

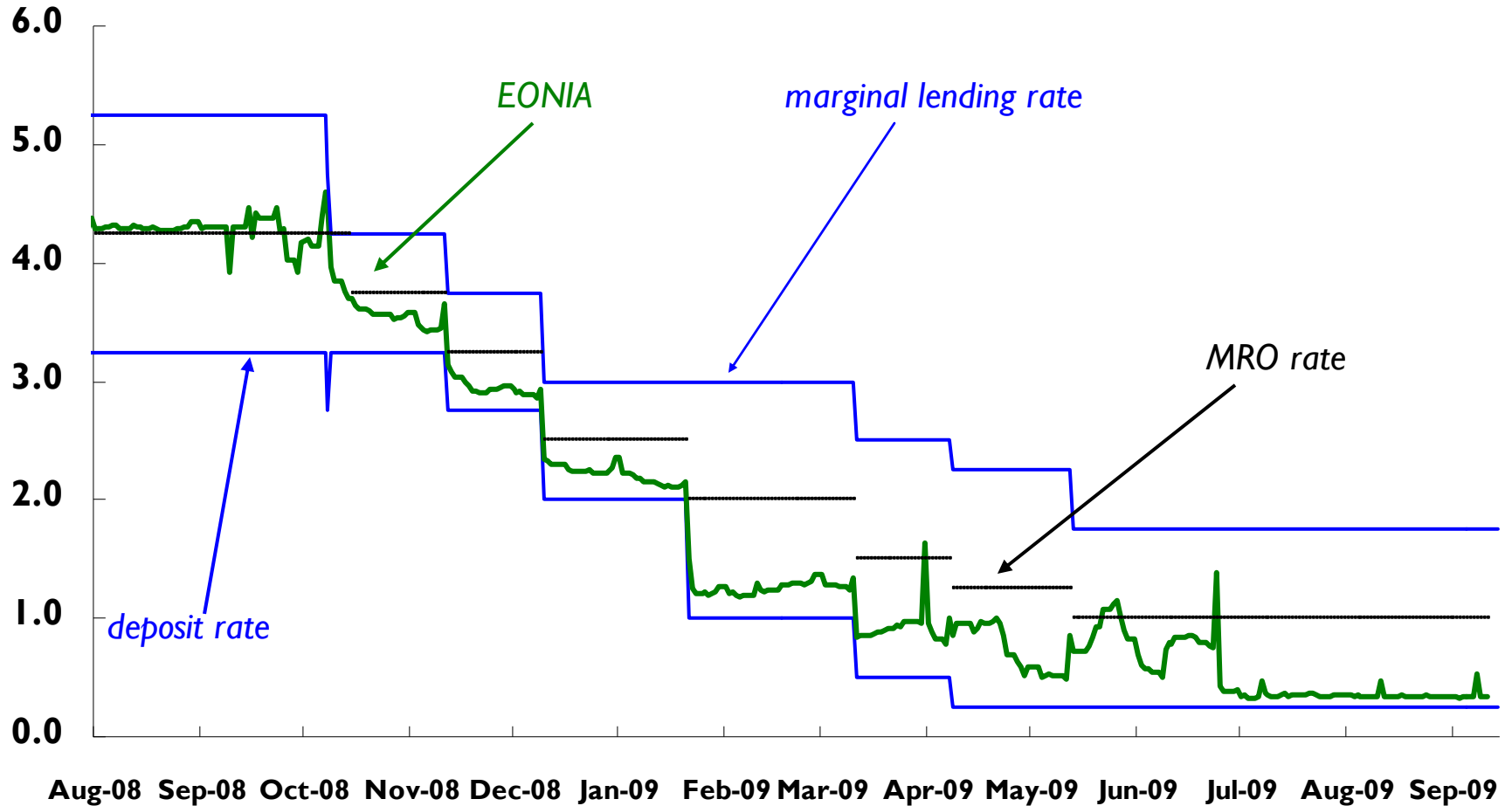
# Monetary and fiscal policy: Criteria and timing for the phasing out of crisis measures

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80th Kieler Konjunkturgespräch  
Berlin, 15 September 2009

# ECB interest rates and the EONIA

(in percent)

