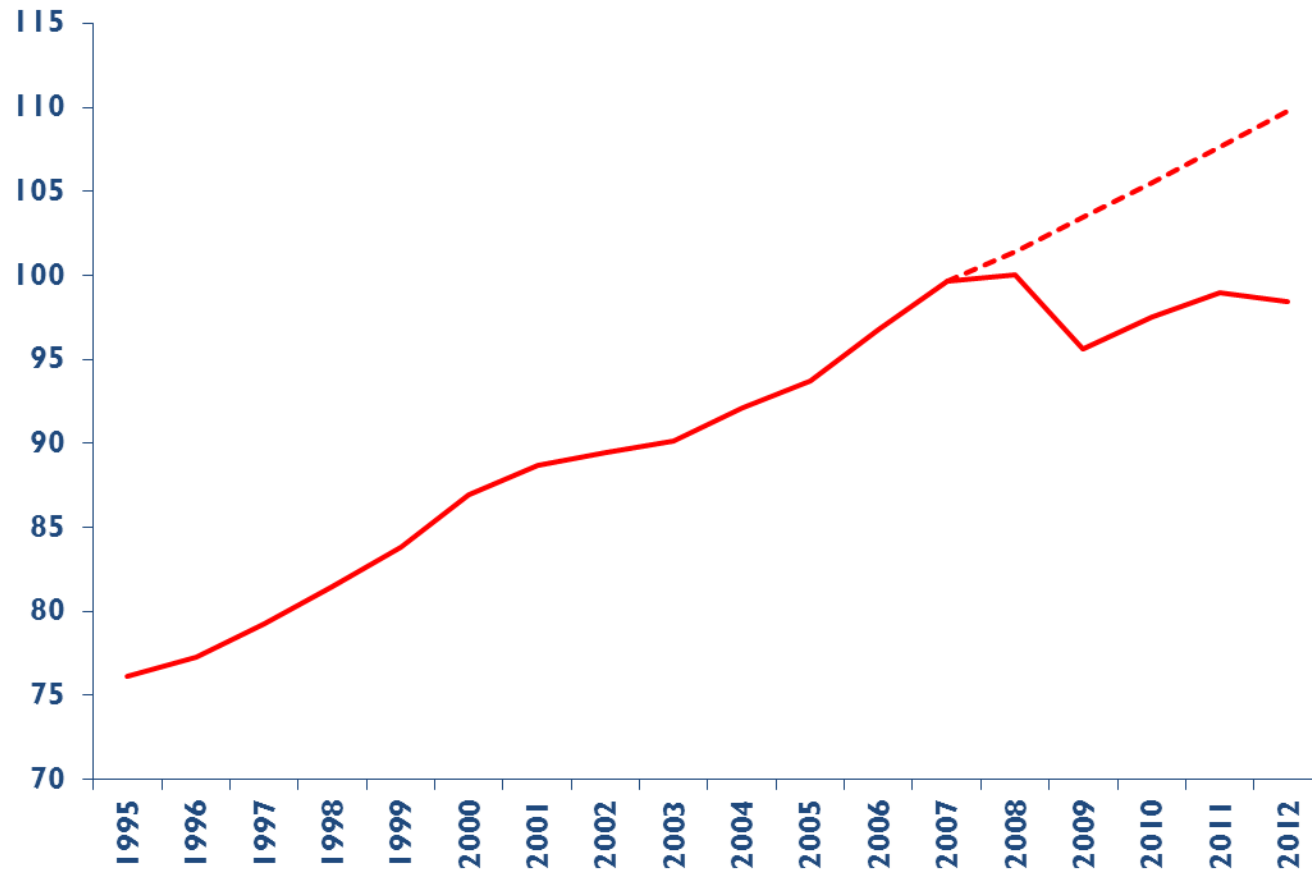
0.1

0.9

Sources: Eurostat and Consensus Economics.

Notes: Calculations based on annual data. Average growth refers to the average of growth rates. Data for 2013 are calculated using the Consensus Economics forecast of February 2013.

