



BANQUE CENTRALE DU LUXEMBOURG

EUROSYSTEME

# The crisis

## point of view of a Central Banker

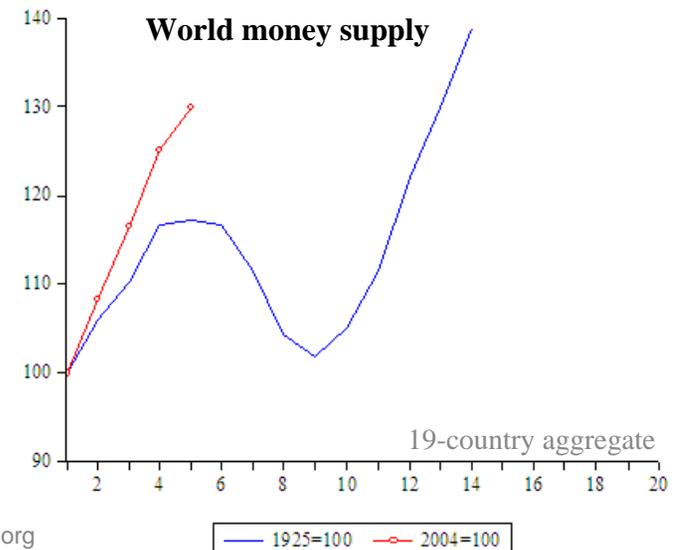
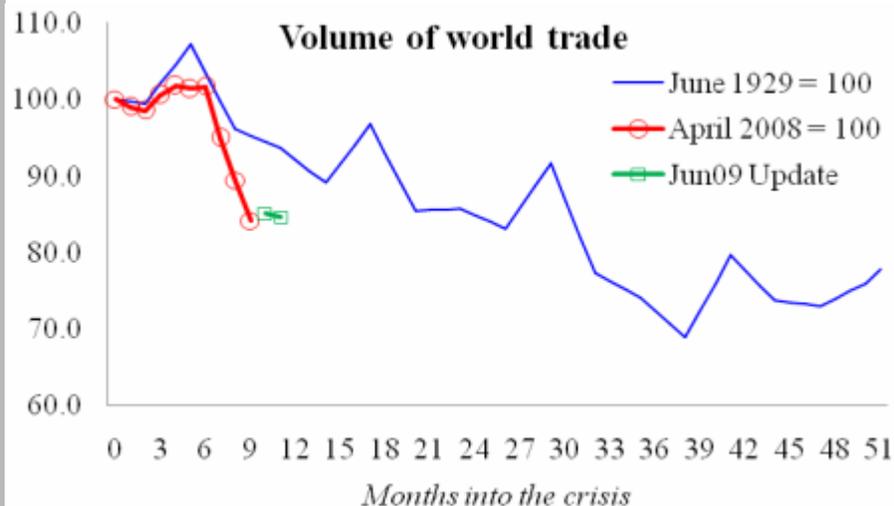
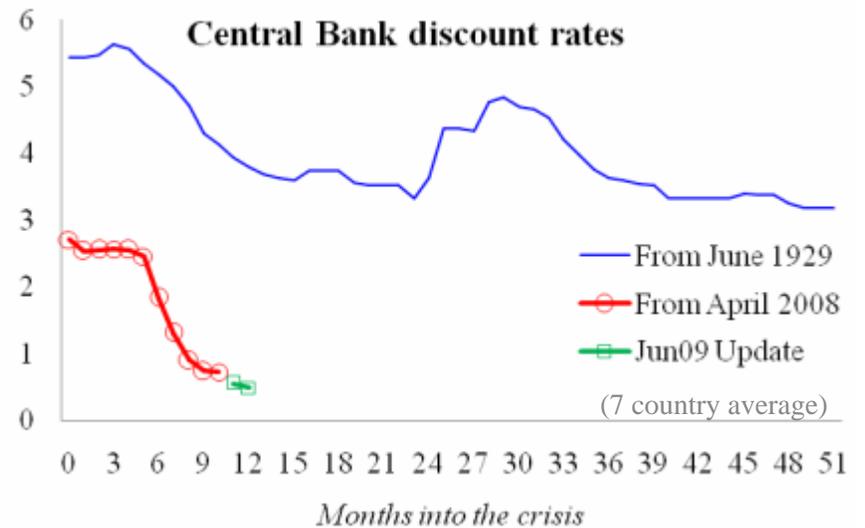
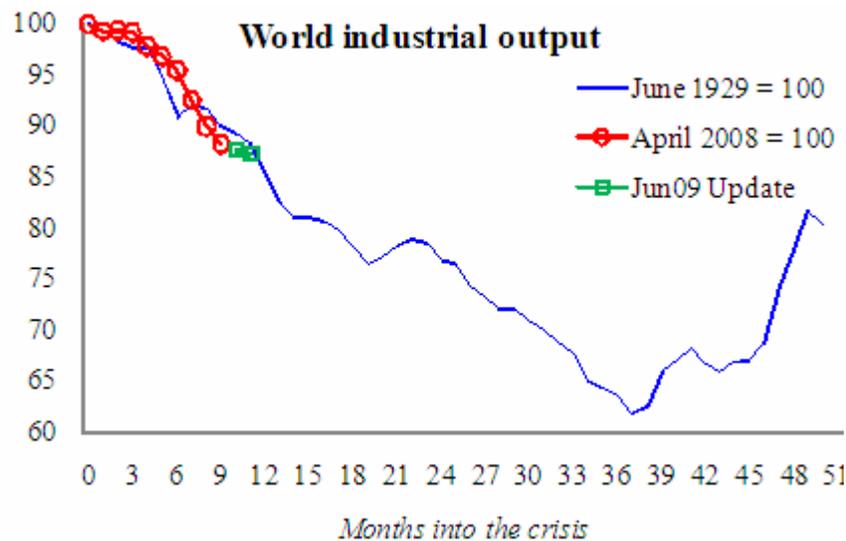
July 6, 2009



