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ECB'S POLICIES ON ENSURING FINANCIAL STABILITY IN THE EURO AREA

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Abstract. The article is devoted to the activity of the European Central Bank, the only supranational financial regulator in the European Union. The author examines the main directions and goals of the European Central Bank and the tools it has been used since the global financial and economic crisis of 2008–2009. The aim of the article is to review the ECB's non-standard monetary policy measures implemented in response to the financial and sovereign debt crisis and define the effect they have on the members of the euro area.

Keywords: Economic and Monetary Union; the European Central Bank; non-standard monetary policy; supranational regulator; the euro area.

In current years the authorities of the European Union acknowledge systemic problems that have been growing within the region. The main of them is the weakening of the euro area countries' competitiveness and the high degree of vulnerability of the European financial market based on a bank-oriented financing model. The most serious examination for the European Economic and Monetary Union (hereinafter – EMU) was the global financial and economic crisis of 2008–2009, the consequences of which exacerbated the imbalances in the region and encouraged the EU authorities to search for a new effective institutional model to manage the Economic and Monetary Union. The global crisis became a trigger for economic, budgetary and debt crises in the EMU. Significant differences in the adaptive capacities of economies to the crisis situations caused a widening gap between relatively stable and wealthy states (Germany, France, the Netherlands, Austria, Finland) and a group of countries vulnerable to shock exposure with an acute debt problem (Greece, Ireland, Spain, Italy, Portugal). According to A. I. Bazhan, weak protection against the crisis in Greece and other countries with acute debt problems was caused by the fact that their governments had lost the ability to pursue their own structural industrial policies and support national production with state funds [1, p. 29].

In the Russian scientific literature, the main directions and ambiguous results of the European Central Bank (the ECB) monetary policy, the problems of exacerbating the debt situation in the EU are disclosed in the publications of A. I. Bazhan, Yu. A. Borko, O. V. Butorina, K. N. Gusev, M. L. Larionova, V. Ya. Pishchika, S. F. Seregina, A. N. Tsibulina. In the article it seems relevant to systematize and assess the effectiveness of the variety of adopted programs, projects and action plans of the ECB and some other EU institutions to overcome the recession and smooth structural imbalances according to the parameters of the essential characteristics of measures.

In the programs and activities of the first group, adopted for implementation at the peak of the crisis of 2008–2009 and throughout the post-crisis period to the present time, the subject is mainly the ECB, and the object is commercial banks, which are provided with almost unlimited liquidity in order to overcome deflation and stimulate economic growth.

The second group of conceptual documents and activities of the EU authorities is designed for the medium and long term period and has systemic strategic character. In this case, the subject of measures is all EU institutions, and the object is the totality of intra-regional economic, budgetary, financial and currency relations.

Each of these two complementary concepts of the new convergence of the EU countries has its own characteristics that affect the effectiveness' assessment of their implementation in order to overcome the erosion of integration processes in the EU.

Under the influence of the crisis of 2008–2009 qualitative changes of the role and functions of the ECB, associated with the use of non-standard monetary policy methods, the direct participation in the implementation of emergency measures to support banks and other financial institutions of the EMU participating states, took pace. The ECB, being a supranational regulator, took steps in two directions. First, the ECB allowed quantitative easing monetary policy by consistently lowering the base refinancing rate from 4.25 % from October 8, 2008 to 0 % from March 10, 2016. Secondly, the ECB, following the example of the US Federal Reserve, began to provide expanded direct credit support to the banking sector and to implement measures of quantitative easing. Non-standard monetary policy has been practiced by the ECB over the past ten years in various modifications of its forms and methods.

Experts recognize a certain effect on the economy of EMU countries of the ECB's large-scale operations of injecting additional liquidity easily accessible to banks and companies. According to analysts of the British bank Barclays, the decrease in the cost of accumulated debts due to near-zero interest rates and quantitative easing programs allowed to slow down the growth of government debt in Spain, Italy and Portugal by 1–5 % of GDP by the end of 2016, which in under normal conditions, it would be 12–14 % of GDP [2].

In June 2014, the European Central Bank set one of its policy rates at a negative level, applying the first of the major central banks to a new measure of non-standard monetary policy: a policy of negative interest rates. The transition to a policy of negative interest rates to stimulate economic activity in the euro area and, consequently, contribution to higher inflation expectations, was a forced but logical measure for the ECB. The euro area economy at that time was in a “liquid trap”, which did not allow the ECB to apply the traditional monetary policy to stimulate the economy. The practice of applying the policy of negative interest rates by the ECB suggests that this system has a positive impact on the euro area [5].