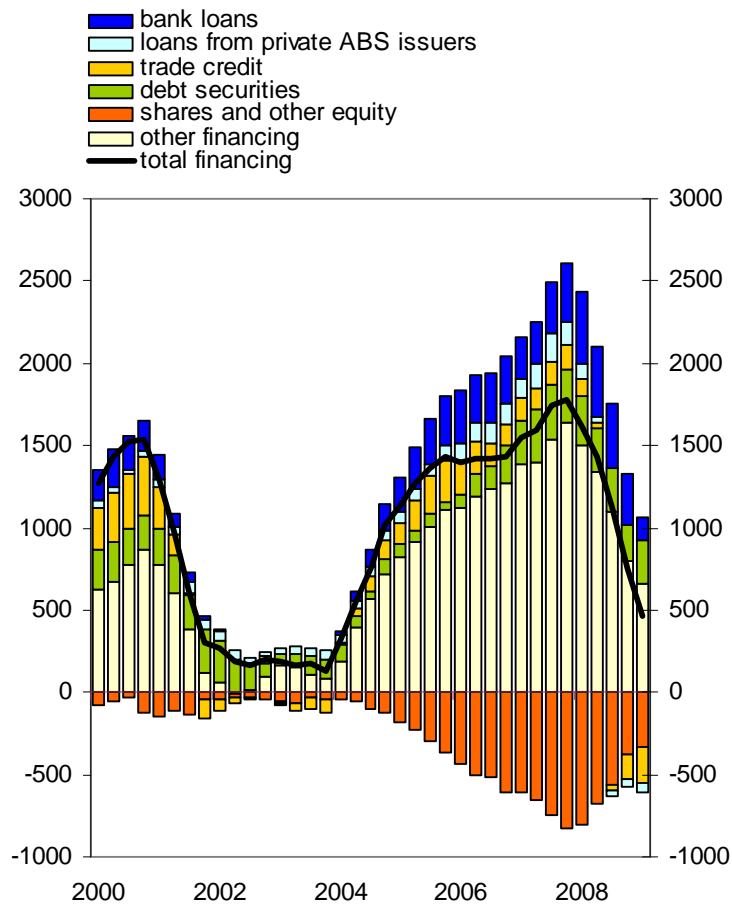


Source: ECB  
Last observations: 11 September 2009

# Sources of financing in the US and the euro area

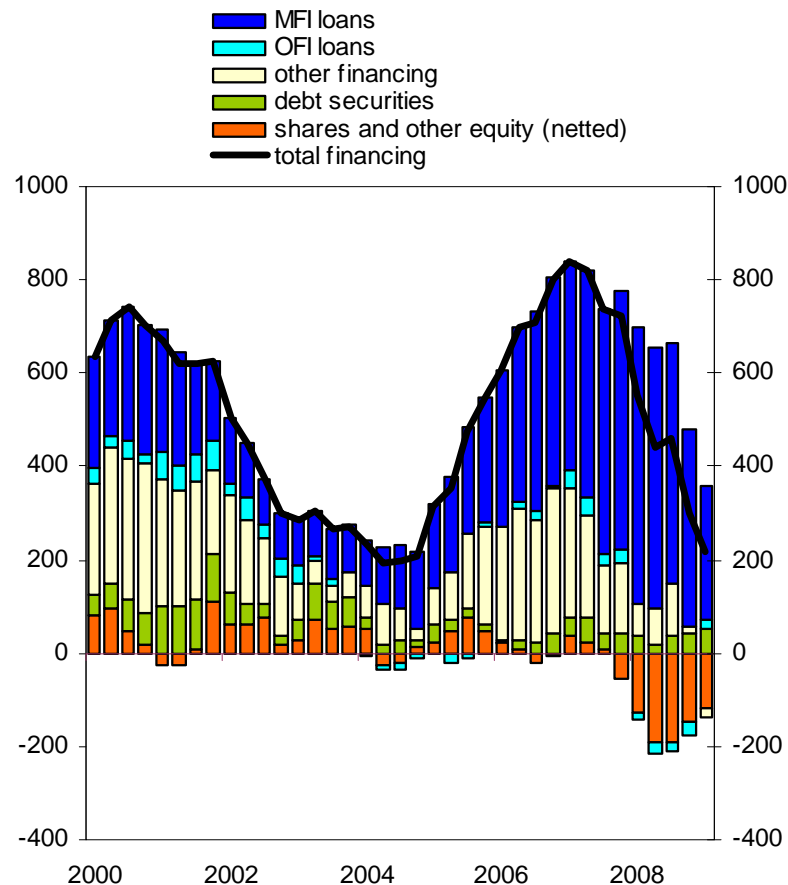
## Breakdown of the financing of non-financial businesses in the US