C. Structural adjustment underway: euro area real GDP growth: actual and predicted in early 2008



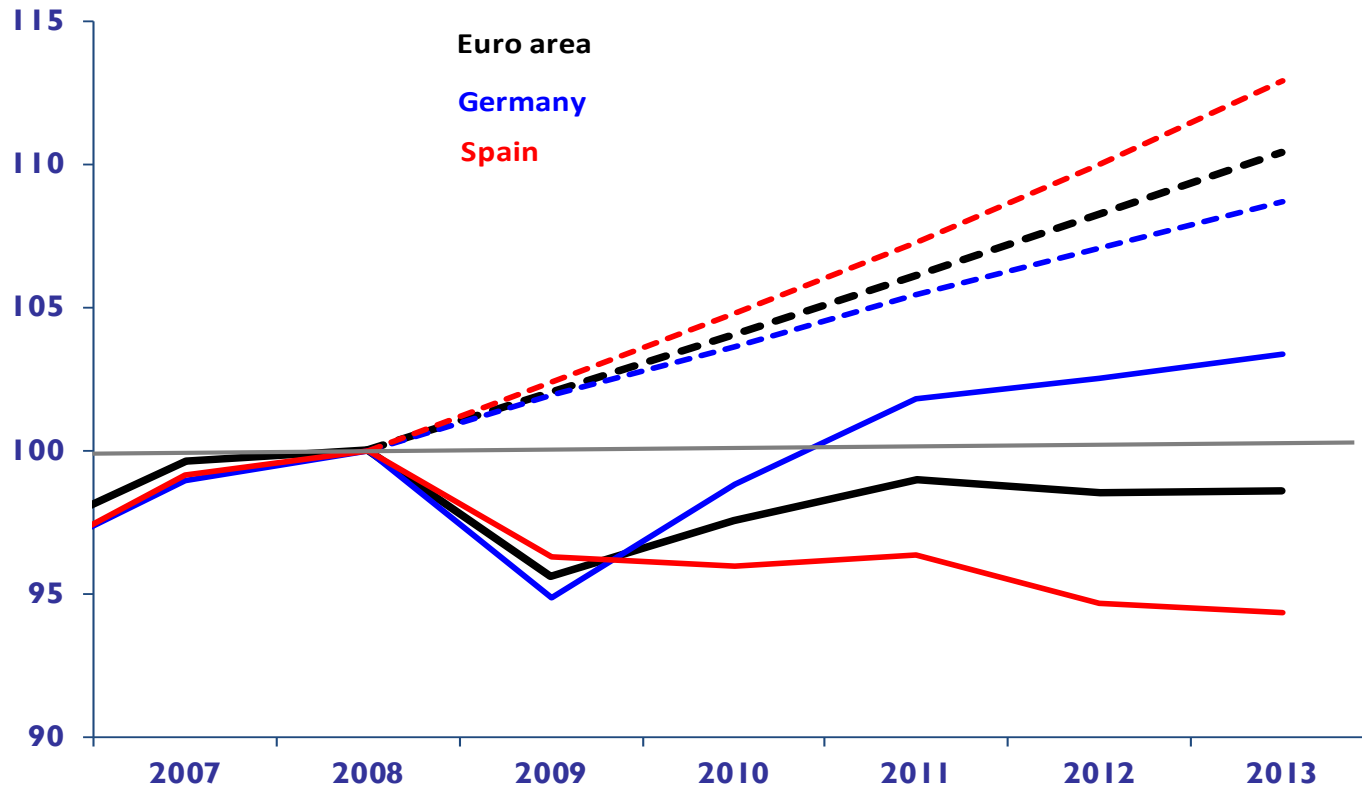
Sources: Sources: Eurostat, Consensus Economics and ECB calculations.

Latest data: 2012 for GDP outcome. The dotted line represents the evolution of GDP based on private sector expectations as measured by Consensus Economics in January 2008.

C. Structural adjustment underway: impact of the crisis on real GDP - Expected growth in late 2007 and realisation

Real GDP, euro area, Germany and Spain

All series in index form (2008=100);



