EUROPEAN CENTRAL BANK

EUROSYSTEM

The ECB's monetary policy during the coronavirus crisis – necessary, suitable and proportionate

Petersberger Sommerdialog,
27 June 2020

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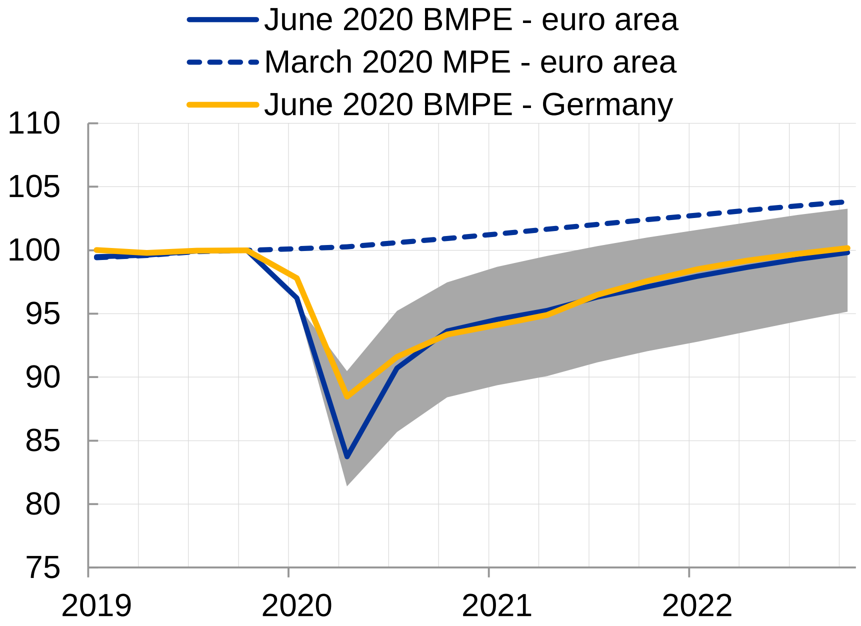
Member of the ECB Executive Board

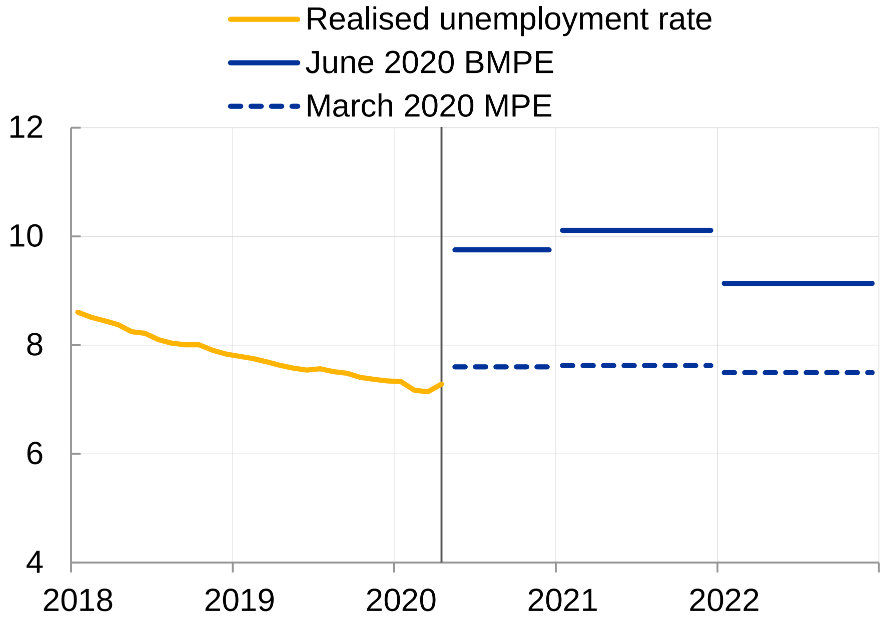
Severe economic downturn with medium-term consequences

