



OESTERREICHISCHE NATIONALBANK

Europe – Driver or Driven?

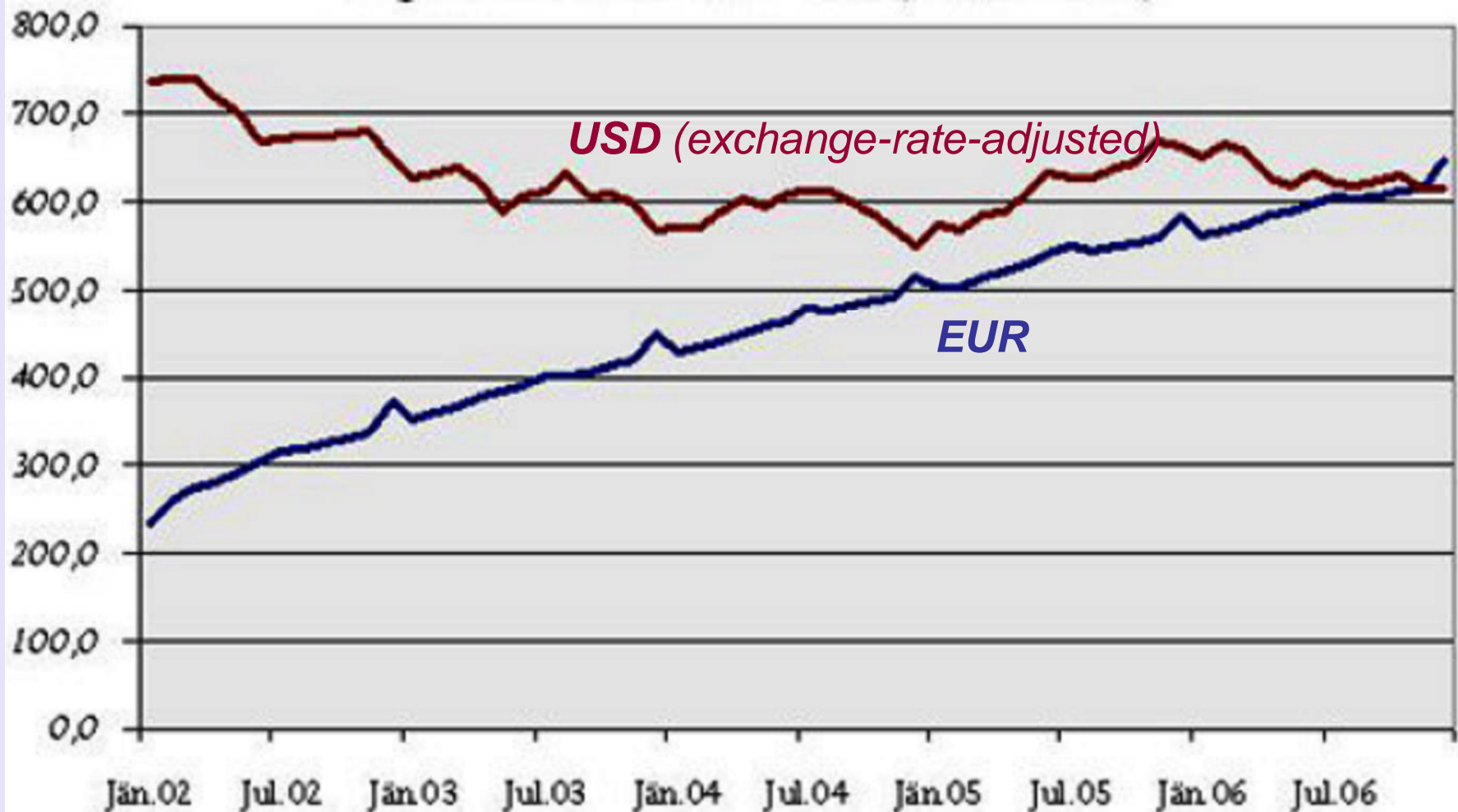
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Euro - Becoming a Reserve Currency

