Jürgen Stark: Monetary and fiscal policy – criteria and timing for the phasing out of crisis measures

Speech by Mr Jürgen Stark, Member of the Executive Board of the European Central Bank, at the 80th Kieler Konjunkturgespräch, Berlin, 15 September 2009.

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Ladies and gentlemen,

A year ago today the investment bank Lehman Brothers filed for bankruptcy protection. This dramatic event has had adverse effects on the world economy, including the euro area. It has led to the most severe and synchronised economic downturn since the 1930s. But recent information is encouraging. The massive response to the crisis on the part of governments and central banks seems to be bearing fruit. Available data suggest that the free fall in economic activity has come to a halt and the global recession is bottoming out. However, uncertainty remains high, with data on economic activity likely to remain volatile.

The key challenge in the period ahead will be to unwind in a timely manner the extraordinary and unprecedented measures taken in response to the crisis. The criteria and timing for the phasing out of the crisis measures will be the main topic of my speech today. But first, I will start by giving you a brief overview of the current economic outlook on the basis of the Governing Council's assessment. I will then describe the measures implemented by the ECB and fiscal authorities in more detail.

The economic outlook

Given recent developments, there are reasons for cautious optimism regarding the outlook for economic activity. Economic activity turned out better than expected in the second quarter of 2009.

As regards the future, the economic recovery is likely to be very gradual. The revival of global trade, the rebuilding of inventories and the positive impact of policy stimulus and liquidity support measures are expected to be the main drivers of economic activity, and we may see a positive quarter on quarter growth rate already in the third quarter this year. But the quarterly growth pattern might be very uneven, and the uncertainty surrounding this outlook remains unusually high, given that some of the factors supporting growth are temporary in nature.

This outlook is broadly in line with the September 2009 ECB staff macroeconomic projections for growth in the euro area, which have been revised upwards compared with the June 2009 Eurosystem staff projections. This is the first upward revision since March 2007.

In the view of the Governing Council, the risks to this outlook remain broadly balanced. On the upside, the positive impact of the policy measures implemented may be stronger than expected. Confidence may improve faster than assumed. On the downside, the financial sector is still strained, and we cannot rule out the possibility that a stronger or more protracted negative feedback loop between the real economy and the financial sector may develop. Concerns also relate to a renewed increase in international commodity prices, an intensification of protectionist pressures and a disorderly correction of global imbalances.

As regards prices, annual inflation rates turned negative this summer. However, this is a temporary phenomenon, which was largely driven by past developments in energy prices. Annual inflation rates are expected to turn positive again within the next few months, but to remain relatively subdued. This is confirmed by both our economic and monetary analysis.

This inflation outlook is consistent with the September 2009 ECB staff projections, which have been revised slightly upwards compared with the June projections, mainly owing to higher energy prices. The Governing Council considers the risks to this outlook to be broadly balanced. On the downside, the downward pressure on prices could be stronger than expected, due to the sharp contraction in economic activity over the past year and the modest scale of the recovery which is foreseen. On the upside, renewed increases in oil prices and stronger than expected increases in administered prices and indirect taxes in the wake of fiscal consolidation efforts cannot be ruled out.

The ECB's policy response

Let me briefly recall how the ECB has responded to the intensification of the crisis a year ago. First of all, with inflationary pressures receding rapidly since last autumn, we have reduced the rate at the main refinancing operations by 325 basis points to the lowest levels seen since the start of Monetary Union. The Governing Council regards the current rates as appropriate.

In addition, we have taken a number of non-standard measures in order to:

- First, support the orderly functioning of the money market;
- Second, ease funding conditions for banks and thereby enhance the flow of credit to the economy above and beyond what could be achieved through policy interest rate reductions alone.
- Third, improve market liquidity in important segments of the private debt securities market.

These measures have come to be known as our "enhanced credit support approach". Its focus has been on banks, as they are the main source of funding in the euro area economy.

Overall, our approach comprises five main building blocks:

- First, the full accommodation of banks' liquidity requests at a fixed rate.
- Second, the expansion of the list of assets eligible as collateral.
- Third, the lengthening of the maturities of long-term refinancing operations.
- Fourth, the provision of liquidity in foreign currencies.
- And finally, financial market support through outright purchases of covered bonds in order to stimulate a market that has traditionally been an important source of funding for banks.