Current Eurosystem projections

Real gross domestic product (index: 2019Q4=100)



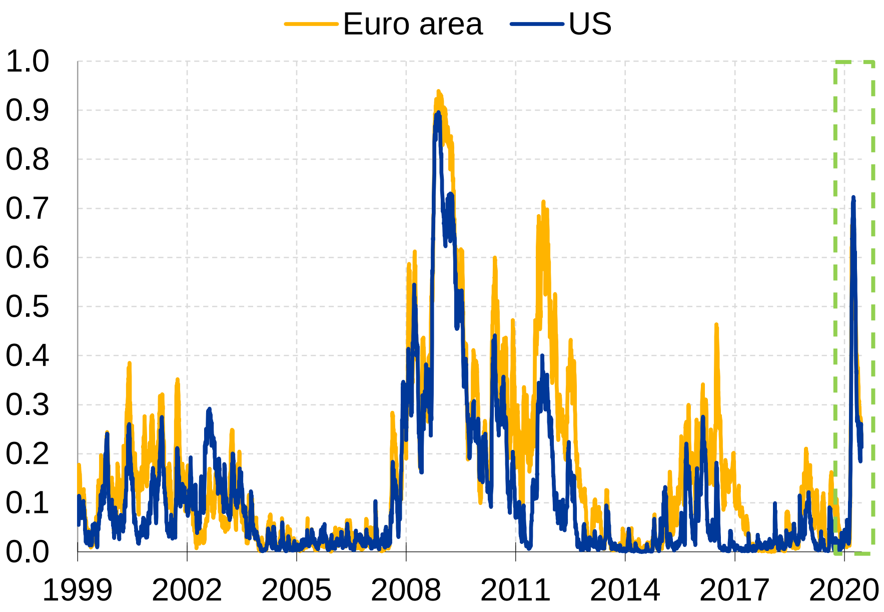
Unemployment rate in the euro area (%)

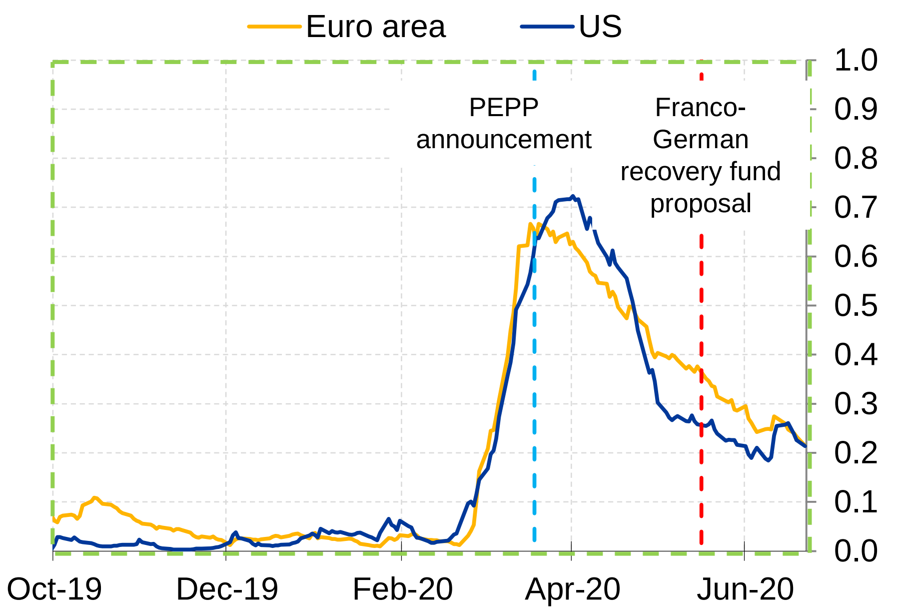


Source: ECB.
Note: (B)MPE = (Broad) Macroeconomic Projection Exercise.
The area shaded in grey shows the range of estimates covering a mild to a severe evolution of the crisis.

