The European Financial Crisis, European Central Bank Policy, and the Deutsche Bundesbank

Dr. Albrecht Sommer
Deutsche Bundesbank Berlin

This summary was written by Dr. Rolf-Peter Mikolayczyk.
The presentation of Dr. Albrecht Sommer, head of the Office for Strategic Issues Berlin/ Brandenburg branch of Deutsche Bundesbank, dealt with the Central Bank's monetary policy during and post European financial crisis.

In the first part of his presentation Dr. Sommer addressed in-depth the causes of the European debt crisis. At first, he pointed out the convergences of interest rates on government bonds issued by important EU-member states for the period 1998 to 2005. The development reversed its course post-financial crisis. Furthermore, the level of indebtedness of the European states as well as their differing economic growth was shown. An important cause was the freehanded finance policy of Greece and other southern European governments. Dr. Sommer focused in particular on the interdependence of growing national debt levels with increased spreads in the sovereign debt markets and the impact on economic growth as well as the banking system and the newly formed stability mechanism (EFSM) put in place to counter above problems.

Dr. Sommer continued by discussing the European Central Bank's tasks of monetary policy and crisis management resulting on one hand in the stabilization of the financial markets. On the other hand, he addressed the doubts of the markets concerning the effectiveness of the monetary policy in the long run. The European fiscal crisis and the stability measures taken by the European Central Bank had a contradictory impact on the finance markets and the systemically important commercial banks. There are differing opinions existing in the euro area concerning the purchase of government bonds of southern European nations by the European Central Bank. Ultimately, it must be assumed that there were no alternatives to execute certain emergency measures. Only the question remains how long it would take the European Central Bank to return to its intrinsic responsibilities for monetary policy in the tradition of the German Bundesbank.

Dr. Sommer presented empirical depictions of the development of the European Central Bank's finance instruments since the euro financial crisis respectively the collapse of Lehman-Bank. The long-term effects of the finance policy of the Central Bank, in particular the massive provision of liquidity for the bank- and finance markets remains to be seen. In any case, a certain calming of the markets was accomplished and time was gained in order to advance the integration of the political as well as the economic matters of the EU. It is a requirement that a number of new EU-institutions must be put in place and existing ones require reforms in order to follow up the monetary policy- and economic integration of the EU-nations with the political and fiscal policy integration.

At closing, Dr. Sommer summarized some important lessons learned for Central Bank's monetary policy from the European government debt crisis.