# Outline

- The crisis now and the Great Depression
- Response by the Eurosystem
- Recovery in the euro area
- Towards more robust financial framework

# The crisis now and then in global perspective: The Great Depression and current crisis

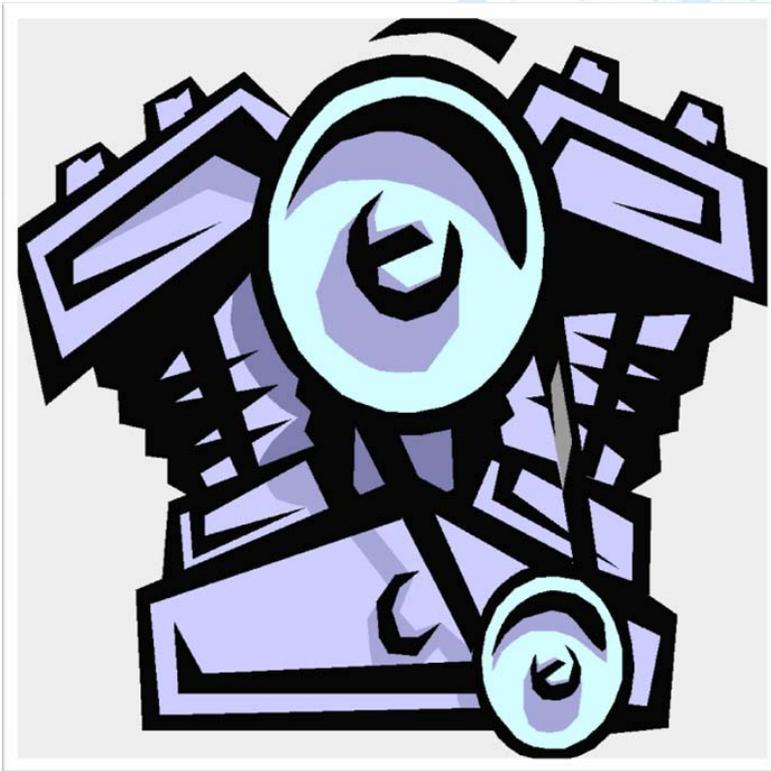