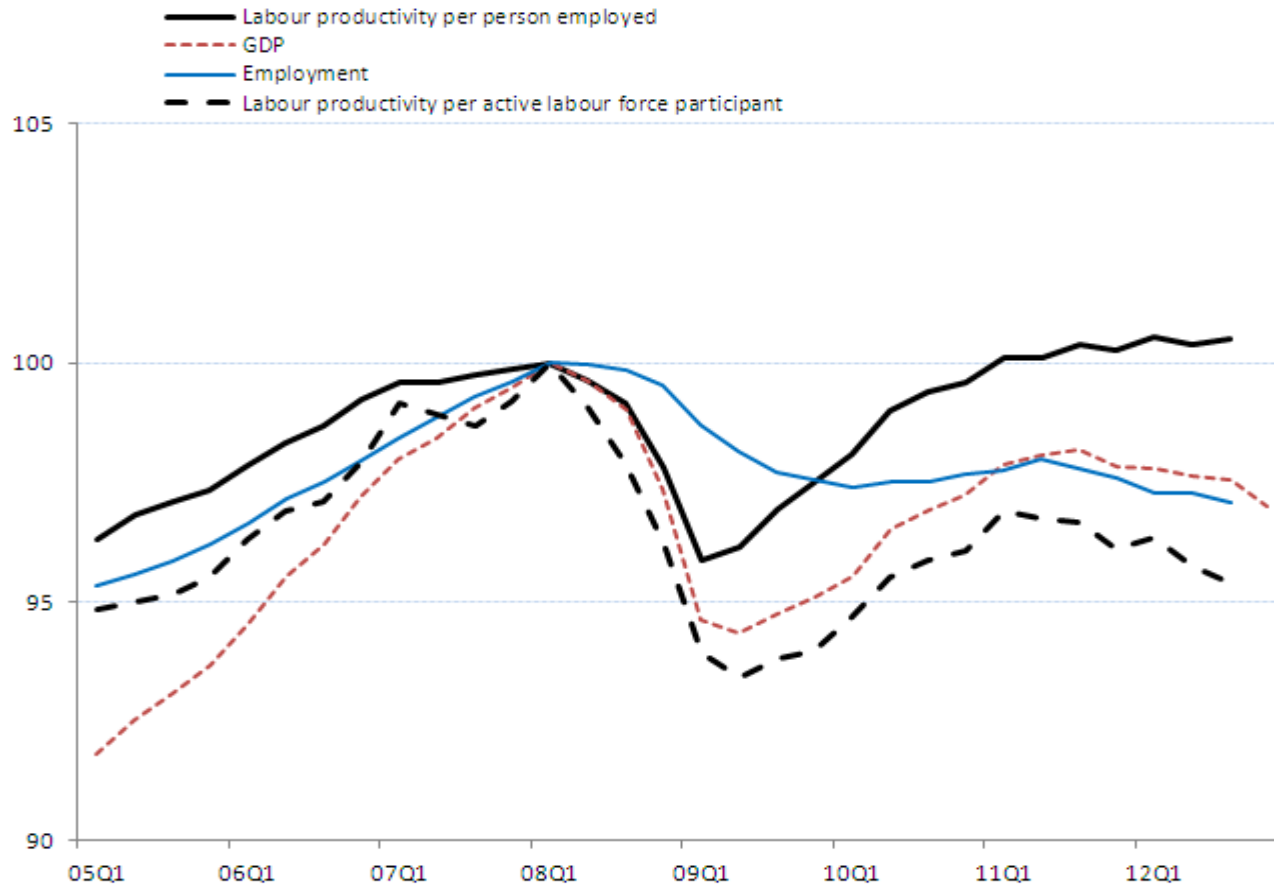
Sources: Eurostat, Consensus Economics and ECB calculations.

Latest data: 2012 for GDP outcome, 2013 are EC projections.

The dotted line represents the evolution of GDP based on private sector expectations as measured by Consensus Economics in October 2007.

C. Structural adjustment underway: euro area productivity

Euro area productivity developments and components
All series in index form (2008 Q1=100).

