



EUROPEAN CENTRAL BANK

EUROSYSTEM

Frank Smets
European Central Bank

ECB monetary policy since June 2014

Panel discussion

Bank of Canada conference on
“Unconventional Monetary Policies:
A Small Open Economy
Perspective”

The views expressed are my own and not necessarily those of the ECB.

Overall strategy

Reductions in **main policy rates** counteract downside risks to price stability

Non-standard measures complement/substitute reductions in main policy rate in the presence of...

...impairments in monetary policy transmission mechanism

...limited room for further loosening (close to effective lower bound)

The ECB's 2014-16 measures: overview

		Jun. 2014	Sep. 2014	Jan. 2015	Dec. 2015	Mar. 2016
	Negative rates	MRO: 0.15%; MLF: 0.40%; DRF: -0.10%	MRO: 0.05%; MLF: 0.30%; DRF: -0.20%		MRO: 0.05%; MLF: 0.30%; DRF: -0.30%	MRO: 0.00%; MLF: 0.25%; DRF: -0.40%
	TLTRO I & II	Fixed rate (MRO) Max. maturity: Sep. 2018 Uptake depends on net lending Mandatory early repayment				Fixed rate At MRO or below if lending > benchmark (<i>min.</i> <i>DFR</i>) No mandatory early repayment
APP	Private asset purchases		Broad portfolio of simple & transparent ABS and CBs		APP recalibration	Purchase of inv.- grade NFC bonds ... with high pass- through to real economy
	Public asset purchases			Purchases of EA sovereign bonds €60bn of monthly purchases <i>"until end- September 2016 and in any case until we see a sustained adjustment in the path of inflation which is consistent with our aim of achieving inflation rates below, but close to, 2% over the medium term."</i>	<ul style="list-style-type: none"> Adjusted date-based leg (to Mar. 2017) Reinvestment of principal payments 	APP recalibration <ul style="list-style-type: none"> €80bn monthly purchases Higher issue share limit for certain issuers

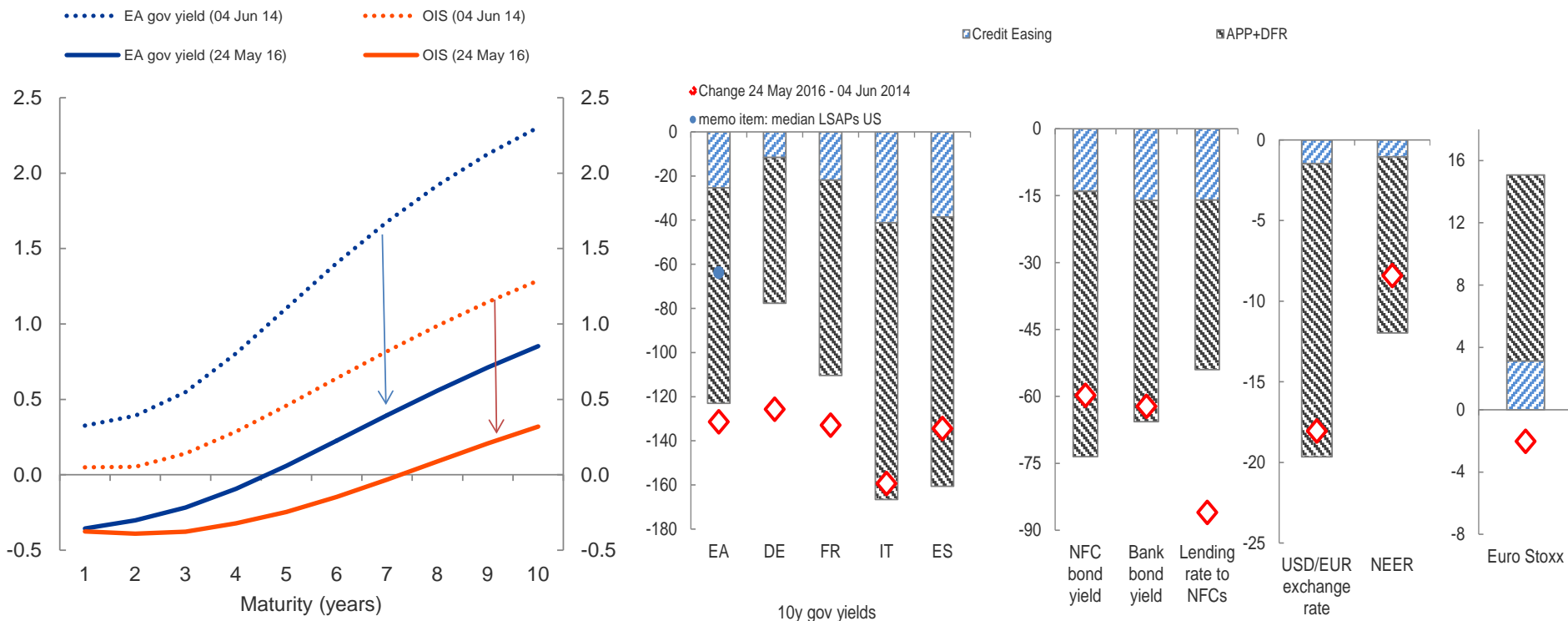
Impact of policy measures on financial conditions