Monetary policy crisis measures may have prevented a severe financial crisis

Indicator of systemic stress in financial markets (CISS)





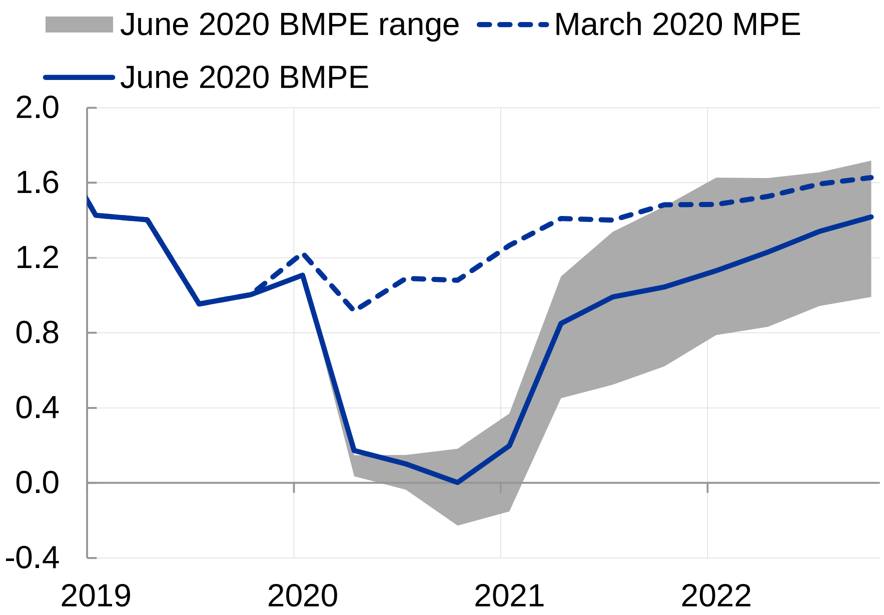
Source: ECB Working Paper No 1426. Note: CISS stands for Composite Indicator of Systemic Stress (0 = no stress,1 = high stress). The indicator aggregates stress signals from money, bond, equity and foreign exchange markets.
Last observation: 22/06/2020.

Marked weakening of inflation over the medium term

Current Eurosystem projections

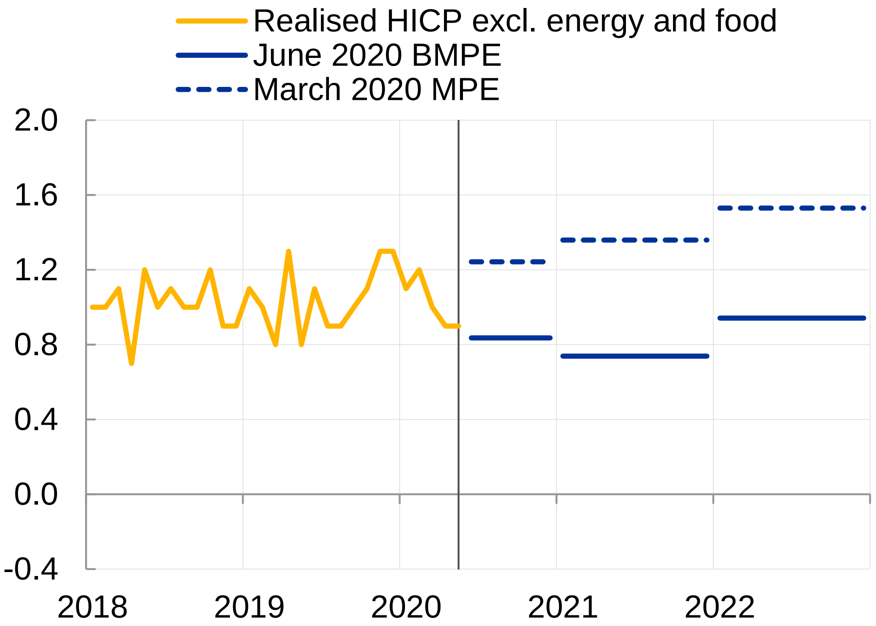
Inflation rate

(annual rate of increase HICP, in %)