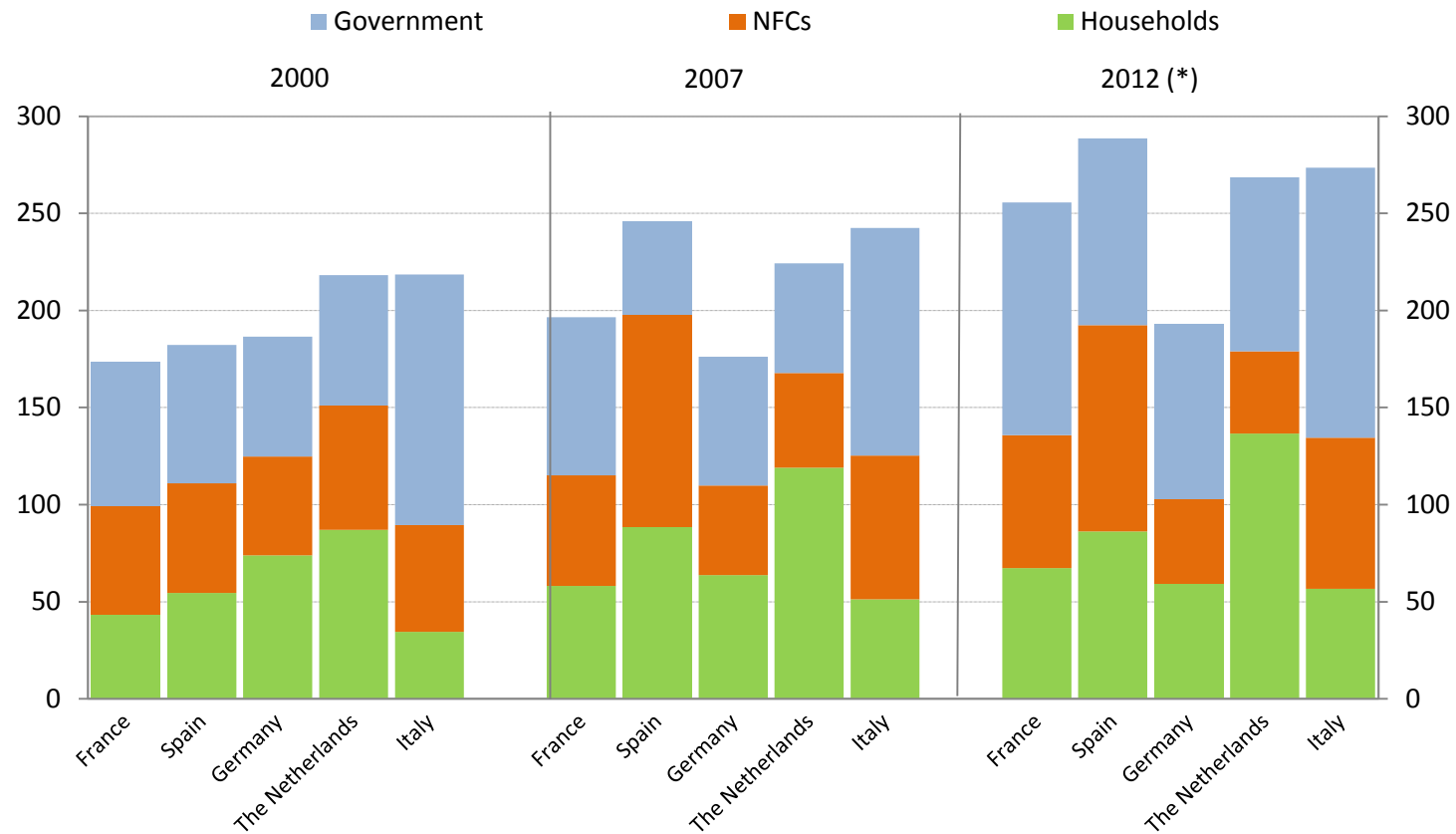


Source: Eurostat and ECB calculations.

Latest observations: GDP to 2012 Q4; employment and labour productivity to 2012 Q3.

