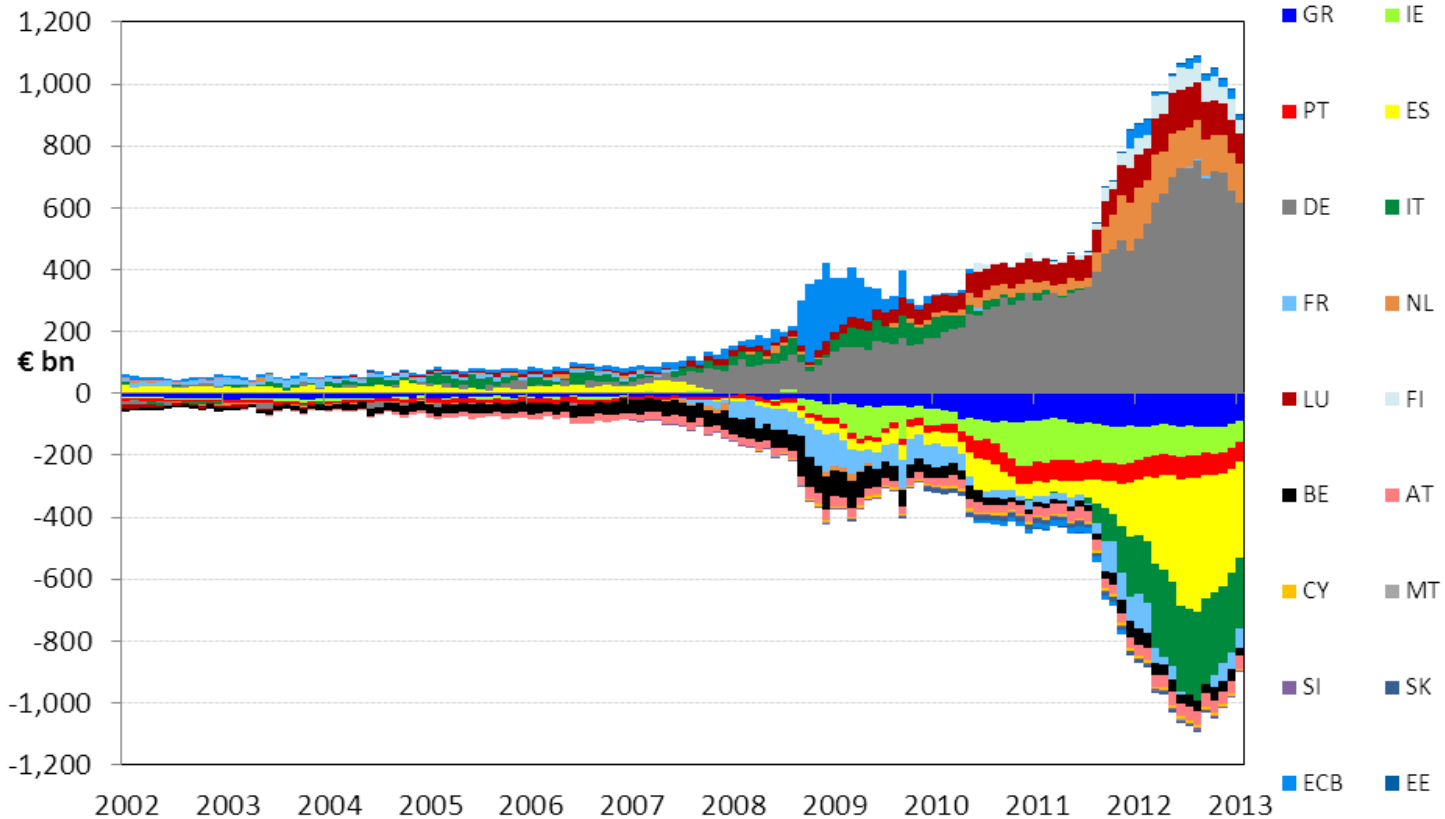


Euro Area Financial Stress and Fragmentation: developments and policy responses

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Banco de España, Madrid, 12 March 2013

Target (im)balances



Source: ECB, NCB and IMF data and author's calculations (P. Cour-Thimann, Target balances and the crisis in the euro area, mimeo).

A positive (negative) sign reflects a net claim (liability) of the national central bank vis-à-vis the ECB in the TARGET2 payment system. Claims and liabilities (including that of the ECB) add up to zero.

Stress

Indicators of financial stress have significantly improved since 26 July 2012

Systemic Risk Measure (SRM)

(1-year horizon; 5-day moving average)



Composite indicator of systemic stress (CISS)

(Jan. 2007- Feb. 2013; 5-day moving average; unit-free and constrained within interval (0,1])

Draghi's speech
"whatever it takes"
26 July 2012



Sources: Thomson Reuters and ECB calculations.

