Figure 1.8. Public Support to Ease Financial Stress

Extraordinary public intervention has helped reduce financial market turmoil. As a result, balance sheets of central banks have expanded considerably, and governments have incurred significant actual and contingent expenditures.

Financial Stress Indicators 1
- G7 coordinates rate cuts; ECB announces full allotment tenders and expands list of eligible collateral
- ECB announces purchases of 60 billion euros in covered bonds
- ECB announces one-year refinancing operations
- BoE, Fed, and SNB start bond purchases; BoE expands purchases; BoE sets target rate at 50 basis points

United Kingdom → Germany → United States

U.S. announces TALF and purchase of GSE debt and MBS

Evolution of Central Bank Balance Sheets 2
(index, June 2007 = 100)

Support for Financial and Other Sectors and Up-Front Financing Need
(as of June 2009, in percent of 2008 GDP)

Sources: Horton, Kumar, and Mauro (2009), Table 4; and IMF staff calculations.

1 Financial stress indicators consist of seven financial market variables, including the beta of banking stocks, the TED spread, the slope of the yield curve, corporate bond spreads, stock market returns, stock market volatility, and exchange rate volatility. BoE: Bank of England; BoJ: Bank of Japan; ECB: European Central Bank; Fed: Federal Reserve; GSE: government-sponsored enterprises; MBS: mortgage-backed securities; SNB: Swiss National Bank; TALF: Term Asset-Backed Securities Loan Facility.

2 AUS: Australia; CAN: Canada; EUR: Euro area; JPN: Japan; KOR: Korea; NOR: Norway; SWE: Sweden; CHE: Switzerland; GBR: United Kingdom; USA: United States; ARG: Argentina; BRA: Brazil; CHN: China; HUN: Hungary; IND: India; IDN: Indonesia; POL: Poland; RUS: Russia; SAU: Saudi Arabia; TUR: Turkey.