C. Structural adjustment underway: evolution of debt levels in selected euro area countries by sector

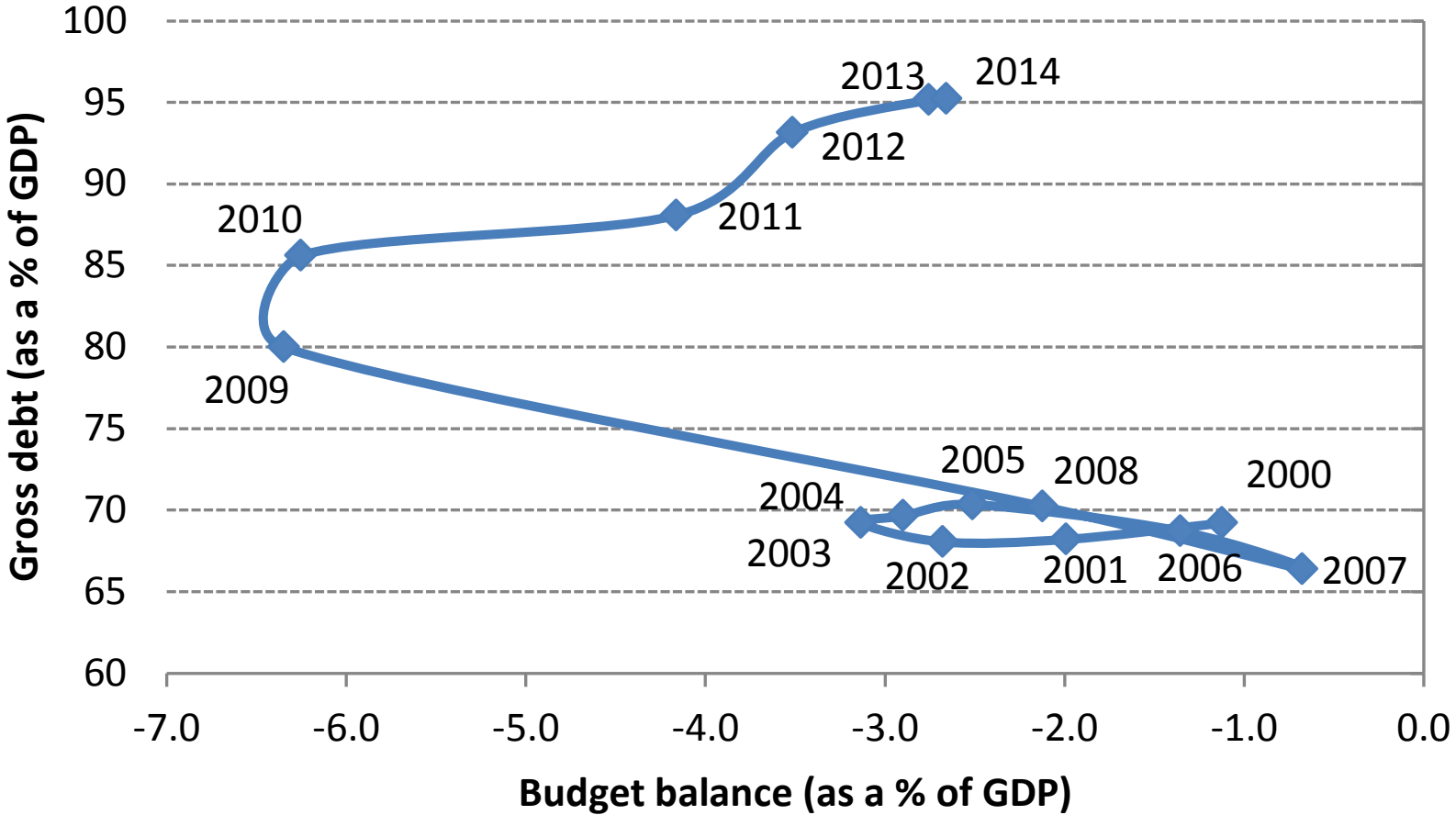
(as a percentage of national GDP)



Source: ECB.

Note: Data for 2012 refer to September 2012. For all sectors, debt is defined as total financial liabilities minus shares and other equity at the end of the period. All data is reported on an unconsolidated basis.

C. Structural adjustment underway: euro area sovereign debt keeps rising, owing to automatic stabilisers, fiscal stimulus and bank support