Core inflation rate

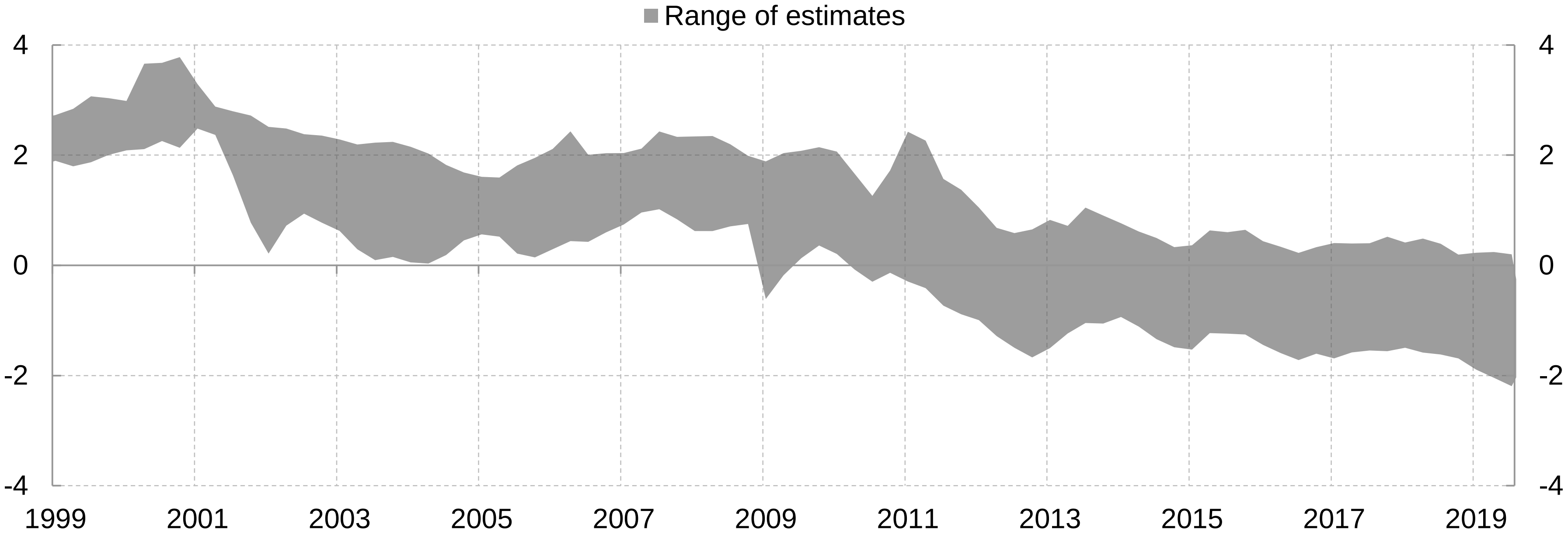
(annual rate of increase HICP excl. energy and food, in %)



Source: ECB. Notes: (B)MPE = (Broad) Macroeconomic Projection Exercise.
The area shaded in grey shows the range of estimates covering a mild to a severe evolution of the crisis.

Declining real equilibrium rate in the euro area makes unconventional monetary policy a suitable instrument

Model-based estimates of the real equilibrium rate in the euro area



Source: “The natural rate of interest: estimates, drivers, and challenges to monetary policy”, ECB Occasional Paper, No 217. Updates: Ajevskis (2018), Brand, Goy, Lemke (2020), Brand, Mazelis (2019), Fiorentini, Galesi, Pérez-Quirós, Sentana (2018), Holston, Laubach, Williams (2017), Jarocinski (2017).

