John Hurley: Comments on the financial crisis

Address by Mr John Hurley, Governor of the Central Bank & Financial Services Authority of Ireland, at a lunch meeting of EU Ambassadors to Ireland, Dublin, 27 April 2009.

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Among Governor Hurley's comments at the event were:

The global economy is currently experiencing the deepest and most synchronised downturn for many decades. In its latest economic outlook, the International Monetary Fund has forecast a contraction in global activity of around 1½ per cent this year. We have seen a small improvement in some economic indicators internationally in recent weeks, but I have to say that, at this stage, these remain more consistent with further contractions in output – albeit at a slower pace – rather than actual growth. While the Fund has forecast very modest positive growth at the global level for next year, the recovery may be rather gradual.

On the other hand, global inflationary pressures have moderated significantly since the middle of last year. The euro area headline rate was 4 per cent as recently as last July but has now fallen to below 1 per cent. This easing initially reflected a sharp decline in commodity prices – oil prices fell by over $100 per barrel in the second half of last year – but the impact of the downturn on prices is increasingly playing a role. Reflecting these developments, headline inflation could turn negative in a number of advanced economies this year. This is a development that is likely to last for a number of months in the case of the euro area, before there is a return to moderate rates of positive inflation.

Policymakers have taken unprecedented steps to limit the impact of the current downturn. These have included financial sector intervention, as well as monetary and fiscal policies. A very wide range of measures has been taken to support financial institutions. These include recapitalisations, deposit guarantee extensions, debt guarantees, extensive provision of credit and liquidity, and acquisition or ring fencing of bad assets. As the global outlook has continued to deteriorate, many countries have also introduced significant wider fiscal measures to support the economy.

As far as monetary policy is concerned, central banks have cut policy rates significantly – in many cases to unprecedented levels – and have taken a range of unconventional measures. This has led to a sizeable expansion of central banks' balance sheets, including the ECB's. In particular, it is worth noting that euro area banks have been permitted to borrow an unlimited amount at the relevant policy rate against eligible collateral for some time now. There has also been a cumulative reduction of 300 basis points in the key policy rate and, while the Governing Council is never pre-committed, I cannot exclude the possibility that the Council may – in a very measured way – further reduce the main policy rate. As regards further non-standard policy measures, decisions will be made and announced on the occasion of our next meeting in early May.

Policy makers have also been focusing on how to rebuild trust in the financial system. These issues dominated the recent meeting of the G20, where actions to build a more globally consistent supervisory and regulatory framework for the financial sector were announced. At a European level, the De Larosière Report has made proposals for a stronger, more coherent supervision framework, which will be the basis for reforming the EU supervisory framework. As far as this country is concerned, the Government has also announced changes to the system of financial regulation that provides for full integration and co-ordination within the Central Bank of the prudential supervision and stability of individual financial institutions with that of the financial system as a whole.