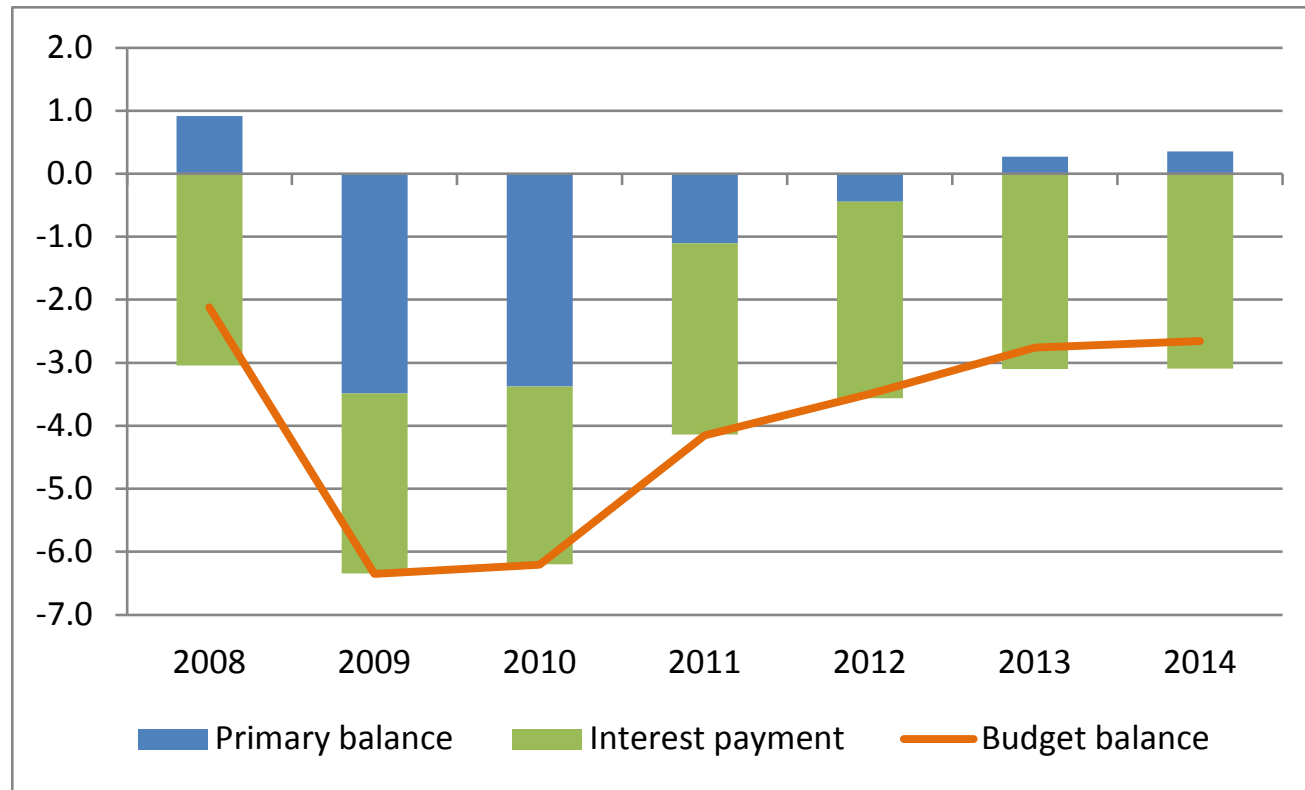
Source: European Commission's winter 2013 economic forecast.
Note: Budget balance excludes UMTS proceeds.

C. Structural adjustment underway: fiscal multipliers

Fiscal Instrument	Short-run multipliers				Long-run multipliers	
	Imperfect credibility	Full credibility	More liquidity constrained households	Higher propensity to work	More liquidity constrained households	Higher propensity to work
Gov. consumption	-	-	--	-	+	0
Gov. investment	--	-	--	--	--	--
General transfers	0	0	0	0	++	++
Targeted transfers	0	0	-	0	++	+++
Labour tax	0	-	0	0	+	0
Consumption tax	-	0	-	0	+	+
Expenditure package	-	0	--	-	0	0
Revenue package	0	0	0	0	+	+
Exp. + rev. package	-	0	-	-	+	0

C. Structural adjustment underway: euro area budget balance adjustment

Fiscal development in the euro area (as a percentage of GDP)



Source: European Commission's winter 2013 economic forecast.