Note: The area of the estimates includes point estimates from several models and therefore reflects model uncertainty, but no other source of uncertainty.

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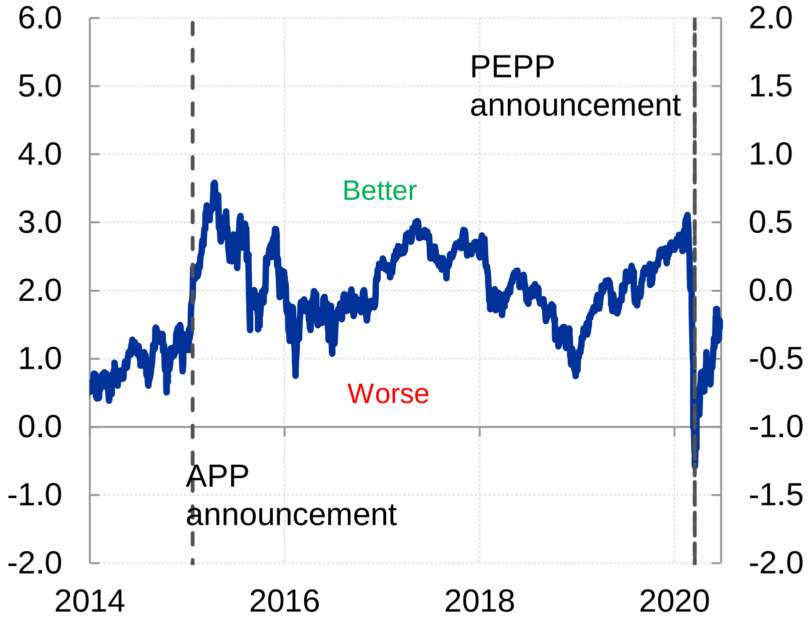
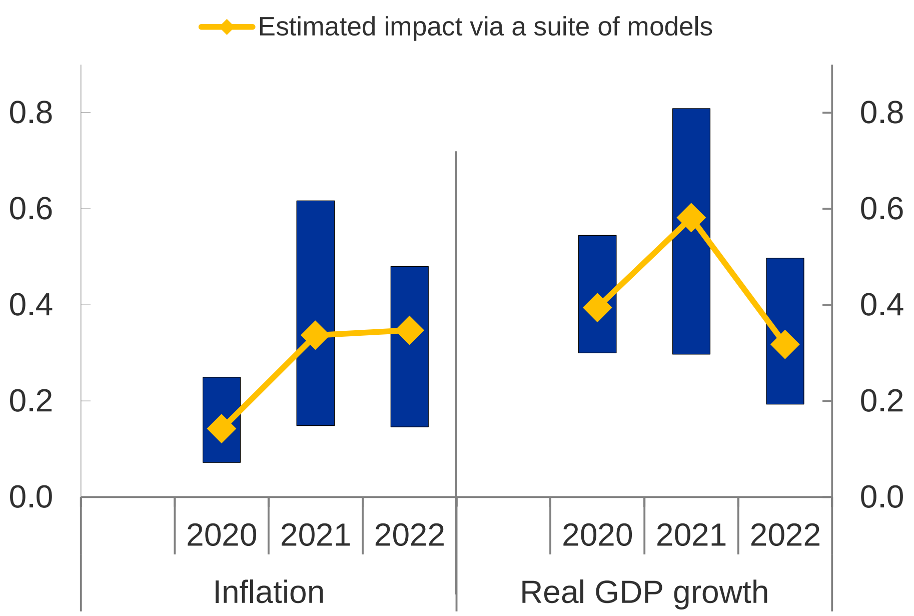
Markedly positive estimated effects of monetary policy measures on financing conditions, inflation and economic growth

Financing conditions in the euro area (index)



Sources: Refinitiv and ECB calculations. Notes: Weighted average of the1-year OIS, 10-year OIS, effective exchange rate of the euro versus 38 other currencies and the Euro STOXX. The weightings were determined based on an impulse response in inflation as part of a VAR. Last observation: 23 June 2020.