(4-quarter moving sum of transactions, in USD bn)



## Breakdown of the financing of non-financial corporations in the euro area

(4-quarter moving sum of transactions, in EUR bn)



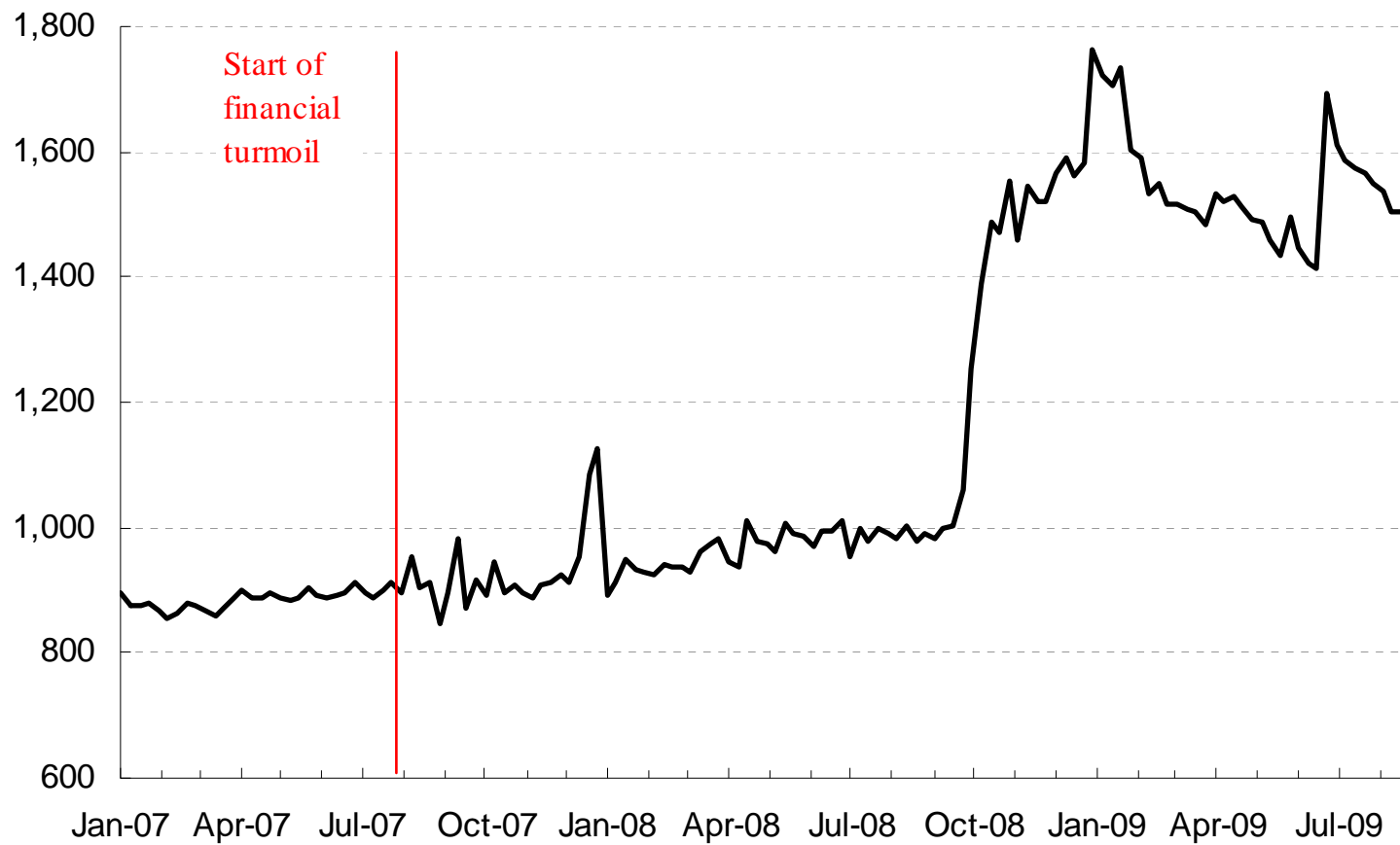
Sources: Board of Governors of the Federal Reserve System and ECB  
Last observations: 2009 Q1

# The ECB's enhanced credit support

1. Full allotment at a fixed rate in refinancing operations
2. Easing of collateral requirements
3. Refinancing operations with a maturity of up to 12 months
4. Provision of liquidity in foreign currency
5. Purchases of covered bonds

