

COOPERATION AMONG CENTRAL BANKS AND INTERNATIONAL ORGANISATIONS. AN UPDATE ON EUROPE

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THE ROLE OF CENTRAL BANKS IN MACROECONOMIC AND FINANCIAL STABILITY: THE CHALLENGES IN AN UNCERTAIN AND VOLATILE WORLD

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ADG INTERNATIONAL AFFAIRS



- **The cooperation among central banks and international financial organisations**
 - Cooperation among central banks: an evolutionary model
 - The role of international institutions in central bank cooperation: issues to tackle in the near future
- **The situation in Europe:**
 - The management of the sovereign debt crisis
 - Stepping up the integration process

COOPETARION AMONG CENTRAL BANKS: KEEPING UP WITH THE CHALLENGES



- **Conference CEMLA 60th Anniversary: good reflection on central bank cooperation**
- **Economic and financial interlinkages between countries, the need to manage the IMS, regional integration processes have led to CB Cooperation since long ago (BIS, IMF, Europe-CEMLA-SEACEN).**
- **The global nature of the financial crisis—in a highly interconnected world economy- has made the case cooperation even more compelling**
- **New fora for cooperation have been created (G20, FSB)**
- **CB coopeation has evolved to keep up with main challenges for central banks in the aftermath of the crisis:**
 - **More emphasis on financial stability and macroprudential aspects**
 - **Wider institutional scope, including other players (regulators, Governments)**
 - **Emphasis on CB governance and CB independence**

THE ROLE OF INTERNATIONAL INSTITUTIONS IN CENTRAL BANK COOPERATION



- **IFIs can support CB cooperation in different ways:**
 - **Fora for the exchange of experiences**
 - **Research and technical cooperation**
 - **Monitoring and policy advice**
 - **Coordination of policy action (regulation); enforcing peer pressure**
 - **Provision of backstops**

- **Specific issues to address in the present situation:**
 - Improving analytical models with financial sector interlinkages and global spillovers; impact of macroprudential instruments
 - Improve the early identification of risks for the financial system and the global economy
 - Coordination of policy action in view of increasing financial repression and fragmentation in financial markets
 - Developing the toolkit to deal with cross-country financial crisis



- **Especial circumstances:**
 - A sovereign debt crisis in a highly integrated monetary union
- **Efforts are concentrated on managing the sovereign crisis, in the short term, and addressing the institutional failures behind EMU that have been left in the open (recent ECB and European Council have been taken)**
- **On crisis management:**
 - The Eurosystem has given a strong response (OMT)
 - Lending instruments have been developed (ESM)
- **On institutional building, among a wider display of reforms geared towards reinforced surveillance and further integration, CBs are especially involved in:**
 - European Supervisory Architecture
 - The Banking Union

