

European Central Bank ' s Liquidity Measures Avert Major Credit Crunch in Europe

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- Series of measures – including rate cuts and lending – undertaken ahead of 230 billion euros in bank bonds due in the near future
- European Central Bank is not yet satisfied with health of banking sector
- The theme of the 42nd World Economic Forum [Annual Meeting](#) is The Great Transformation: Shaping New Models. For more information, visit <http://wef.ch/Davos>

Davos-Klosters, Switzerland, 27 January 2012 – The European Central Bank (ECB) said today that a series of measures it took in the last two months helped avert a major funding crisis for banks in Europe, but stopped short of saying the worst is over.

Mario Draghi, President of the European Central Bank, told a plenary session of the World Economic Forum Annual Meeting 2012 that, about two months ago, the Central Bank was aware that the first quarter of 2012 would be an extraordinarily taxing period for the banking system. This was because some 230 billion euros in bank bonds would soon be due, in addition to the funding needs of several sovereign states.

At the same time, liquidity pressures in the banking system were exacerbated by the drying up of the inter-bank market as risk-averse banks held back from lending. Anticipating the coming crunch, the ECB implemented a series of measures, including cutting its interest rates twice, launching three-year Long-term Refinancing Operation (LTRO) loans and revising eligibility rules for collaterals. As a result, around half a trillion euros were injected into the system but, after netting off the reimbursement of short-term facilities, a net amount of about 220 billion euros roughly matched the bank loans that were coming due.

“ So we know for sure we have avoided a major, major credit crunch – a major funding crisis, ” Draghi underlined.

Asked if he was satisfied with the health of European banks after all that was done, he replied: “ Satisfied is probably too big a word. ”

Draghi also noted that banks that have implemented the raft of recommendations introduced by the Financial Stability Board in the aftermath of the collapse of Lehman Brothers are better able to withstand the current crisis than those that did not, as reflected in their credit spreads.

In the last four years, the markets have also gained a better appreciation of the different sovereign risks, using spreads as the “ most potent engine ” to force governments to undertake reforms, he said.

With record participation of over 2,600 leaders from government, academia, business and civil society, the theme of this year ' s Annual Meeting is [The Great Transformation: Shaping New Models](#).

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