# The Eurosystem's balance sheet

(in billions, euro)

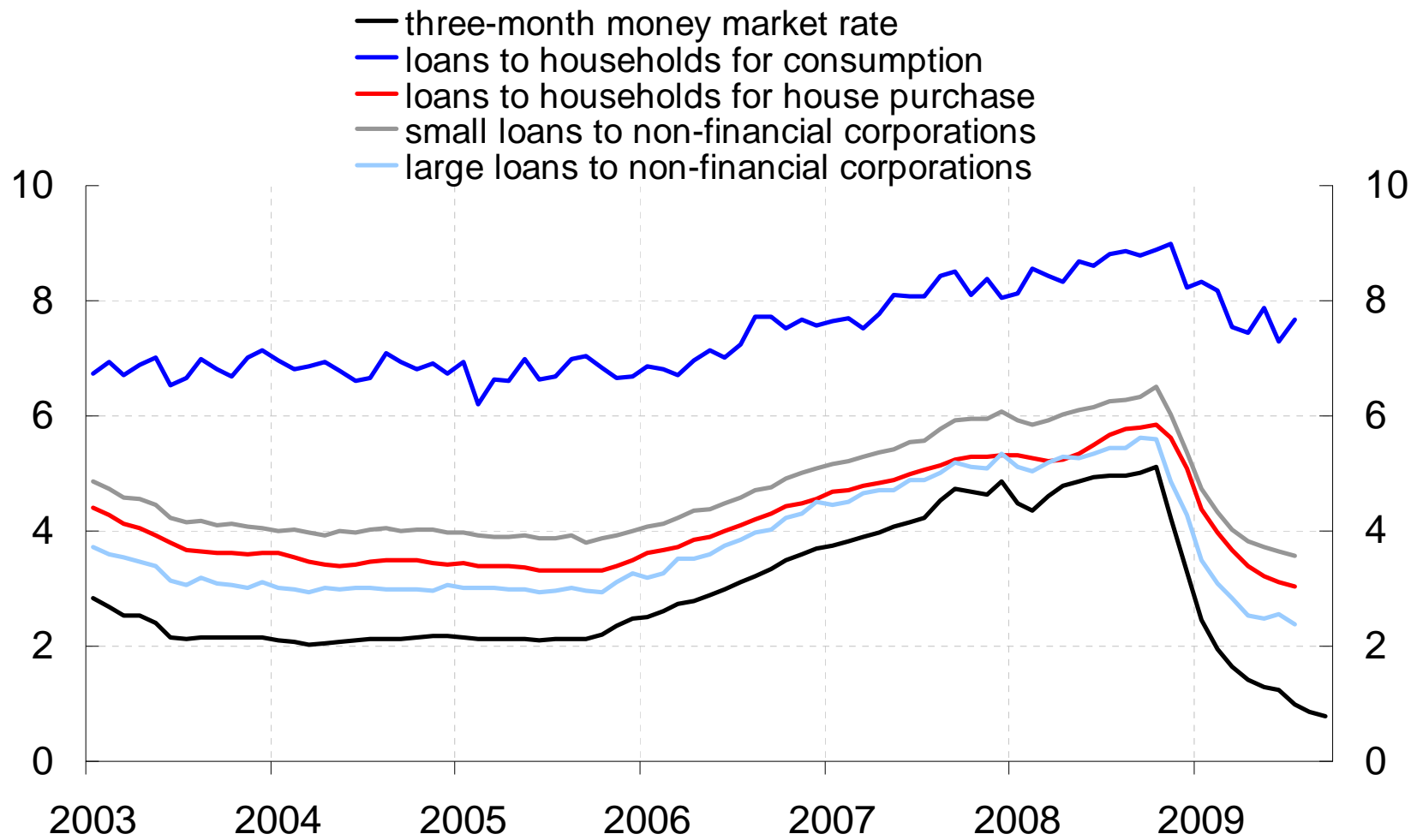


Source: ECB

Last observations: End-of-August 2009

# Interest rates on loans to households and firms

(percentages per annum)