ECB RESPONSE TO THE FINANCIAL CRISIS

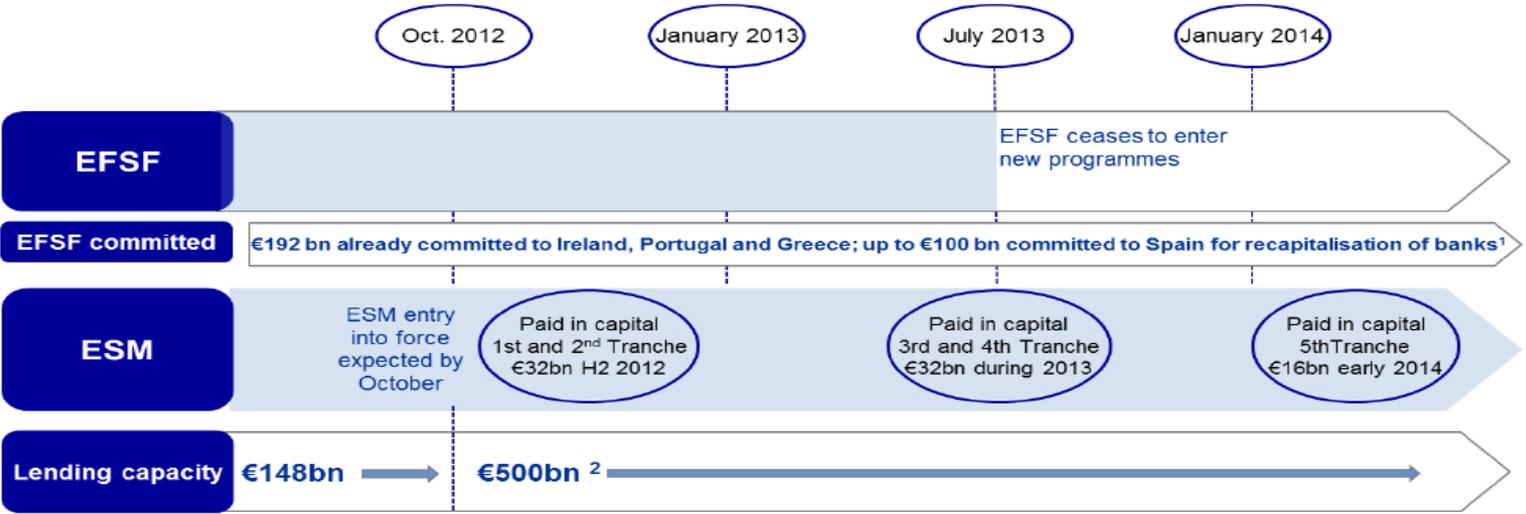


- **Standard monetary policy response:**
 - Reduction of interest rates and provision of liquidity
- **Non-standard measures**
 - Fixed rate full allotment, extension of maturities, extension of collateral eligibility,
 - Currency swaps
- **New programs to address impaired transmission of monetary policy**
 - Covered Bonds Program (CB)
 - Securities Market Program (SMP)
- **Additional liquidity measures**
 - Two Longer Term Refinancing Operations (LTRO) with a 3 year maturity
 - Reduction in the reserve ratio to 1%
 - Further increases in collateral availability (including bank loans).
- **The silver bullet: Outright Monetary Transactions (OMT, unlimited purchases of sovereign bonds in secondary markets)**

LENDING INSTRUMENTS FOR CRISIS MANAGEMENT



- ❑ In May 2010, the EFSF was activated as a temporary lending instrument for euro area countries (and the EFSM for EU-27).
- ❑ In October 2012 the EFSF has been converted into a permanent ESM (500 € bn lending capacity)