This is the only decision we have taken which directly affects a market segment other than the money market, and the total sum allocated to the programme – €60 billion – may appear modest compared with asset purchases performed by some other central banks. Our planned purchases amount to about 5% of the eligible outstanding covered bonds.

Let me emphasise that we have very deliberately refrained from buying government bonds, so as to safeguard our independence from political influence. For the same reason, we have implemented our measures without any form of government guarantee.

The implementation of the non-standard measures has led to a significant increase in the size of the Eurosystem balance sheet. By the end of August 2009, the simplified balance sheet of the Eurosystem stood at around €1,500 billion – about 16% of euro area GDP. Compared with its size in July 2007, shortly before the outbreak of the financial turmoil, the balance sheet is currently about two-thirds larger.

It is difficult to assess the impact of our measures precisely, but we are satisfied that spreads in the money market have declined significantly since last autumn and are now back to the levels seen before the bankruptcy of Lehman Brothers. Together with the policy rate cuts, this has contributed to a substantial decline in lending rates to households and firms. For example, the interest rate offered by monetary financial institutions (MFIs) on loans to households for house purchase with a floating rate and an initial rate fixation of up to one year has about halved since October last year.

The subdued developments in lending have attracted some attention, particularly given that our measures were designed to support lending activity. However, if we consider how credit has developed during economic downturns in the past, the recent developments in credit appear to be broadly in line with the recent developments in economic activity and the current outlook. In particular, in the past loans to firms have tended to lag turning points in the business cycle. One explanation for this may be that firms tend to use their own funds first and only afterwards resort to external financing, which leads to low demand for credit around the turning point. Based on past experience, the current levelling-off of loans to households would normally be associated with a further contraction in loans to firms until at least early 2010. Having said this, we will of course continue to monitor the developments in credit very closely in the period ahead, especially with a view to assessing to what extent supply-side constraints have the potential to limit the availability of credit.

Fiscal policy response to the crisis

Let me now move on to the fiscal policy response to the crisis. Fiscal policies have played an important role in containing the adverse impact of the financial and economic crisis. Euro area governments have demonstrated their ability to take rapid and coordinated steps both to support the financial system and to stimulate economic activity.

Government support for the banking sector represents a key element in the stabilisation of the whole financial system and the prevention of a further detrimental impact on the real economy. The measures adopted in response to the financial crisis consist of various types of financial assistance, including government guarantees for interbank lending, recapitalisation of financial institutions, increased coverage of retail deposit insurance and asset relief schemes.

As well as addressing the sources of the crisis by supporting systemically important financial institutions, fiscal policies have provided extensive stimulus to aggregate demand. As a first line of defence, a significant fiscal impulse has been, and continues to be, delivered via automatic stabilisers, which are relatively strong in the euro area. At the same time, European governments have agreed to adopt expansionary fiscal measures in order to mitigate the effects of the economic downturn.

The past few decades have been characterised by a considerable degree of scepticism towards the effectiveness of fiscal policies that go beyond the operation of automatic stabilisers. In some respects, recent calls from academics and policy-makers alike for fiscal activism represent a shift in this paradigm. This has also led to a re-emergence of old disputes between academic macroeconomists.

It must be stressed, however, that the government measures adopted in response to the economic crisis carry considerable fiscal costs. The effectiveness of fiscal stimuli crucially depends on the expectations and reactions of economic agents. In this context, the perception of the measures as being temporary and trust in the sustainability of fiscal policies are crucial. So far, fiscal activism seems to have been reasonably well coordinated, timely and targeted. But the challenge of ensuring that the measures are temporary remains. The determination of euro area governments to avoid further fiscal stimuli is welcome. However, the current support measures cannot be sustained forever. Timely and credible exit strategies for withdrawing the existing fiscal stimuli must be developed and communicated as soon as possible.

To this end, central banks and fiscal authorities will have to be prepared to unwind their extraordinary support measures.

The phasing-out of crisis measures

Let me be clear: the fact that we are discussing exit strategies by no means implies that we are about to implement them. But for them to be effective, we need to be transparent. Otherwise, investors may become fearful of inflation and concerned about the sustainability of public finances. This would no doubt push up long-term interest rates. For the same reasons, households might expect higher taxes in the future and raise the share of their income that they would rather save than spend. All these effects would, of course, jeopardise the gradual recovery and undermine the effectiveness of the policy stimulus.