Source: ECB

Last observations: July 2009

# Fiscal impulse in the euro area countries

percentage of GDP, percentage points of GDP

	2007	2008	2009	2010
<b>Actual budget balance</b>	-0.6	-1.9	-5.3	-6.5
<b>Cyclically adjusted budget balance</b>	-1.9	-2.9	-3.9	-4.7
<b>Interest payments</b>	2.9	3.0	3.0	3.2
<b>Cyclically adjusted primary budget balance</b>	1.1	0.1	-0.9	-1.5
<b>Change in actual budget balance</b>	<b>0.7</b>	<b>-1.3</b>	<b>-3.4</b>	<b>-1.2</b>
- Automatic stabilisers	<b>0.6</b>	<b>-0.3</b>	<b>-2.3</b>	<b>-0.4</b>
- Interest payments	0.1	0.0	0.1	0.2
- Cyclically adjusted primary balance	<b>0.2</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-0.6</b>
<b>General government debt</b>	<b>66.0</b>	<b>69.3</b>	<b>77.7</b>	<b>83.8</b>

Source: European Commission Spring 2009 Economic Forecast.

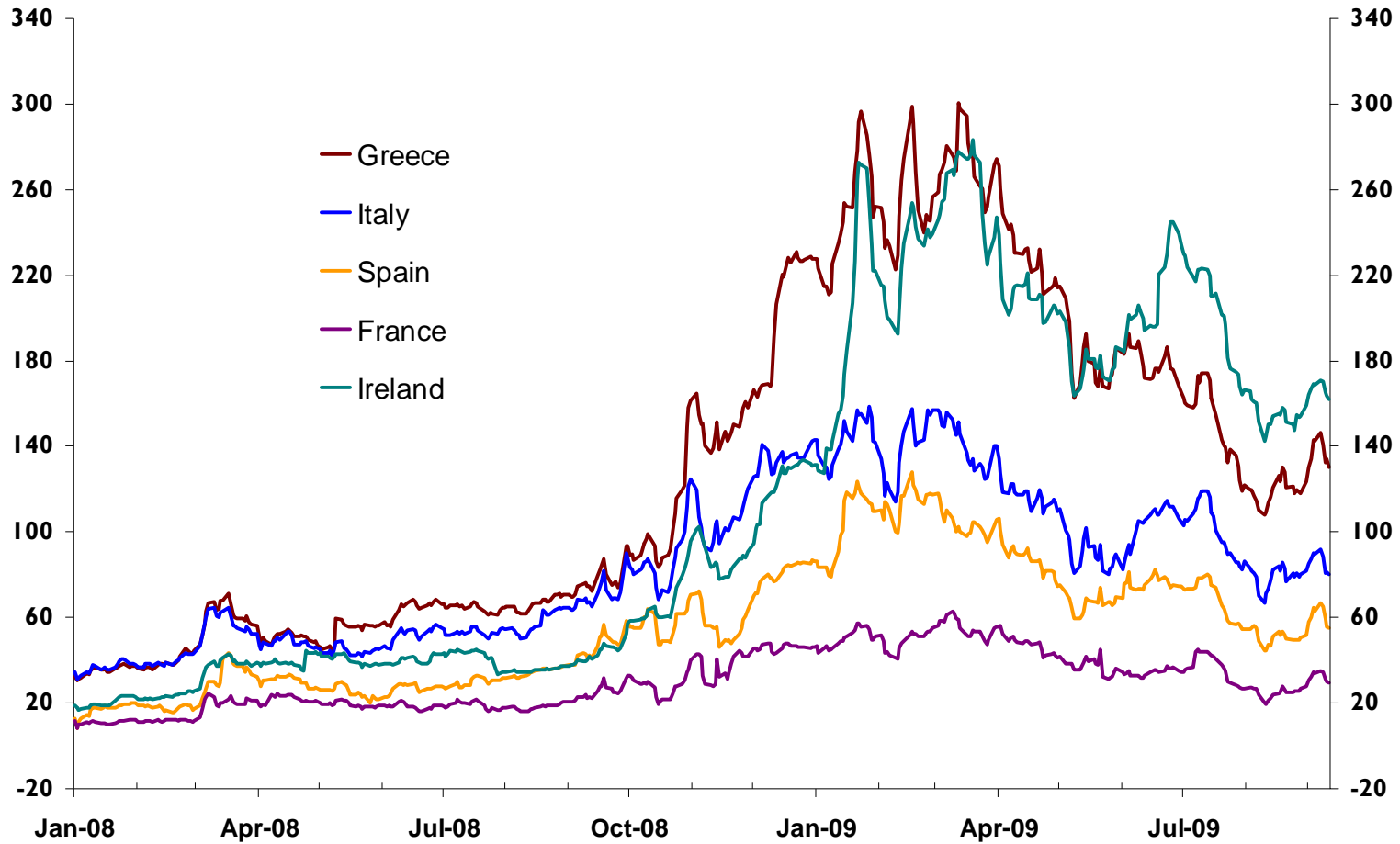
# Key elements in the phasing out of monetary policy measures

- Operational goal
  - re-establishment of the key features of the operational framework
- Decision parameters
  - level of key interest rates will be decided exclusively based on the assessments of risks to price stability
  - size and maturity of liquidity providing operations also dependent on how funding risks evolve



# Ten-year government bond spreads vis-à-vis Germany

daily data in basis points



Source: Bloomberg, Datastream and ECB calculations.  
Last observation: 11 September 2009.