Notes: Probability of a simultaneous default by two or more euro area LCBGs within one year on the basis of their CDS spreads. See Box 8 in ECB, *Financial Stability Review*, June 2012.

Sources: ECB and ECB calculations.

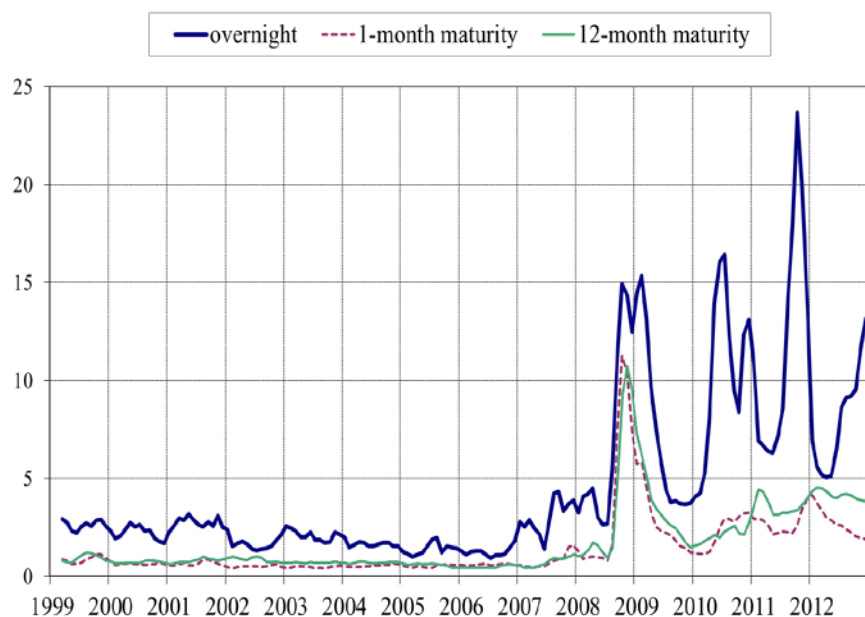
Five sub-indices of financial stress (equity, foreign exchange, bonds, money markets, financial intermediaries) are aggregated by taking into account the time-varying cross-correlations between sub-indices. More weight is given to cases in which stress prevails in several market segments at the same time. See Special Feature C in ECB, *Financial Stability Review*, June 2011.

Fragmentation

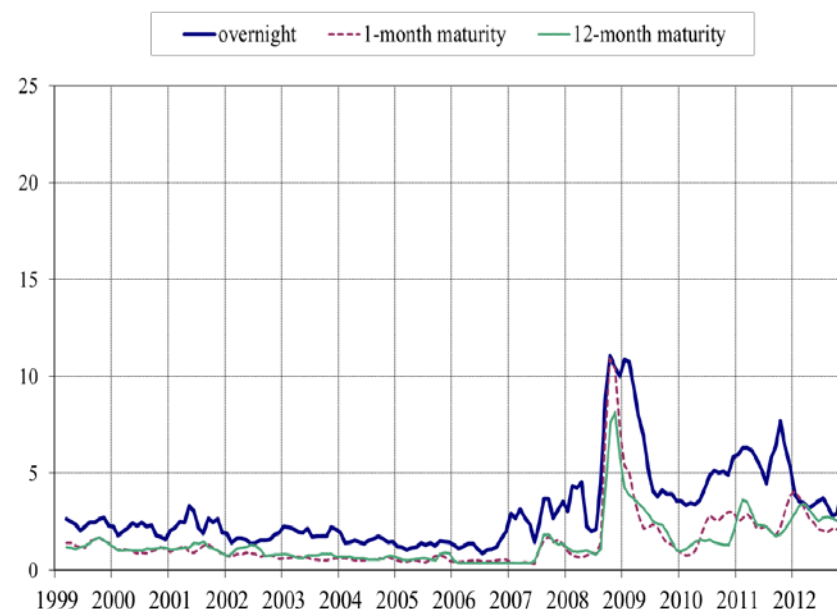
Cross-country standard deviation of average unsecured interbank lending rates across euro area countries (EONIA/EURIBOR)

(61-day moving average: basis points)

ALL COUNTRIES



NON-DISTRESSED COUNTRIES



Source: EBF and ECB calculations.

Notes: All countries means here the following countries: AT, BE, DE, ES, FI, FR, GR, IE, IT, LU, NL, PT, “non-distressed countries” are in that sample AT, BE, DE, FI, FR, LU, NL.

Policy responses

MONETARY:

- “Whatever it takes” ...
- OMT

FISCAL, STRUCTURAL:

- Reinforced fiscal + macro framework
- Long term “roadmaps”

FINANCIAL:

- SSM
- SSM complements: SRM, (deposit insurance)
- ESM capital injections