# Modifications to Eurosystem's operational framework

Price stability

Interest Rates

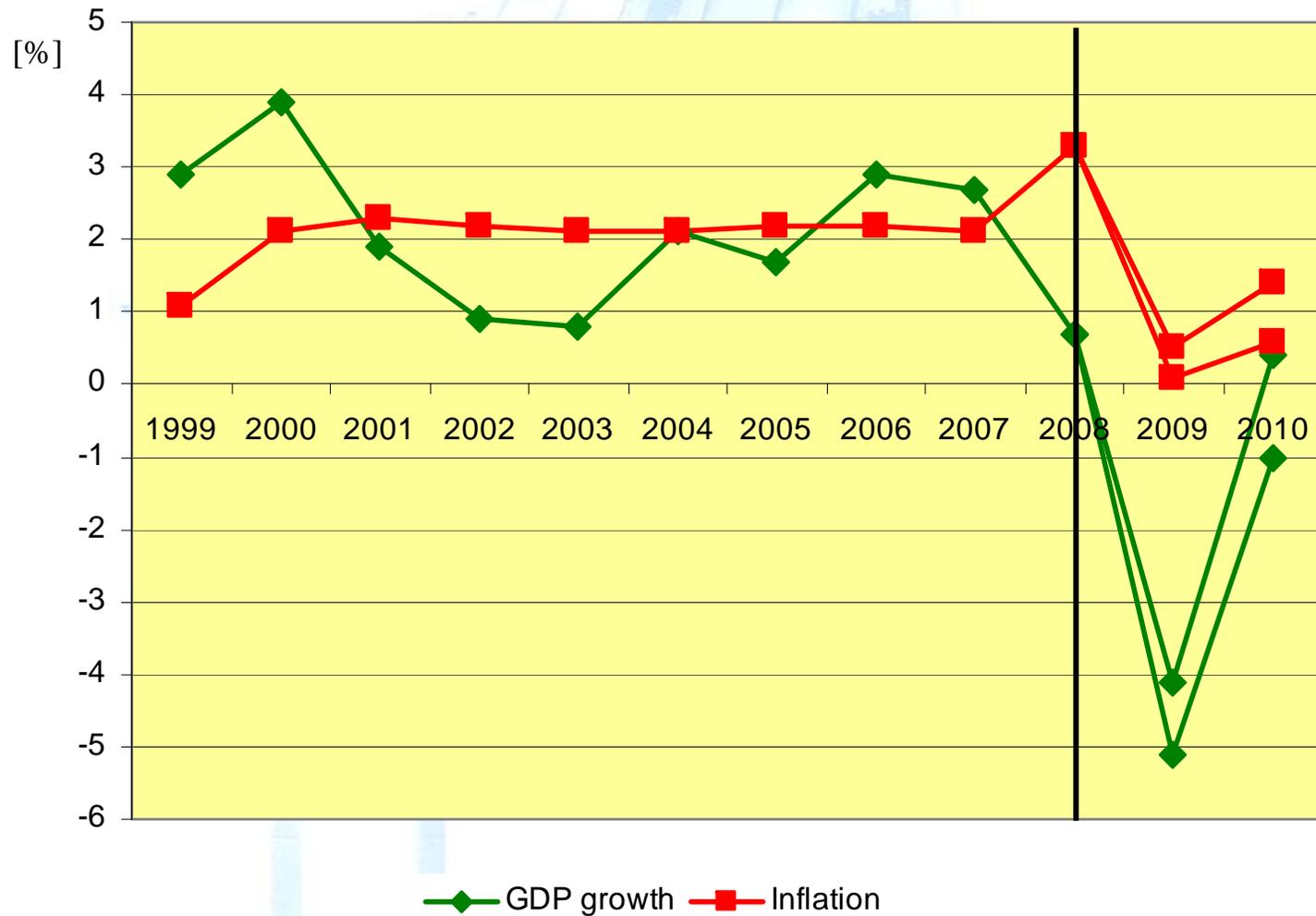
'Non-standard' measures



1. Liquidity provisions
2. Swap operations
3. Fixed rate full allotment
4. Extended collateral
5. Extended maturity
6. Extended number of counterparties
7. Covered bonds purchases

