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Central bank rates, market rates and retail bank rates in the euro zone in the context of the recent economic and financial crisis

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The economic and financial crisis that arose in summer 2007 has led to a significant increase in perceptions of risk in the economy, resulting in a sizeable rise in risk and liquidity premia on credit markets. Given the nature of the crisis, the financial sector has been particularly affected, with respect to its financing via both the money market and the bond market, which may have had an impact on the retail rates offered by banks to companies and households. Similarly, the sovereign debt crisis that appeared in late 2009 may have had an impact on financing costs in the private sector, considering that sovereign bond yields are often used as a benchmark for other rates in the economy. The financial crisis, along with the contagion effects of the sovereign debt crisis on the banking sector, has also affected bank balance sheets and weighed on their liquidity and solvency ratios. This may have led banks to restrict the supply of credit or increase their rate margins.

Under these conditions, this article addresses recent trends in the financing costs of the public and private sector in the euro area and Belgium. It pays particular attention to the monetary policy transmission process via the interest rate channel during the crisis and notably examines the extent to which the process was affected by tensions on sovereign debt markets.

Overall, it appears that the interest rate cuts orchestrated by the ECB counterbalanced increases in risk premia and that the adoption of numerous non-standard monetary policy measures made it possible to maintain an effective transmission of monetary policy in the euro area during the crisis. Public debt market tensions have had some impact on market borrowing costs for non-financial corporations, but this impact was relatively limited at the area wide level. Because of its direct involvement in public sector financing, the financial sector was significantly affected, and while a portion of the impact was passed on in the rates offered to households and the non-financial corporate sector, it appears that banks' transmission of monetary policy was not profoundly affected in the euro area overall. Similar conclusions apply to Belgium, where it does however appear that mortgage loan rates were somewhat influenced by the rise in sovereign debt yields. In the countries bearing the brunt of the crisis, companies and individuals nevertheless saw their borrowing costs rise more significantly. In general, it appears that at the national level, private sector financing costs were amply influenced by those of the public sector, although some decoupling was observed, basically at the level of the non-financial sector.

These results are reassuring in that they demonstrate the effectiveness of the monetary policy measures adopted during the crisis and the relatively limited repercussions of the sovereign debt crisis on the rest of the euro area economy. Still, in the countries most affected by the crisis, the private sector has been hit hard by higher public sector financing costs and fiscal consolidation measures in those countries should therefore remain a top priority.

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