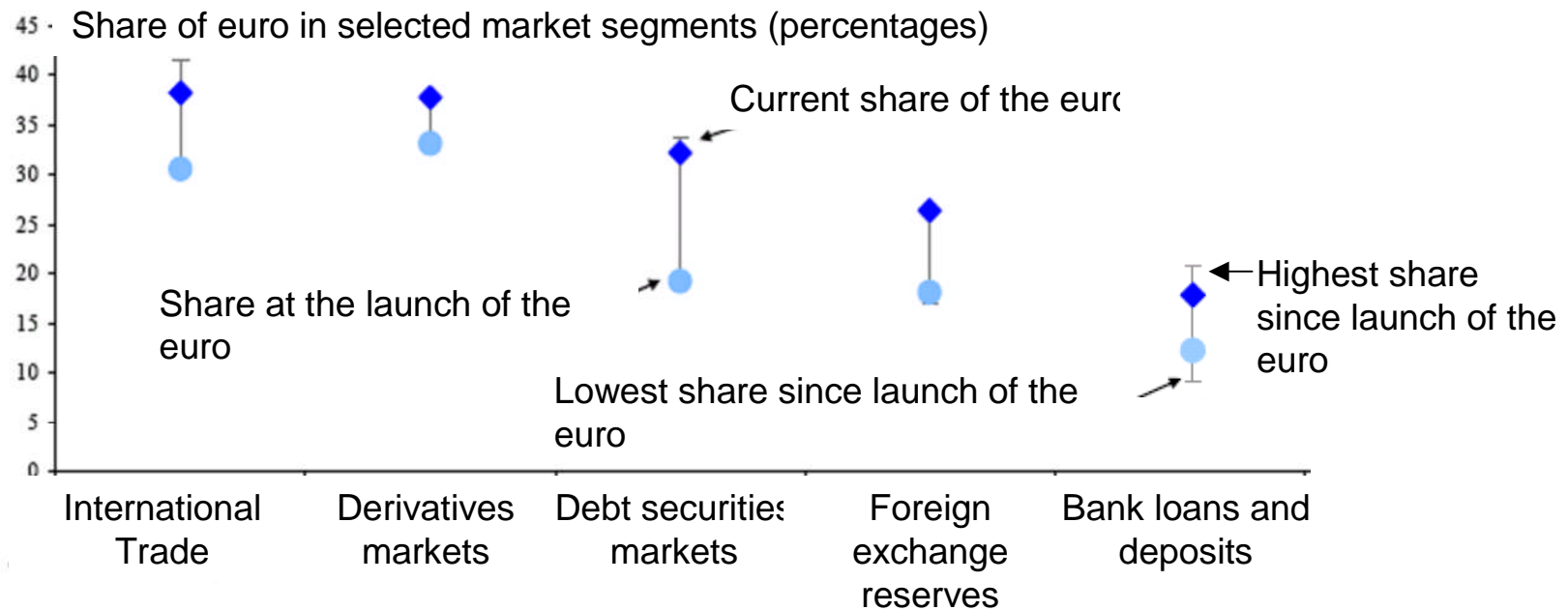
Banknotes in circulation (in € bn)



Share of the euro in selected markets

(Source: ECB)

- Increase in the international use of the euro
- Consolidation of its role in many market segments



Note: International trade: share of € in international trade invoicing & settlement; Derivatives: share of € in OTC interest rate derivatives; Foreign exchange reserves: share of € in global Foreign exchange reserves (with disclosed currency composition at current exchange rates);

Monetary Policy During the Crisis

ESCB:

No need to amend the existing operational framework:

- A broad range of debt instruments was accepted as collateral already before the start of the turmoil
- Access of large number of euro area banks to regular Eurosystem facilities
- Close international cooperation among central banks (e.g. TAF)