Monetary policy

As regards our area of responsibility, we are well prepared to phase out the measures we took in response to the crisis. The way these measures were implemented provides us with reasonable flexibility in unwinding them. For example, unless we decide otherwise, the maturity and size of our operations will automatically decrease, starting next year.

Consistent with our mandate to maintain price stability, we have applied certain criteria in implementing the credit support measures and interest rate decisions. In unwinding our support we will continue to apply those criteria. Not least thanks to our political independence and our credibility, we are well equipped to act in a timely manner when the need arises.

Two elements appear to be key. First, of course, we need to have a goal in mind. Second, we need to think about how to manage the transition from where we are now towards that goal.

As regards the decision parameters, the first area concerns the withdrawal of monetary policy stimulus in terms of the key ECB interest rates. The criterion for how and when to withdraw the stimulus will be our assessment of risks to price stability.

The second area relates to the phasing-out of the liquidity and credit support that we provide to banks. In this case the instrument is the size and maturity composition of our liquidity-providing operations. The criterion for phasing out these operations will be our assessment of the financial situation and, specifically, how funding risk evolves, without compromising our price stability mandate.

These two areas are interrelated. However, our interest rate decisions are guided exclusively by our assessment of risks to price stability. Our credit support measures have in addition been driven by the goal of alleviating funding risk and thereby forestalling a wider systemic crisis which would jeopardise our primary objective of price stability.

The interest rate instrument and the size and maturity composition of our liquidity-providing operations are instruments that can be used independently of each other, but only to a certain extent and not continually for different purposes. Specifically, concerns about funding support must not come to dominate monetary policy considerations.

The level of our key interest rates will, as always, be adjusted in response to changes in the outlook for price stability. But, because our non-standard measures were targeted at specific problems in the money market, our decisions about how and when to unwind them will also depend on how funding risk evolves. We would expect a gradual recovery in funding markets and further improvements in credit conditions for the non-financial sector to go hand in hand with the establishment of a sustained economic recovery. But it is impossible to forecast these developments with any certainty.

A scenario cannot be entirely ruled out where upside risks to price stability emerge while the problems in money markets persist. We might then have to maintain the structure and size of our balance sheet. But, at the same time, we would have to raise interest rates to counter upside risks to price stability. We would be confronted with the need to steer money market interest rates to higher levels while excess liquidity continued to prevail in money markets.

It is therefore crucial to monitor the sources of funding constraints for banks. We need to judge whether these funding constraints relate to individual banks rather than to the functioning of the money market and the banking system as a whole. Our operational framework is not designed to counter funding problems at the individual bank level. Rather, our funding support is designed to alleviate funding risk to the extent that it is systemic.

Therefore, we would seek to re-establish the key features of the operational framework that was in place before the crisis and to revert to a situation in which the one-week main refinancing operation is the main tool for steering short-term money market rates and we are "rate-takers" in the longer-term money market.

Based on our economic and monetary analyses, we will continue to monitor very closely all developments over the period ahead. We will ensure that the measures taken are unwound in a timely fashion and the liquidity provided is absorbed in order to counter effectively any threat to price stability.

To sum up the monetary policy considerations: the monetary policy measures and non-standard measures taken during the financial crisis have been effective in alleviating funding concerns of banks. But we need to be aware that, if the measures are maintained for too long, there can be negative side effects.

Both central bank and fiscal measures may contribute to weaken the incentives for banks to clear troubled assets from their balance sheets and to monitor their credit risk carefully. This, in turn, may reinforce the very problems that currently impair the functioning of the financial system. In a low interest rate environment this can foster lending to unprofitable business. That, in turn, would harm the growth potential of the economy and thereby prepare the ground for weak growth to persist.

Very low interest rates can also hamper the functioning of the money market: The lower money market interest rates are, the lower the incentive for banks to trade funds in the market rather than depositing them safely with the central bank. Market participants might change their behaviour and get accustomed to the non-standard measures, which would be detrimental to the recovery of money markets.

On our part, as soon as upside risks to price stability emerge, and with a view to avoid to contribute to the emergence of another asset price bubble, we would have to act accordingly.

For all these reasons, it is paramount to have a clear exit strategy in place.