C. Structural adjustment underway: budget balance path for euro area and selected countries

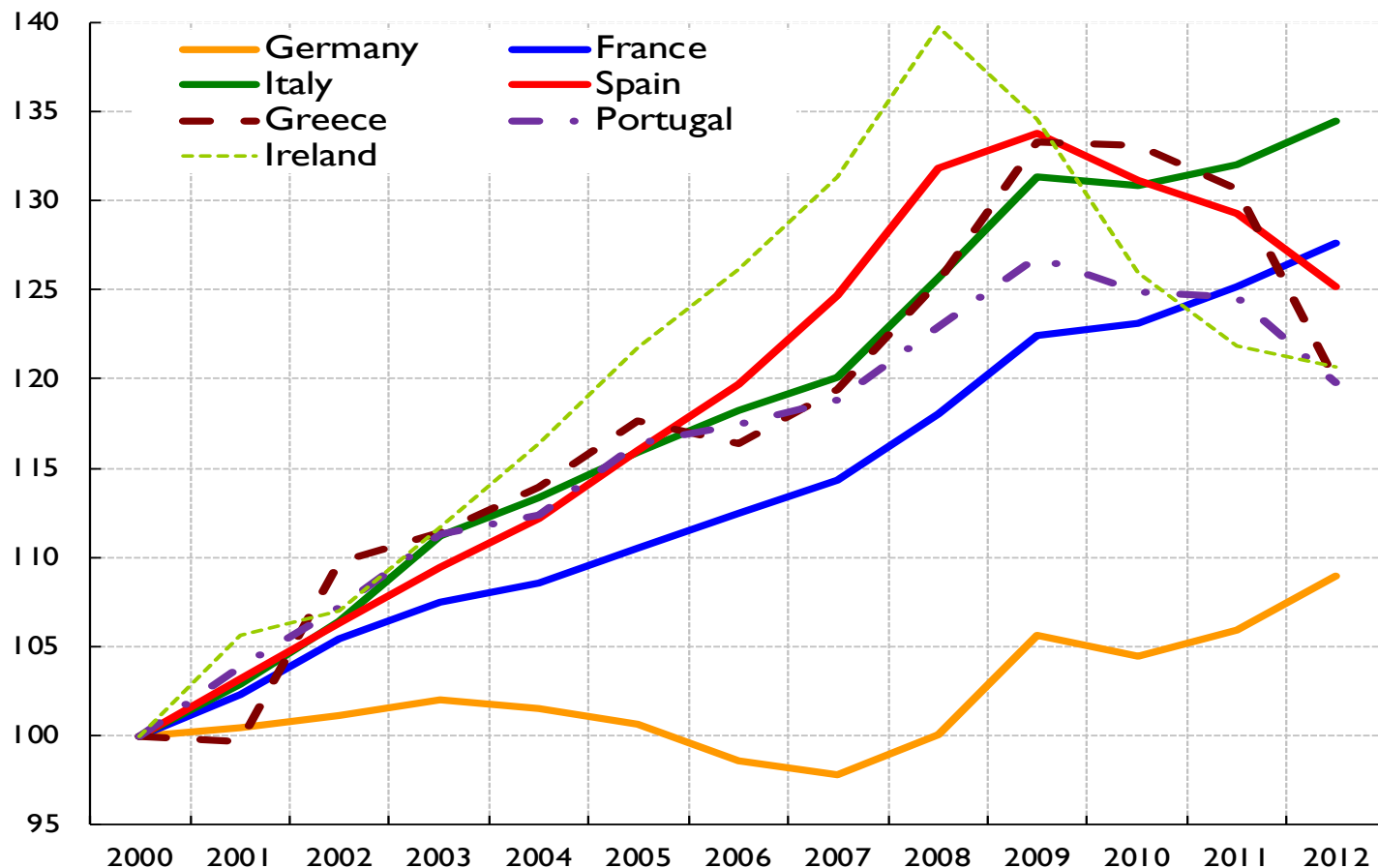
(as a percentage of GDP)

	2009		2012		2009-2012	
	Budget Balance	Structural Primary Balance	Budget Balance	Structural Primary Balance	Budget Balance	Structural Primary Balance
Ireland	-13.9	-7.9	-7.7	-3.5	6.3	4.3
Greece	-15.6	-9.6	-6.6	4.6	9.0	14.2
Spain	-11.2	-6.8	-10.2	-2.9	1.0	3.9
Portugal	-10.2	-5.8	-5.0	-0.1	5.1	5.7
Euro area	-6.3	-1.6	-3.5	1.0	2.9	2.6