Estimated impact of the monetary policy measures taken since March 2020



Source: ECB. Notes: The chart shows the average of estimates from various models. The measures include the PEPP, the TLTRO III and the increase in the APP of €120 billion.

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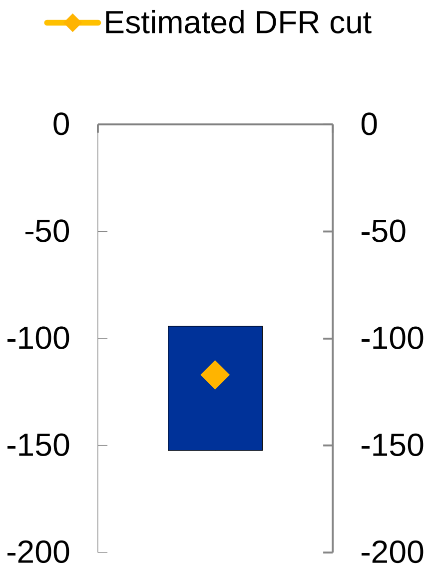
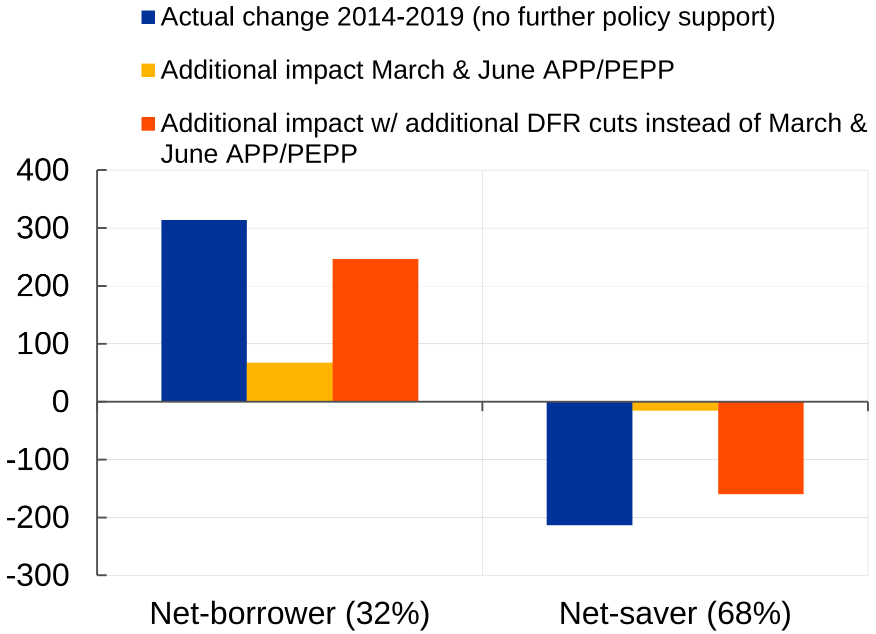
More negative policy rates would have significantly increased the distributional effects on savers and borrowers

Asset purchases vs. lowering key rates: required estimated rate change



Source: ECB. Notes: The graph shows the reduction in the key interest rate on banks' overnight deposits that would have been necessary to have the same effect on inflation as bond purchases under the APP/PEPP of €1.47 trillion. The blue area shows the range of estimates from various models. The yellow diamond shows the median.