Fiscal policy

The ECB's exit strategy follows naturally from our mandate and independence from political influence. The credibility we enjoy is illustrated by the fact that long-term inflation expectations have remained firmly anchored in line with the Governing Council's definition of price stability throughout the crisis.

Fiscal authorities are not in the same position. One indication of this is the widening of government bond spreads in the euro area vis-à-vis German ten-year bunds since last autumn, which signals market doubts about the fiscal authorities' resolve to bring fiscal policy back onto a sustainable path. Let me therefore briefly elaborate on why it is important that governments commit to clear exit strategies.

In principle, unsustainable fiscal policies represent an upside risk to price stability as the possibility cannot be ruled out that debt-burdened governments may resort to monetary financing. But let me be clear: this is not an option for governments in the euro area. However, high inflation in other countries would also make it more difficult to preserve price stability here.

Second, while governments bolstered private confidence via financial and economic support in the crisis phase, in the exit phase confidence must be preserved via the timely and credible withdrawal of the unsustainable stimulus measures. Exit strategies may reduce market concerns about fiscal sustainability, and they may help to limit Ricardian behaviour on the part of consumers, which could otherwise offset the impact of the fiscal stimulus.

Third, recent calls for a persistently greater role for government owing to failures in market systems must be rejected. Historical experience shows that the market principle remains by far the best basis for an economic system, although we know that markets need rules and that the existing regulatory and supervisory framework has to be enhanced. The role of government should be scaled down after the crisis. No matter how serious the current crisis is, governments should ultimately cease to perform non-government tasks and the private sector should step in again.

Fourth, fiscal positions in most euro area countries represents a challenge for the Stability and Growth Pact. Any weakening of the peer pressure mechanism on which the fiscal framework rests must be avoided. Full compliance with the Treaty and the Stability and Growth Pact is necessary in order to preserve confidence in the whole framework and contribute to the credibility of fiscal exit strategies in individual countries.

Fifth, the fiscal costs of crisis measures are expected to be considerable. Government support for the financial sector gives rise to government debt and extensive contingent liabilities owing to government guarantees. The effects of automatic stabilisers and discretionary fiscal stimuli lead to a sharp deterioration in fiscal balances. All these factors, together with the expected adverse fiscal impact of population ageing, pose considerable risks to fiscal sustainability. It appears unlikely that countries will be able to rely on strong GDP growth to reduce their debt burdens. In this respect, unwinding fiscal stimuli, while necessary, is clearly insufficient to restore sustainable public finances. The structural adjustment of fiscal policies to the new economic environment will be needed. Moreover, potential costs stemming from guarantees provided to the banking sector should be taken into account.

Finally, the phasing-out of most non-standard monetary policy measures is highly predictable and withdrawal will be communicated in due time. The same level of transparency should apply to fiscal policies. Governments should provide a clear and credible medium-term timetable for fiscal exit strategies in order to help maintain a predictable environment, both for economic agents and for the conduct of monetary policy.

General principles for fiscal exit strategies

Based on these considerations, governments should develop and communicate ambitious and realistic fiscal exit and consolidation strategies as soon as possible. Structural adjustment will have to be implemented in order to reduce high debt ratios and return public finances to a sustainable path. The timing, pace and sequence of the exit strategy is starting to be a major challenge. Let me summarise the main criteria for the fiscal exit strategy and the main principles on which they should be based.

First, as regards involvement in the financial sector, the primary criterion for the exit strategy is the condition of the banking sector. Given the vital role of the banking system, the timing and sequence of the withdrawal of the assistance provided to the financial sector is of the utmost importance and, in the short to medium run, even more challenging than the task of unwinding fiscal stimuli. A balance between the need to safeguard financial stability and the need to restore market principles must be maintained. The stability of the banking sector must not be put at risk. However, the over-long involvement of governments will change the behaviour of market participants and may have detrimental effects to competition in the banking sector and lead to an ineffective allocation of resources.

