2012-06-11

PRESS RELEASE

Monetary policy in the United States and the euro area during the crisis
(Article for the June 2012 issue of the Economic Review)

On both sides of the Atlantic, the initial shocks of the financial crisis were experienced on the money markets. These then quickly spread to the other sectors of the financial markets and then to the real economy. The insolvency announced by the bank Lehman Brothers on 15 September 2008 transformed the financial crisis that was already well established into a general financial panic and a major economic crisis on the global scale. These events gave rise to unprecedented challenges for the world's main central banks, which responded with strength.

In this context, the present article is aimed at setting out and analysing the policy responses of the Federal Reserve and the Eurosystem during the various stages of the economic and financial crisis. It is concerned both with the interest rate decisions and the non-standard measures of monetary policy. Moreover, it looks at the relationship between monetary policy and budgetary policy, and attempts to shed some light on the challenges of conducting monetary policy at the present time.

During the crisis, the Eurosystem and the Federal Reserve made profound changes to the conduct of their monetary policy. From the appearance of the initial tensions on the money markets in the summer of 2007 up to the months that followed the insolvency of Lehman Brothers, the two central banks were largely faced with similar challenges, namely preserving financial stability, maintaining the effective transmission of monetary policy, stimulating economic activity and maintaining price stability. Whilst each of them revised the operational framework of its monetary policy, the initial framework of its monetary policy and the predominance of the non-banking financial sector in financing the economy in the United States forced the Federal Reserve towards more substantial changes.

Since the beginning of 2010, however, the challenges have clearly differed in nature and have been addressed with more specific policy responses. In order to stimulate economic growth and to reduce the risk of deflation in a context of policy rates at the zero lower bound, the Federal Reserve, for example, undertook massive purchasing of Treasury securities with the aim of lowering long-term rates and developed its communications in order to influence expectations. The Eurosystem also bought government bonds, in the context of its Securities Markets Programme, but only because the government debt crisis threatened to impair the monetary policy transmission. In the face of the improvement in the economic situation and the upside risks weighing on price stability at the beginning of 2011, it raised its key rates but lowered them at the end of the year in the context of a worsening of the tensions on the sovereign debt markets and a deterioration in macroeconomic prospects. In order to prevent a credit crunch, it moreover adopted additional non-standard monetary policy measures at the end of 2011, including 3-year refinancing operations.

The scale of the crisis and the rapid progression of events justify to a great extent the unprecedented extension of central banks' activities and balance sheets during the last few years. The action that they took largely made it possible to prevent the collapse of the financial system and to support economic activity. However, this monetary policy in turn presents its own share of challenges and risks. Whilst the high level of excess liquidity at the present time is not a direct threat to price stability, conducting an accommodating monetary policy over a long period may in this way bring with it numerous risks. In this context, it is important to keep in mind that monetary policy has its limits and that it can not replace bank capital strengthening and sound fiscal and structural policies. Whilst the crisis demands a rethink on how macroeconomic policy should be conducted, it is at the same time essential that the principles on which the credibility of the central banks is based are safeguarded.

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