# Importance of fiscal exit strategies

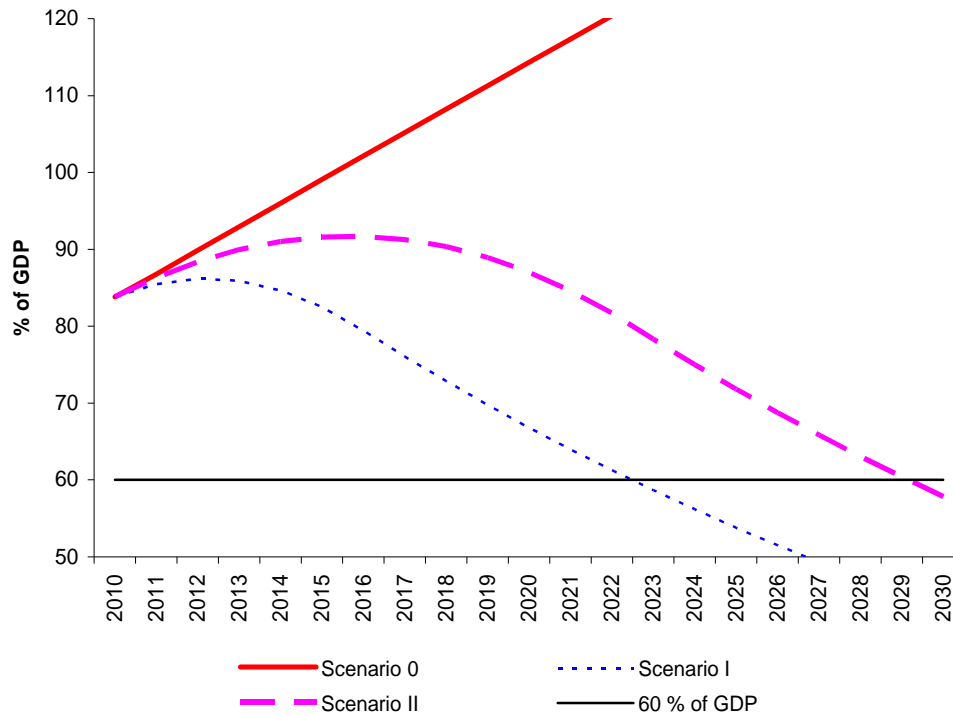
- Unsustainable fiscal policies represent an upside risk to price stability
- Exit strategies may reduce market concerns about fiscal sustainability
- The role of government in the economy should not be permanently increase
- Challenging fiscal positions in most euro area countries
- Considerable fiscal cost of crisis measures expected, which pose a high risk to fiscal sustainability

# General principles for fiscal exit strategies

- Condition of banking sector primary criterion for phasing out of support to the financial sector
- Fiscal exit should start no later than the economic recovery
- Consolidation efforts should also take into account growth prospects, the size of deficits and debt and long-term sustainability
- Consolidation strategies should be in line with the Stability and Growth Pact
- Pace of consolidation must be maintained and stepped up in good times

# A way back? Simulations of euro area government debt levels

## A debt simulation



## Debt simulations (2011 onwards):

- Assumptions: potential growth at 2.25%, starting values for 2010 given by the Commission forecast
- **Scenario 0** (red): no-change-policy (constant primary deficit at 3.3% of GDP)
- **Scenario I** (blue, see previous slide): revenue ratio to GDP constant; real expenditures constant; in sum: consolidate by about 1 p.p. annually, deficit close to balance by 2016
- **Scenario II** (purple): consolidate by only 0.5 p.p. annually, balanced budget reached by 2023

# Concluding remarks

- The phasing out of measures taken in response to the crisis the most challenging task both for governments and central banks
- The crisis is not over, and the time for exit has not yet come, but we will continue to monitor very closely all developments in the period ahead.