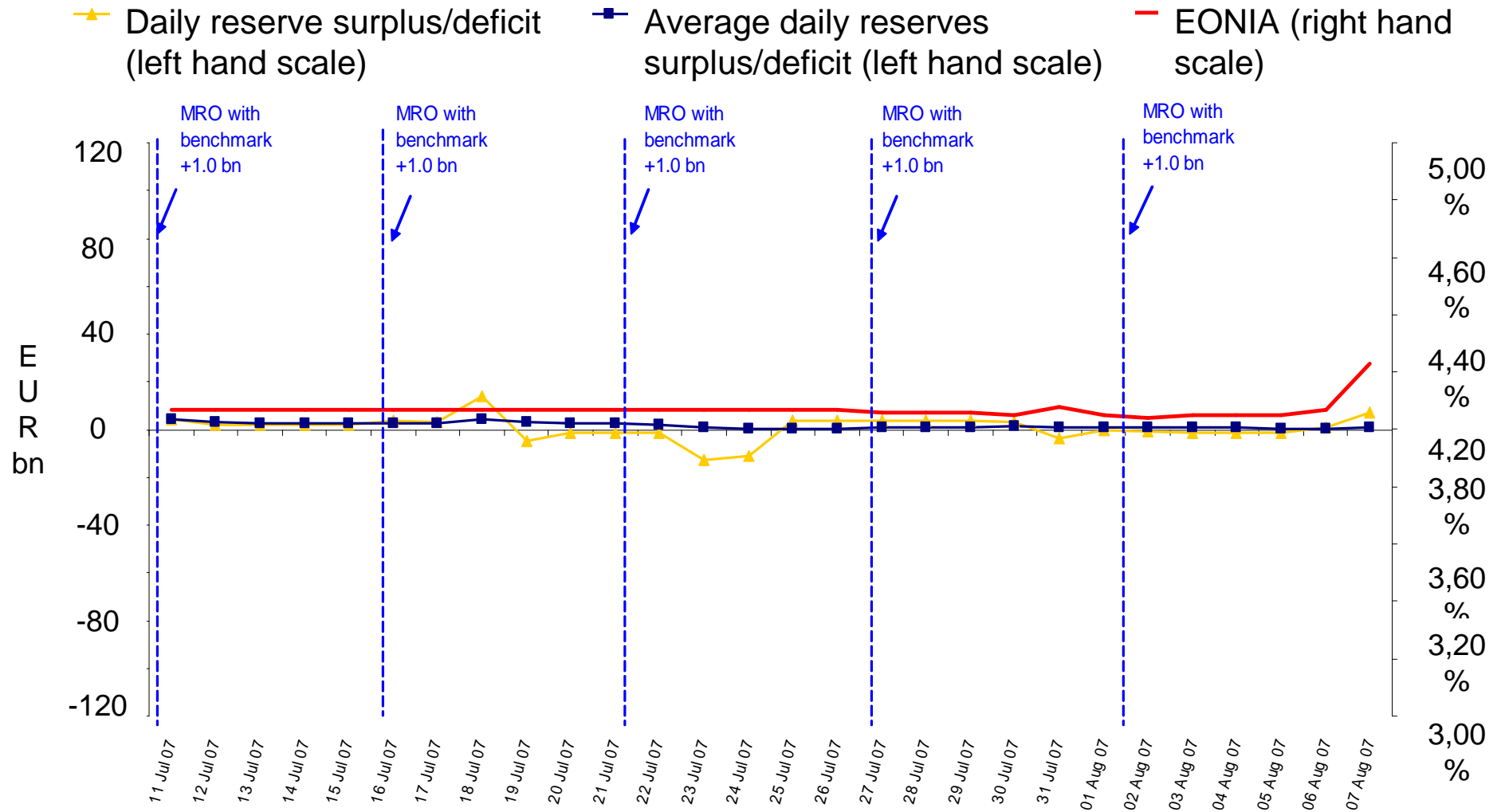
The ECB did not provide additional liquidity to the markets for any maintenance period

But flexible reaction to market needs:

- Liquidity provided by “frontloading”
- Lengthening of average maturity
- Supplementary Fine Tuning Operations (FTOs)
- Special tender procedure with full allotment on two occasions (FTO 9 Aug & MRO 18 Dec)
- The ECB agreed with the Federal Reserve System to grant loans in USD to euro area banks (TAF)