Second, as regards the exit from high government deficit and debt, governments should ensure that the withdrawal of fiscal measures starts no later than the economic recovery. Part of this job will be done automatically via fiscal stabilisers and some fiscal stimulus measures are designed to be temporary. Additional fiscal adjustment is, however, needed. The phasing-out of stimuli to support demand should be closely linked to the pick-up in economic activity. Given the current economic outlook and projected public deficit and debt developments, euro area governments have decided to refrain from additional expansionary measures. This decision is very welcome. However, they have not so far committed to clear fiscal exit strategies. Exit strategies should be set out in the context of current and forthcoming excessive deficit procedures and within the next round of stability programmes. Otherwise, persistent high deficits and debts would contribute to high risk premia on government bond interest rates. Higher sovereign real long-term interest rates may then be transmitted to the rest of the economy and crowd out private demand.

Third, the timing and pace of consolidation should take into account additional criteria such as growth prospects after the crisis, the size of government deficits and debts and the prospects for long-term sustainability. Given the substantial effort needed, structural adjustments should be significantly more ambitious than the benchmark of 0.5% of GDP per annum would suggest and should differ across countries. Debt simulations show that while a no-policy-change scenario implies an explosion of government debts, even a 0.5 percentage point structural adjustment would not be sufficient to bring debt ratios to the level of 60% of GDP over an acceptable time horizon. In particular, highly indebted countries and those with a sharp deterioration in their fiscal balances should therefore make a consolidation effort of at least 1 percentage point per annum.

Fourth, the consolidation strategies should be designed in line with the Treaty and the Stability and Growth Pact, which constitute the appropriate and credible framework for fiscal policy coordination in the euro area. The Pact provides for a degree of flexibility that is sufficient for the current circumstances. Any loosening of the framework beyond that level is not warranted, as it may pose the risk of eroding the incentive mechanisms. Fiscal strategies should respect deadlines for the correction of excessive deficits set by the ECOFIN Council in line with the Stability and Growth Pact.

Fifth, in any case, fiscal consolidation cannot be limited to the correction of excessive deficits. The pace of consolidation needs to be maintained and stepped up in good times until the medium-term objectives are achieved.

The crisis has clearly demonstrated that countries that failed to build up safety margins during good times had little or no capacity to counter the economic downturn. In this respect, medium-term objectives must be sufficiently ambitious in order to create room for manoeuvre in fiscal terms before the next economic downturn and to prepare public finances for future expenditure associated with population ageing. All efforts should be made to ensure that the opportunity to consolidate public finances during the forthcoming good times are not missed again in some countries.

Before concluding, I would like to emphasise that the institutional framework of the euro area leaves no room for an coordination between the single monetary policy of the ECB and the national fiscal policies. The Treaty sets up a clear allocation of responsibilities between monetary policy and national fiscal policies, with a view to ensuring a smooth functioning of monetary union. The institutional framework grants to the Eurosystem full independence from political influence and interference and assigns to the ECB the primary objective of maintaining price stability. At the same time, fiscal authorities are responsible for safeguarding the sustainability of public finances.

This does not mean that there are no interactions. The Governing Council has always welcomed a constructive and open exchange of information on the current economic situation and structural reforms with other bodies and institutions at the European level. The outlook for fiscal policy plays a key role in our projections for economic activity and our assessment of risks to price stability. In the same way, because our policy decisions are exclusively based on our assessment of risks to price stability, our responses can be predicted by fiscal authorities. The channels for the exchange of information between fiscal and monetary authorities are also well developed. But there cannot and will not be any pre-commitment to a particular course of monetary policy action. This would undermine the ECB's independence and therefore violate our mandate.

From a fiscal policy point of view, it should be noted that although the exit from monetary measures will be uniform across the euro area, it is likely to have asymmetric fiscal impacts given the current substantial heterogeneity of fiscal positions. A potential increase in market interest rates will have a much stronger impact on highly indebted countries, in particular those with outstanding government bonds with short maturities. The need for fiscal flexibility under a single monetary policy places a clear premium on timely and credible fiscal consolidation in all euro area member countries.