At the same time, under the influence of the ongoing transformation, the measures of the European Central Bank, a supranational regulator and a direct participant in financial market operations, decrease the effectiveness of the ECB's unified monetary policy in the medium and long term.

First, the non-standard monetary policy of the central banks of the leading regions of the world, including the ECB, has led to the phenomenon of the so-called “new reality”, in which the growth rate of the economy of 1.5–2.0 % per year is considered quite normal postponing painful structural reforms. Secondly, the debt burden on the economy of the euro area countries is growing. Thirdly, the credibility of the ECB policy is decreasing: the actual exhaustion of reliable German and French government bonds as a guarantee of the issue of additional liquidity forces the ECB to buy not only risky Italian government bonds. Fourth, contrary to the focus of the ECB's policy on sustainability, the systemic risk of macroeconomic instability in the euro area is exacerbated by the predominant growth of consumer and speculative demand to the detriment of investment activity in the real sector of the economy.

The ECB's unified monetary policy can become truly effective for EMU consolidation if it relies on the necessary structural and institutional changes, including reforms in the European financial market, the transition of EMU member countries to an agreed fiscal policy that ensures macroeconomic stability in the region. According to the analysts of the British Barclays Bank, in the absence of effective structural reforms in the EMU, further ECB quantitative easing will "be completely useless".

As noted by the famous Russian economist E. S. Hesin, excess liquidity as a result of pursuing an unconventional monetary policy "disproportionately goes to the creation of financial savings and inflation in asset markets, and not to strengthen the real economy". According to his estimates, only 15 % of the rapidly growing assets of euro area banks goes to the real economy [4, p. 36].

The problem of the EU external debt imbalance is associated with an increase in the total public debt of the countries of the region as a whole and of the southern European countries of the euro area, especially those that were most affected by the crisis and actively involved in financial and credit support programs of the ECB and IMF. The total public debt of the EU countries amounted to 9.7 trillion euros, or 88.1 % of the annual GDP of the euro area, according to Eurostat in the III quarter of 2017.

The gradual, albeit unstable, recovery of the euro zone in 2017 allowed the ECB to gradually reduce quantitative easing (QE) programs by cutting the purchase of securities first to EUR 60 billion per month for the period to the end of 2017 and then up to 30 billion euros for the period until the end of September 2018. In June 2018, the ECB announced the completion of the quantitative easing program by the end of the year with the allocation of 15 billion euros for a monthly purchase of assets from October to December 2018. According to the ECB, the total amount of funds spent by the European regulator on the quantitative easing program was up to 2.43 trillion euros [3].

The price of a certain positive effect of using new non-traditional methods of monetary policy to get the euro zone out of recession from 2017 is the increase in systemic risk in the euro area, the aggravation of the problems of macroeconomic and financial imbalances in the region in the medium term. The global financial market reacted negatively to the ECB's decision to curtail the QE program by weakening the euro and increasing profitability of European sovereign bonds, especially Italian ones. According to independent experts, the ECB’s refinancing rate increase predicted in 2019 following the rejection of quantitative easing will slow the growth of the European economy, lead to more expensive servicing of Italy’s sovereign debt and worsen the financial position of Italian banks with significant overdue loans on their balance sheets.

To sum up, measures of the ECB's non-standard monetary policy to expand liquidity in the euro area allowed at some point to mitigate the negative effects of the crisis, but at the same time strengthened the imbalance between increased speculative demand and led to the decline in investment activity, aggravating the problem of sustainable economic growth for the future. Since 2015, the development and implementation of joint medium-term action plans and programs of structural institutional and market reforms have occurred under polarization of the Eurozone countries into “rich” and “poor. Disagreements also remain between the leading EMU partners, France and Germany, regarding the content and approaches to the structural reforms proposed by the European Commission. Brexit further complicates the implementation of the projects of the European EMU, including the creation of the Capital Markets Union.

The future of the European Union is subject to shocks of uncertainty and largely depends on the ability of the EU authorities to implement EMU reform programs, to build relations between the EU member states, as well as with Great Britain after its exit from the EU.

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