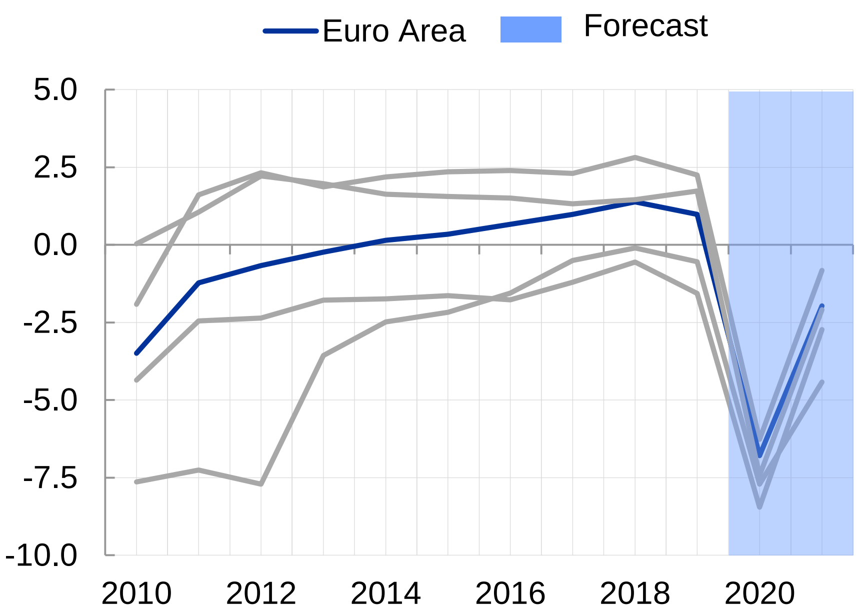
Estimated change in annual interest income and payments (euro per household)



Source: Dossche, Hartwig and Pierluigi (2020), mimeo. Note: Net borrowers = households with negative financial wealth; net savers = households with positive net financial wealth. Percentages on the horizontal axis refer to the share of these households in the total number of households.

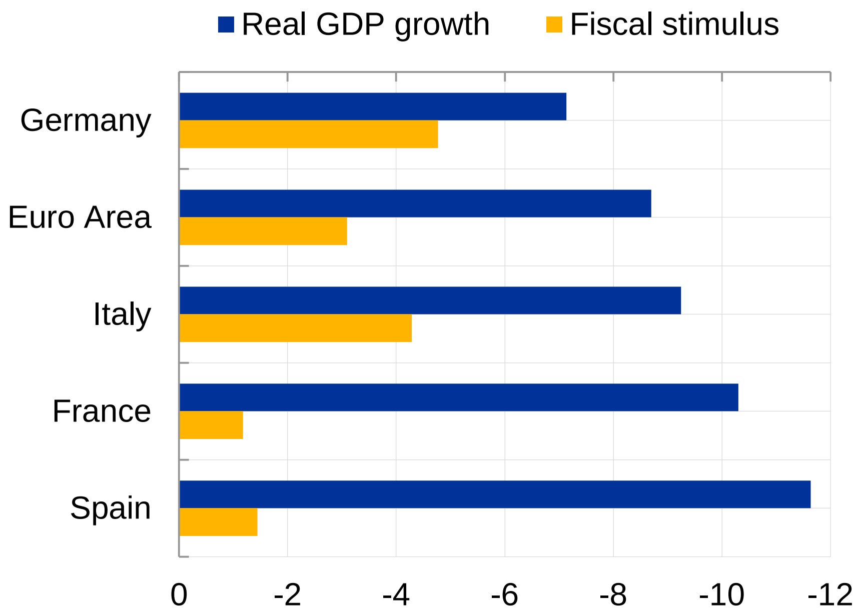
No indication of reduced budgetary discipline due to bond purchases

Primary budget balances



Source: European Commission AMECO database.
Notes: Budget surpluses and deficits before taking into account interest payments. The grey lines show Germany, France, Italy and Spain.
Last observation : AMECO May 2020.

Economic growth and fiscal stimulus in 2020



Sources: ESCB calculation June 2020 BMPE and European Commission AMECO database.
Notes: Real growth refers to the June Eurosystem projections. Fiscal stimulus is calculated from the change in the primary budget balance, adjusted for the growth cycle. AMECO figures do not take into account the latest announcements on fiscal policy programmes.

Thank you for your attention