Financial market prices		Change since 04 June 2014	Unit	Measures of fragmentation		Change since 04 June 2014	Unit	
Euro exchange rate	NEER	-8.0	%	Cross country dispersion	NFC lending rates	-170	bp	
	USD	-17.7	%		Remuneration of bank deposits	-77	bp	
Euro area stock prices	Overall	-4.1	%	Spread of NFC lending rates between vulnerable and other countries	small	-119	bp	
	Financials	-14.4	%		medium	-102	bp	
	Non-financials	2.4	%		large	-78	bp	
10-year sovereign bond yields	EA	-130	bp	Quarterly average net easing of euro area bank credit standards (BLS)	NFC loans	5	net %	
	Germany	-126	bp		Quarterly average net increase in loan demand (BLS)	NFC loans	14	net %
	France	-133	bp	Improvements in the access to finance of enterprises (SAFE)		Financing obstacles for SMEs	-1	% of resp.
	Italy	-153	bp			Bank loans availability to SMEs	11	net %
	Spain	-130	bp	Bank overdrafts availability to SMEs	15	net %		
EONIA	3m in 1y	-28	bp					
Bond yields (private sector)	NFC	-59	bp					
	Bank	-61	bp					
Bank lending rates	to NFCs	-89	bp					
	to households	-81	bp					

Note: daily data, except for economic variables, SAFE, and BLS; figures on SAFE refer to periods Apr2015-Sep2015 and Oct2013-Mar2014, i.e. latest data available now and around June 2014 cut-off date; BLS refers to the average of the net percentages reported from the July 2014 to the April 2016 survey rounds; dispersion displays min-max range after trimming off two extreme values; net % refers to difference between percentage of banks reporting a tightening (easing) and an easing (tightening).

Term structure, yields and financial prices since 4 June 2014

(exchange rates and Eurostoxx in percent; else in basis points)



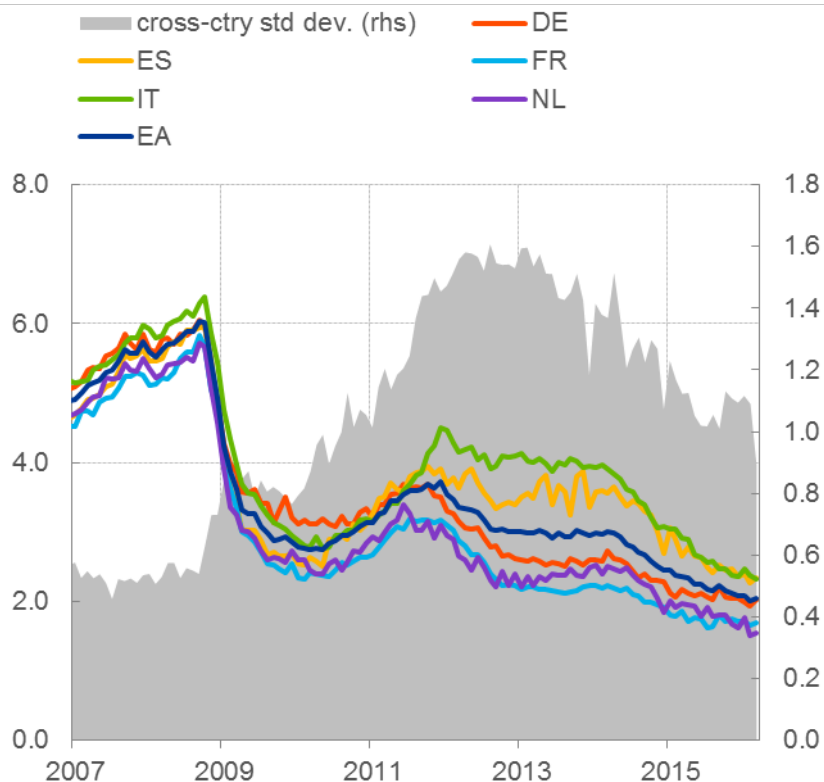
Sources: Bloomberg, ECB, ECB calculations.

Notes: The impact of credit easing is estimated on the basis of an event-study methodology which focuses on the announcement effects of the June-September 2014 package; see the EB article "The transmission of the ECB's recent non-standard monetary policy measures" (Issue 7 / 2015). The impact of the DFR cut rests on the announcement effects of the September 2014 DFR cut. APP encompasses the effects of both January 2015 and December 2015 measures. The January 2015 APP impact is estimated on the basis of two event-studies exercises by considering a broad set of events that, starting from September 2014, have affected market expectations about the programme; see Altavilla, Carboni, and Motto (2015) "Asset purchase programmes and financial markets: lessons from the euro area" ECB WP No 1864, and De Santis (2015) mimeo. The quantification of the impact of the December 2015 policy package on asset prices rests on a broad-based assessment comprising event studies and model-based counterfactual exercises.