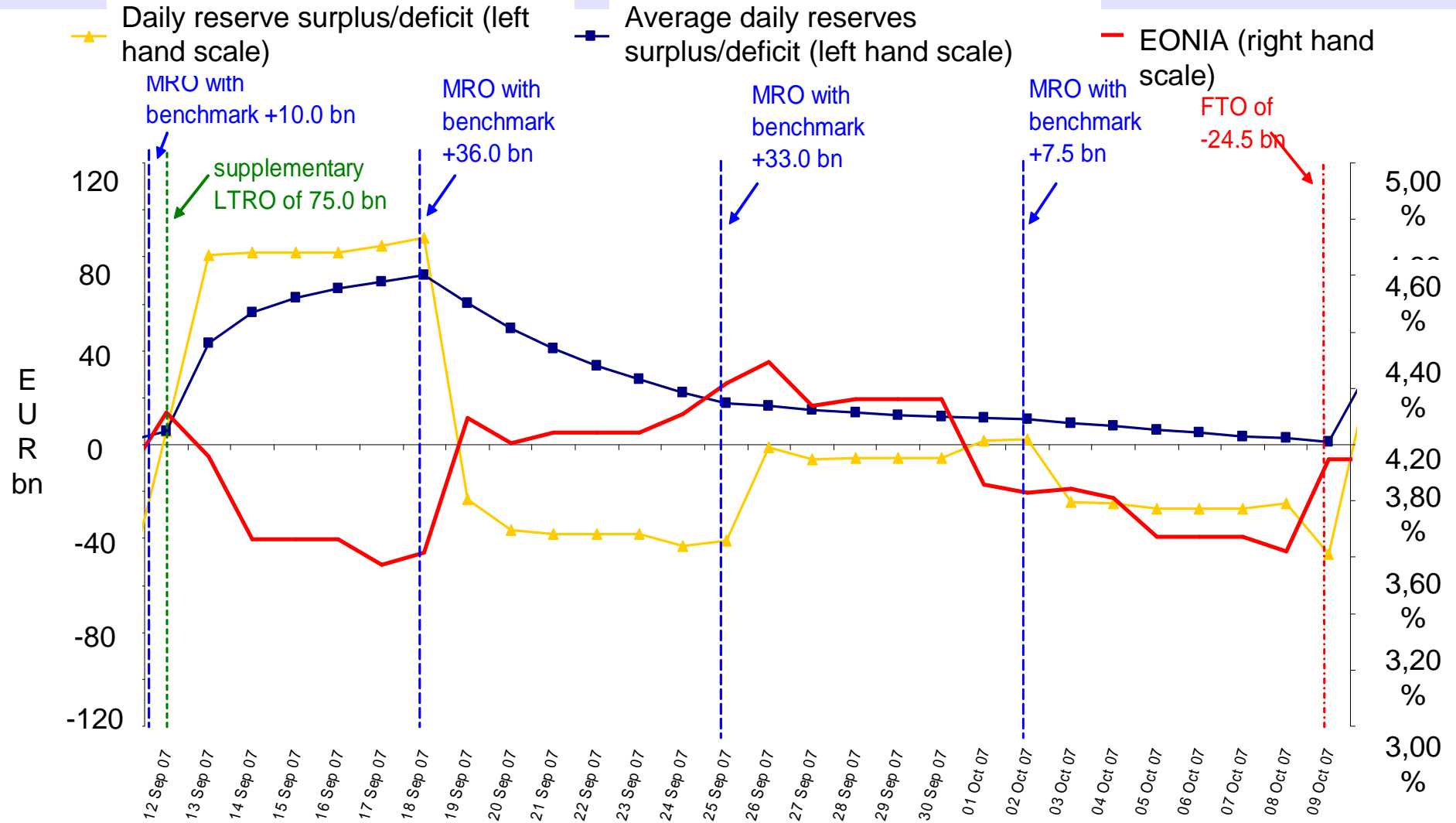
Before Crisis: No Frontloading

(e.g. Maintenance period 11 July – 7 August 2007)