Source: European Commission's winter 2013 economic forecast

C. Structural adjustment underway: unit labour cost adjustment in the euro area

(index

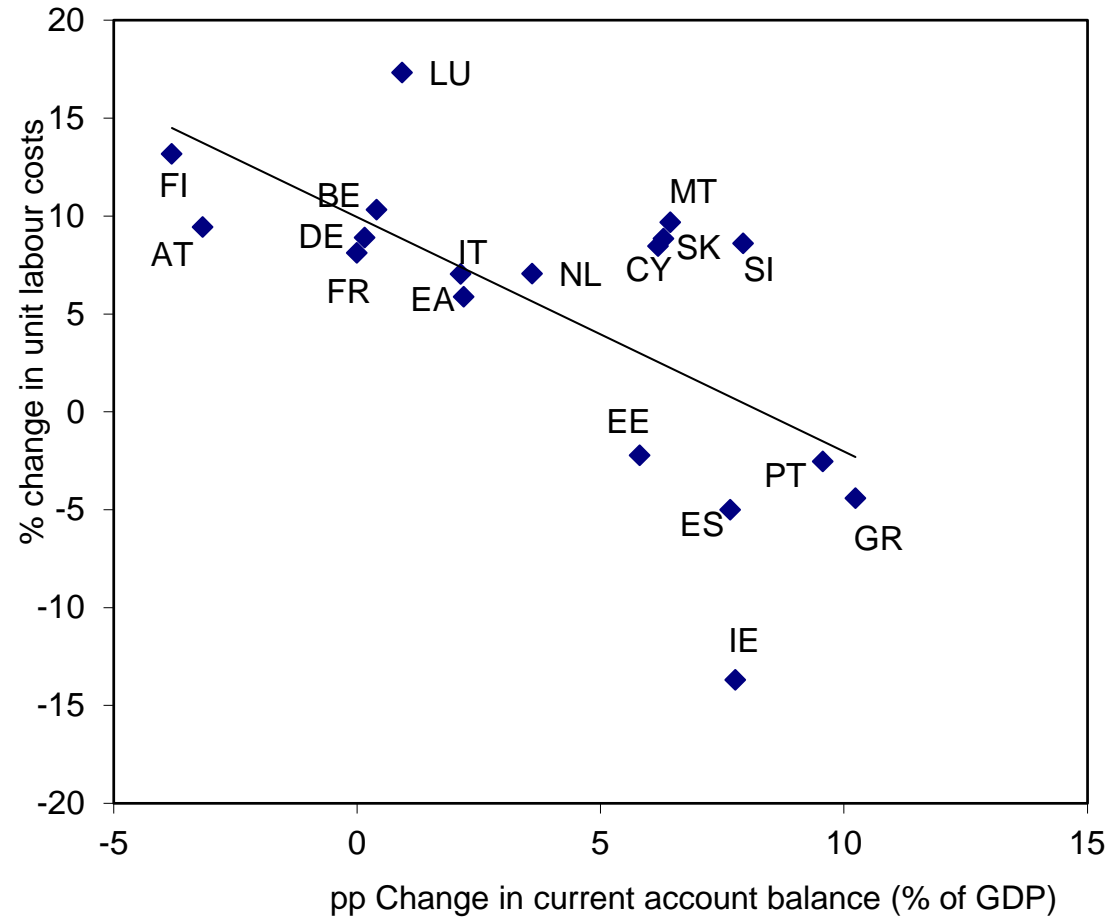


Source: European Commission (Winter 2013 Forecast), ECB calculations.

Note: Data for 2012 are forecast. Unit labour costs data are calculated on the basis of full-time equivalent measures of total employment and employees for DE, ES, FR and IT.

C. Structural adjustment underway: rebalancing within the euro area

(Changes in current account and unit labour costs since 2008)



Source: European Commission Winter 2013 Forecast, ECB Calculations.

Notes: Changes refer to the period between 2008 and 2012.

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D. Reinforcing Eurozone governance

Four building blocks

1. Banking Union: An integrated financial framework

- Single supervisory mechanism
- Resolution authority
- Common deposit insurance

2. Fiscal Union: An integrated budgetary framework

- Establish mechanisms that prevent and correct unsustainable fiscal policies
 - Common agreements on upper limits to annual budget balances and government debt levels for individual Member States
- Set up of a framework for budgetary discipline and competitiveness
 - Euro area fiscal body, such as a treasury office

D. Reinforcing Eurozone governance

3. Economic Union: An integrated economic policy framework

- Promote economic integration
- Ensure that unsustainable policies do not jeopardise the stability of EMU
- Enforce the framework for policy coordination

4. Political Union: Strengthening democratic legitimacy and accountability

- Promote mechanisms to make joint decision-making legitimate and accountable

Thank you for your attention! Questions are welcome!
谢谢注意！ 欢迎提问！