Conclusion

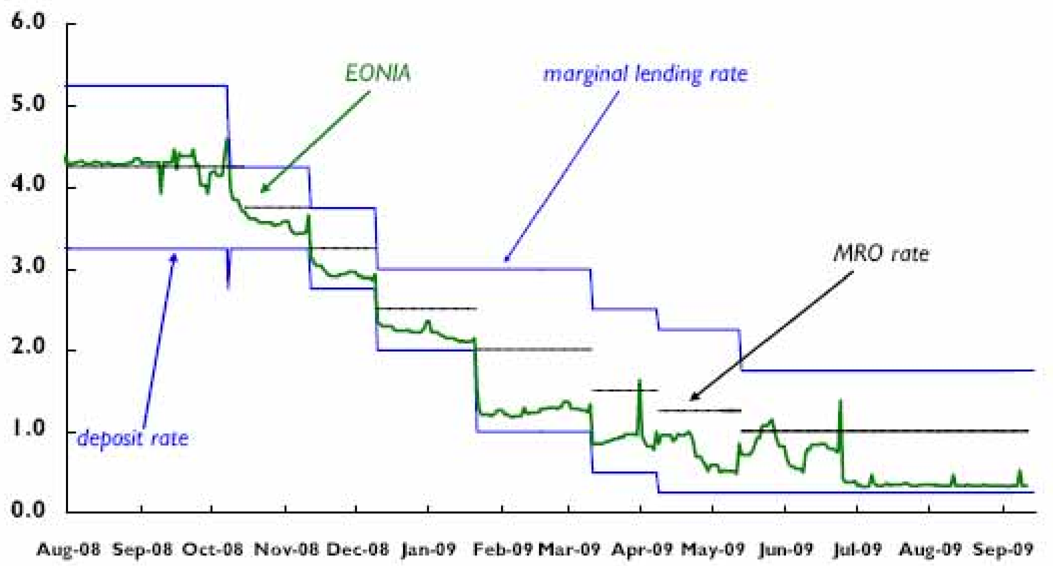
To conclude, in response to the crisis, governments and central banks across the globe have taken immediate and unprecedented measures. Governments have implemented measures to rescue the banking sector and stimulate the economy. Central banks have lowered rates to very low levels in response to receding inflationary pressures and risks; and they have provided ample liquidity to the banking system, so as to support the transmission mechanism of monetary policy. The key questions are when and how to phase out these measures once the overall situation starts to return to normal.

This is the most challenging task for both governments and central banks. But I am confident that the ECB's broad-based monetary policy strategy, which has shown itself to be robust and forward-looking, will continue to serve us well in handling this challenge. The fact that our risk assessment is rooted in both economic and monetary analysis ensures that all relevant information is taken into account.

The crisis is not yet over. The time to exit has not yet come. But I can assure you that we will continue to monitor very closely all developments in the period ahead, in order to be in the best possible position to continue to deliver on our task of maintaining price stability over the medium term, and thereby support the purchasing power of euro area citizens.

ECB interest rates and the EONIA

(in percent)



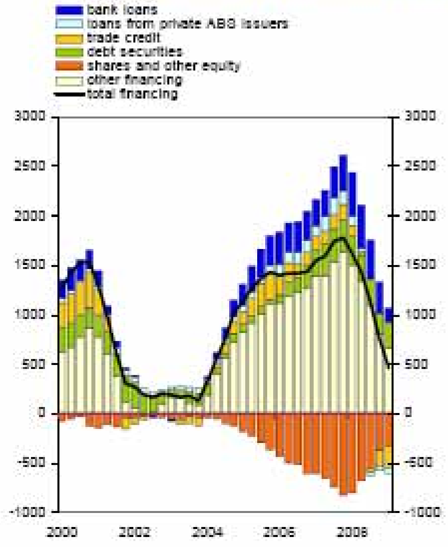
Source: ECB
Last observations: 11 September 2009

EUROPEAN CENTRAL BANK 2

Sources of financing in the US and the euro area

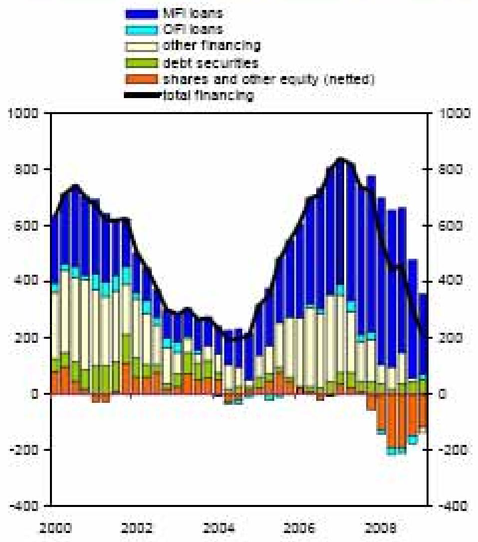
Breakdown of the financing of non-financial businesses in the US