During Crisis: Frontloading

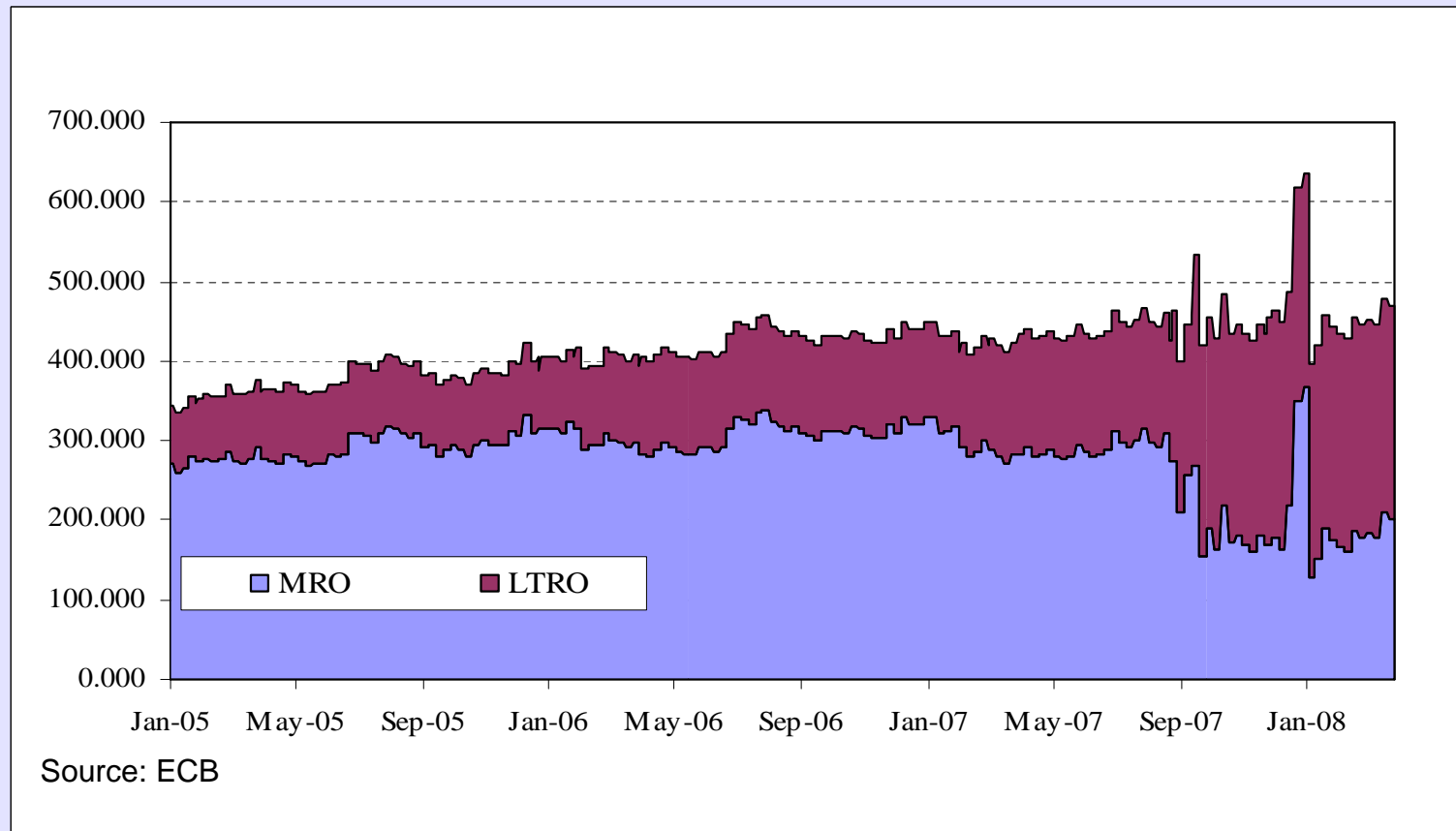
(e.g. Maintenance period 11 September – 9 October 2007)



