The Financial Reconstruction of Europe
The Role of the Eurosystem

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Financial Reconstruction

- Ensure solvency of public households and the private sector
- Reduce financial fragmentation and frictions
- Guarantee enduring financial stability
- Foster economic growth
The Role of the Eurosystem in Financial Reconstruction I

- **Banking Union**
  - Sever link between banks and public finances
  - Foster single market for financial services, convergence of borrowing conditions for HH and NFCs
  - Given the importance of financial cycles, information from banks necessary for a meaningful and robust analysis of the macroeconomy and of the monetary policy transmission
  - Facilitate taking into account of externalities and spillovers
The Role of the Eurosystem in Financial Reconstruction II

- **Monetary policy**
  - No substitute for fiscal consolidation
  - Ensures price stability
  - Supports economic growth in line with potential
  - Ensures liquidity in banking sector
  - Anchors expectations (forward guidance)

- **Stable macroeconomic, monetary and financial environment supports public & private balance sheet repair**
Challenges ahead

• Consolidation of public finances
  • Curtail risks to economic recovery

• Exit from ultra-accommodative monetary policy
  • Prepare well

• Microprudential supervision and regulation
  • Complete banking union (SSM, SRM, …)

• Structural reforms
Thank you for your attention!
ECB Forward Guidance 7 November 2013

(...) First, based on our regular economic and monetary analyses, we decided to lower the interest rate on the main refinancing operations (...) These decisions are in line with our forward guidance of July 2013, given the latest indications of further diminishing underlying price pressures (...)

(...) Second, following today's rate cut, the Governing Council reviewed the forward guidance provided in July and confirmed that it continues to expect the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation continues to be based on an overall subdued outlook for inflation extending into the medium term, given the broad-based weakness of the economy and subdued monetary dynamics.
Interest rate policy

Expected EONIA one year ahead

Source: Thomson Reuters.
Macro Environment: Moderate Growth and Low Inflation

**Real GDP**

- United States
- Euro Area

**Source:** Thomson Reuters Datastream, Eurostat, BEA

**Components of the HICP**

- Energy
- Food incl. alcohol and tobacco
- Non-energy industrial goods
- Services
- HICP

**Source:** Eurostat
(Some) Return to Financial Stability

Composite Indicator of Systemic Stress

Source: ECB

Eurosyst em assets
Consolidated balance sheet, in billion EUR

Source: ECB
Balance sheets of the Federal Reserve and the Eurosystem

*Index, January 2006 = 100*

*Source: Thomson Reuters.*
10-year government bonds of selected countries

Yield in %


AT  IE  FR  DE  IT  ES  PT

Source: Thomson Reuters.