(4-quarter moving sum of transactions, in USD bn)



Breakdown of the financing of non-financial corporations in the euro area

(4-quarter moving sum of transactions, in EUR bn)



Sources: Board of Governors of the Federal Reserve System and ECB
Last observations: 2009 Q1

EUROPEAN CENTRAL BANK

The ECB's enhanced credit support

1. Full allotment at a fixed rate in refinancing operations
2. Easing of collateral requirements
3. Refinancing operations with a maturity of up to 12 months
4. Provision of liquidity in foreign currency
5. Purchases of covered bonds

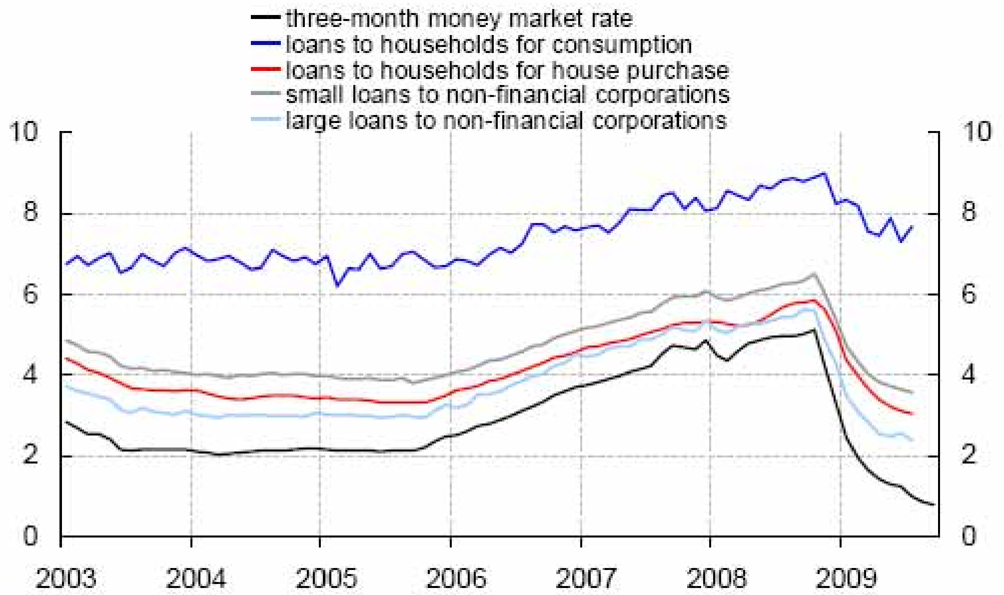
The Eurosystem's balance sheet

(in billions, euro)

Source: ECB
Last observations: End-of-August 2009

Interest rates on loans to households and firms

(percentages per annum)



Source: ECB
Last observations: July 2009

EUROPEAN CENTRAL BANK 6

Fiscal impulse in the euro area countries

percentage of GDP, percentage points of GDP

	2007	2008	2009	2010
Actual budget balance	-0.6	-1.9	-5.3	-6.5
Cyclically adjusted budget balance	-1.9	-2.9	-3.9	-4.7
Interest payments	2.9	3.0	3.0	3.2
Cyclically adjusted primary budget balance	1.1	0.1	-0.9	-1.5
Change in actual budget balance	**0.7**	**-1.3**	**-3.4**	**-1.2**
- Automatic stabilisers	**0.6**	**-0.3**	**-2.3**	**-0.4**
- Interest payments	0.1	0.0	0.1	0.2
- Cyclically adjusted primary balance	**0.2**	**-1.0**	**-1.0**	**-0.6**
General government debt	**66.0**	**69.3**	**77.7**	**83.8**

Source: European Commission Spring 2009 Economic Forecast.