# The way out of the crisis: euro area

## Real GDP growth rate and HICP inflation in euro area



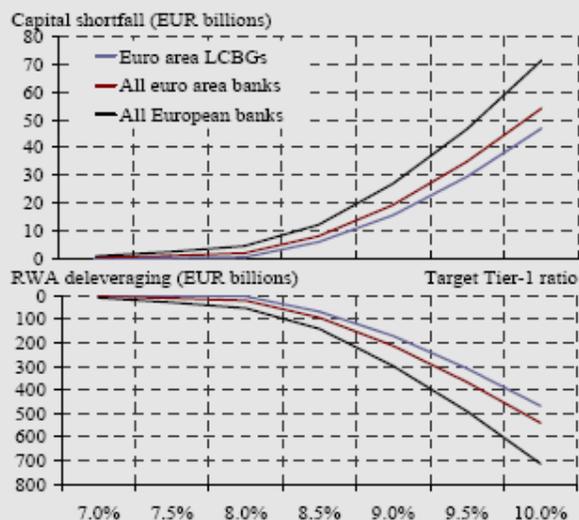
# Towards more robust financial framework

- As stated earlier, from the early stages of the ongoing financial turbulence, public authorities have sought to identify the weaknesses in the financial system and draw lessons to inform policy changes.
- Unstable financial markets prompted central banks and governments to take a number of exceptional measures beyond guaranteeing continued access to liquidity.
- Beyond the short- and medium-term issues, the current crisis has highlighted substantial structural weaknesses in many areas of the financial system, both in the micro and the macro domains.
- The crisis has brought to the front the importance of macro-liquidity risk in the global financial system and the need of regulating and supervising it.
- The crisis has also shown the limits of the financial stability paradigm that restricts central banks' involvement in financial stability to safeguarding the financial system and to acting as ultimate providers of emergency liquidity.

# Towards more robust financial framework

- Macro-prudential supervision will be enhanced by addressing the unintended consequences of pro-cyclicality in financial markets.
- Common, EU-wide stress testing of the overall banking sector is another area of regulation in which central banks can perform an important role.

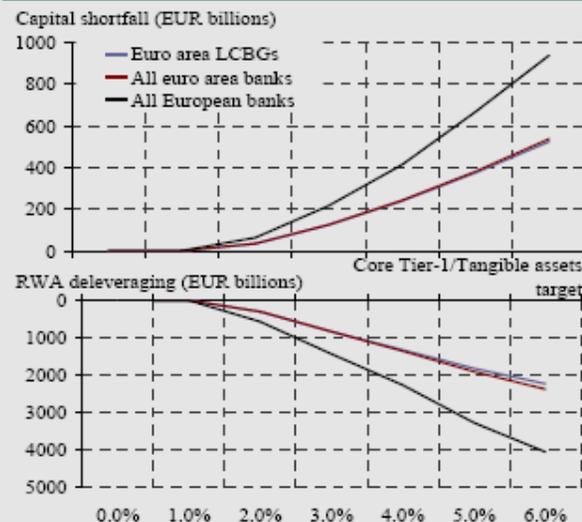
**Chart A Tier I capital ratios and capital shortfall**



Sources: Individual financial institutions' balance sheet data and ECB calculations.

Note: Calculations are based on data for 22 euro area banks (of which 16 are LCBGs) and 13 other European banks (extra euro area).

**Chart B Core Tier I leverage ratios and capital shortfall**



Sources: Individual financial institutions' balance sheet data and ECB calculations.

Note: Calculations are based on data for 22 euro area banks (of which 16 are LCBGs) and 13 other European banks (extra euro area).

# Towards more robust financial framework

- The regulatory paradigm that relies on self regulation has proven to be insufficient.
- Only a minority of European central banks and international organizations have implemented permanent organizational changes so far as a result of the crisis, but enhanced coordination and cooperation will be unavoidable components of the new nascent regulatory and supervisory framework.