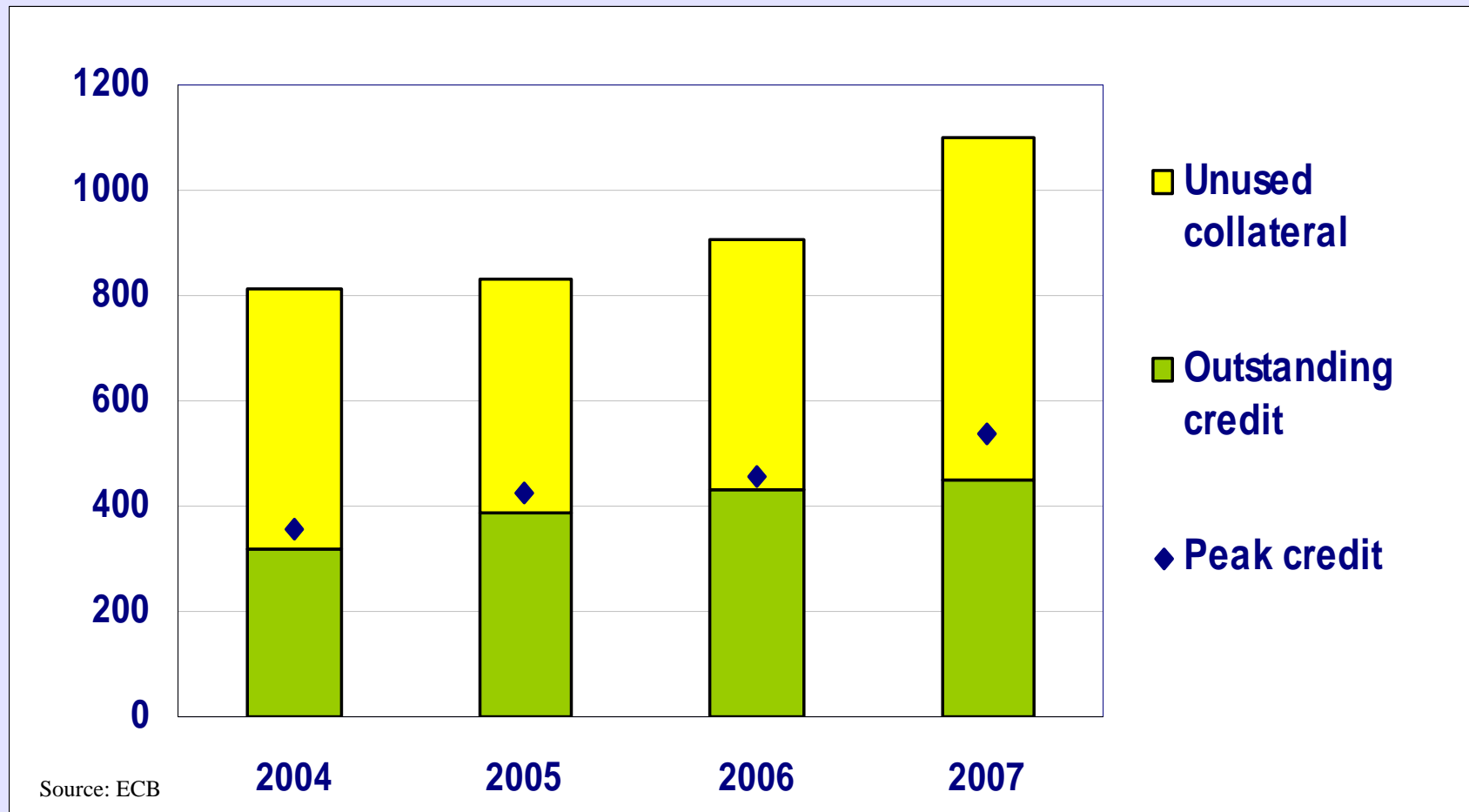
Shift from short to longer term refinancing operations but

No significant expansion of the ECB's balance sheet

apart from the large operations over the turn of the year (which were subsequently reversed)



Aggregate amounts of unused collateral held with the Eurosystem (€ billion)



The Bank of England

First measure:

- four exceptional 3M auctions (with wider eligible collateral list and bid rate set at the standing facility rate)

But:

- funds only available at higher rate than in the interbank market and
- stigma attached to paying above market interest rates

Subsequently:

- wider range of collateral in normal 3M operations announced (however this list was more restrictive than that allowed for exceptional tenders)
- Adjustment of maturity composition of its operations (like ECB and FED)
- Lender of last resort to Northern Rock
- 21 April 2008: Introduction of Special Liquidity Scheme (SLS)

The FED

Two challenges:

- Acceptance of a wide range of collateral within its discount window operations, but penalty rate and stigma attached to its use
- Both standard open market operations as well as the discount window were only available to depository institutions, while it was brokers that most needed access to liquidity

The FED has been most active in creating new mechanisms and operations:

- In addition to reducing the discount rate numerous times, it has created the:
 - TAF - Term Auction Facility (12 Dec 2007)
 - TSLF - Term Securities Lending Facility (11 Mar 2008)
 - PDCF – Primary Discount Credit Facility(16 Mar 2008)