EUROPEAN CENTRAL BANK 7

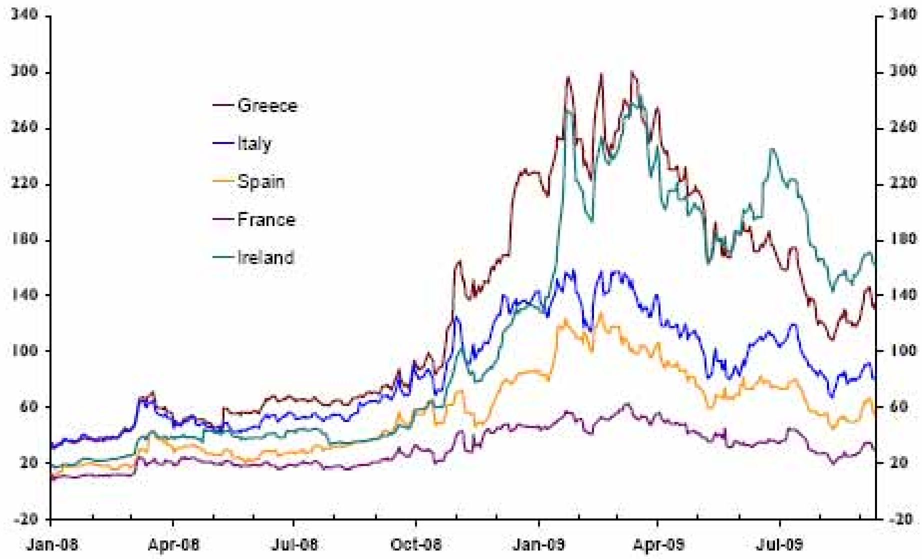
Key elements in the phasing out of monetary policy measures

- Operational goal
  - re-establishment of the key features of the operational framework
- Decision parameters
  - level of key interest rates will be decided exclusively based on the assessments of risks to price stability
  - size and maturity of liquidity providing operations also dependent on how funding risks evolve

EUROPEAN CENTRAL BANK 8

Ten-year government bond spreads vis-à-vis Germany

daily data in basis points



Source: Bloomberg, Datastream and ECB calculations.
Last observation: 11 September 2009.

EUROPEAN CENTRAL BANK 9

Importance of fiscal exit strategies

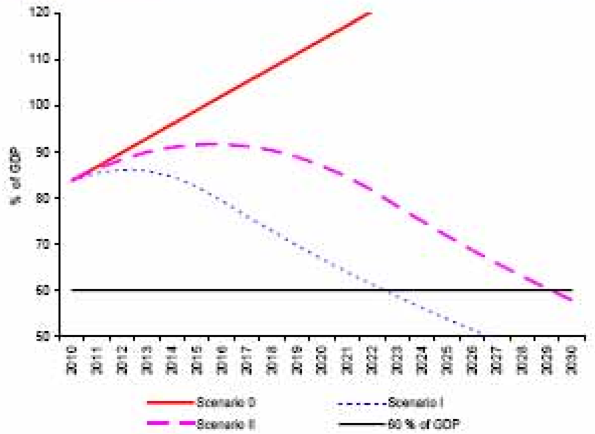
- Unsustainable fiscal policies represent an upside risk to price stability
- Exit strategies may reduce market concerns about fiscal sustainability
- The role of government in the economy should not be permanently increase
- Challenging fiscal positions in most euro area countries
- Considerable fiscal cost of crisis measures expected, which pose a high risk to fiscal sustainability

General principles for fiscal exit strategies

- Condition of banking sector primary criterion for phasing out of support to the financial sector
- Fiscal exit should start no later than the economic recovery
- Consolidation efforts should also take into account growth prospects, the size of deficits and debt and long-term sustainability
- Consolidation strategies should be in line with the Stability and Growth Pact
- Pace of consolidation must be maintained and stepped up in good times

A way back? Simulations of euro area government debt levels

A debt simulation



Debt simulations (2011 onwards):

- Assumptions: potential growth at 2.25%, starting values for 2010 given by the Commission forecast
- **Scenario 0** (red): no-change-policy (constant primary deficit at 3.3% of GDP)
- **Scenario I** (blue, see previous slide): revenue ratio to GDP constant; real expenditures constant; in sum: consolidate by about 1 p.p. annually, deficit close to balance by 2016
- **Scenario II** (purple): consolidate by only 0.5 p.p. annually, balanced budget reached by 2023

Concluding remarks

- The phasing out of measures taken in response to the crisis the most challenging task both for governments and central banks
- The crisis is not over, and the time for exit has not yet come, but we will continue to monitor very closely all developments in the period ahead.