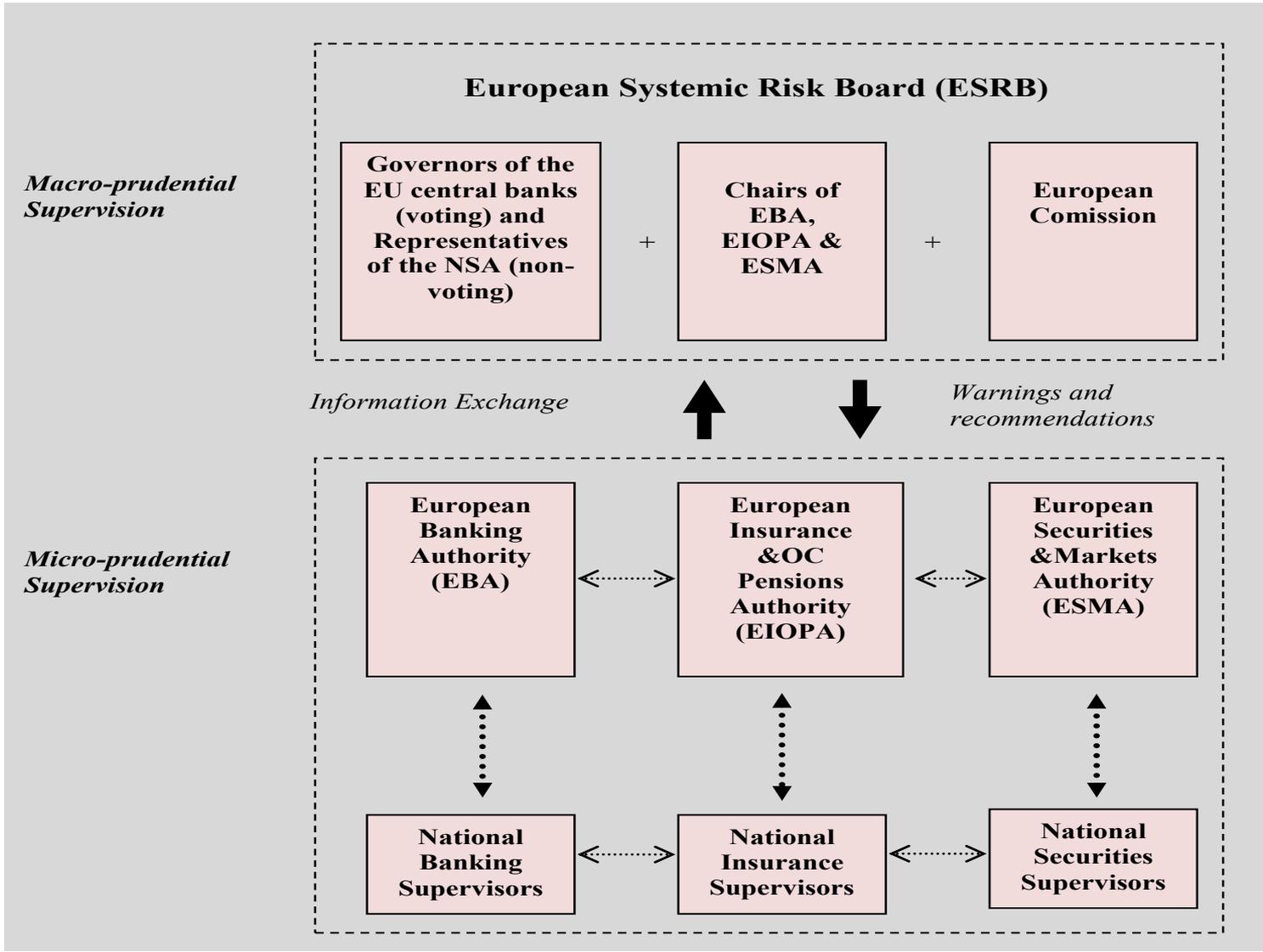


¹ The amount provided to Spain for bank recapitalisation will be transferred to the ESM, thus the combined EFSF-ESM lending capacity of €700 bn will be maintained

² Up to July 2013 EFSF may engage in new programmes in order to ensure a full fresh lending capacity of €500 billion. €500 bn lending capacity can also be reached through accelerated capital payments, if needed.

❑ Parallel to IMF lending lines, ESM includes crisis resolution and precautionary facilities

NEW EUROPEAN SUPERVISORY ARCHITECTURE



THE EUROPEAN BANKING UNION



- ❑ **THE EUROPEAN BANKING UNION** includes establishing a Single Supervisory Mechanism (SSM) in the short term; in the longer term an European deposit guarantee scheme and an European bank resolution mechanism.

❑ **SINGLE SUPERVISORY MECHANISM**

- SSM: full prudential supervisory powers
- GOVERNANCE: ECB to establish a “Supervisory Board” comprised of representatives from the ECB and national supervisory authorities. Independent from the monetary policy function.
 - Euro national authorities will assist the ECB (the exact nature of this assistance and the distribution of tasks is under discussion)
 - For non-euro national authorities, there is a provision for opt-in.

❑ **NEXT STEPS**

- Agreement on the Single Supervisory Mechanism legislative framework by 1 January 2013.
- Requires unanimity of all 27 EU member states.
 - Work on the operational implementation in the course of 2013. Final assumption of supervisory powers by ECB 1 January 2014

❑ **PENDING ISSUES: EBA; RESOLUTION AND GUARANTEE SCHEMES**

INFORMAL CRONOLOGY: FROM COOPERATION TO INTEGRATION



- 2010**
- **EFSF (European Financial Stability Facility)**
 - **EFSM (European Financial Stabilisation Mechanism)**

- 2011**
- **ESFS (European System of Financial Supervision)**
 - **European Systemic Risk Board (ESRB) / EBA**
 - **Competitiveness Pact Pact for the Euro – Euro Plus Pact**
 - **Six Pack – Strengthening the Stability and Growth Pact**

- 2012**
- **Fiscal Compact - Treaty on Stability, Coordination and Governance**
 - **Compact for Growth and Jobs**
 - **ESM**
 - **Road map – Genuine Economic and Monetary Union**
 - **Road map – European Banking Union:**
 - **Single supervisory mechanism (SSM)**
 - **European deposit insurance scheme**
 - **European resolution scheme**



❑ **EMU Competitiveness Pact (Apr. 2011) ⇒ Pact for the Euro ⇒ Euro Plus Pact**

❑ **SIX-PACK of measures to reinforce the EU economic governance and the surveillance capacities of the EC (Oct. 2011):**

Strengthening the Stability and Growth Pact:

- Reinforcement of both the preventive and corrective parts of the SGP
- The **debt criterion** considered in Excessive Deficit Procedure.
- **Financial sanctions** will be imposed gradually, **starting at an earlier** (preventive) **stage** and with more automaticity.

Preventing and correcting macroeconomic imbalances within the EU and the euro area, including deteriorating competitive trends: **An alert mechanism** for early detection of imbalances, The **Excessive Imbalance Procedure**.

❑ **Fiscal Compact (Mar. 2012): strengthen fiscal discipline, stricter surveillance within the euro area: “balanced budget rule”**



□ THE EUROPEAN COUNCIL OF JUNE 28 AND 29: LONG TERM STRATEGY

“Towards a genuine EMU”: Report prepared by the 4 Presidents (European Council, Commission, Eurogroup and ECB) that identifies the elements of a new medium and long term EMU, most notably:

Integrated financial framework or “Banking union”

Integrated budgetary framework: in the short term fiscal discipline would be reinforced (“Two-Pack”) and later it would be explored the pooling of some short term sovereign funding instruments and other advances towards a **“Fiscal union”**.

Give a more binding nature to the **objectives of the European Semester** and strengthen the **democratic legitimacy** of the new governance framework.

□ THE EUROPEAN COUNCIL OF OCTOBER 18 and 19

“Modest” results: From the beginning of its preparation it was a non-decision-making summit to discuss alternatives from Interim Report presented by Van Rompuy.

□ THE EUROPEAN COUNCIL OF DECEMBER TO SET A ROADMAP