Latest observation: 24 May 2016.

Impairments in transmission and Summer 2014 measures

Bank lending rates by country (percentages per annum)

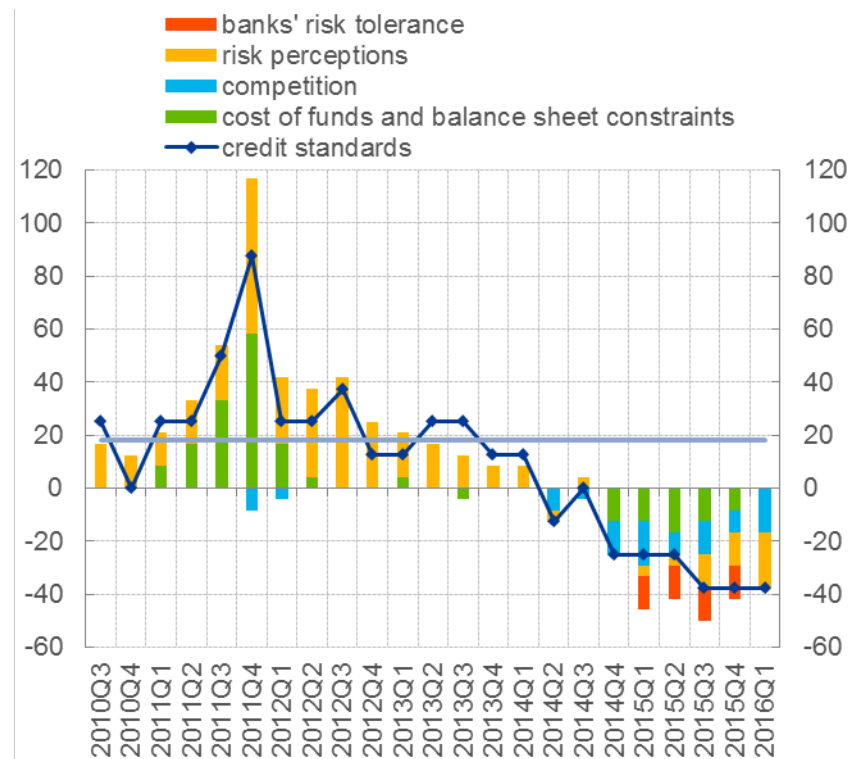


Source: ECB.

Notes: The composite indicator of the cost of borrowing is calculated by aggregating short- and long-term rates using a 24-month moving average of new business volumes. The cross-country standard deviation is calculated over a fixed sample of 12 euro area countries.

Latest observation: March 2016.

Credit standards on loans to NFCs in Italy and contributing factors (average net percentages per category)



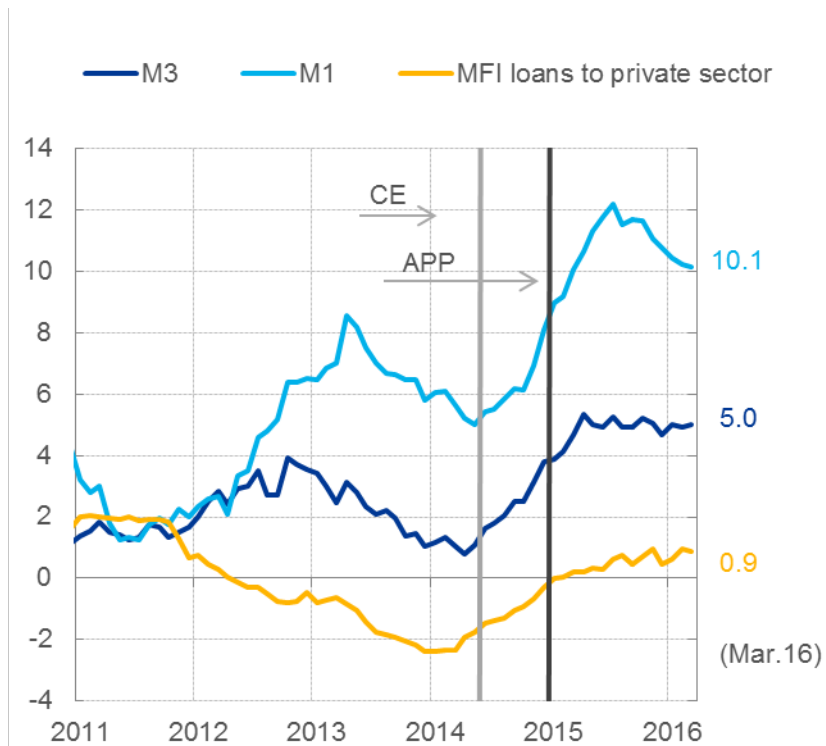
Source: ECB (BLS).

Notes: "Cost of funds and balance sheet constraints" as unweighted average of "cost related to capital position", "access to market financing" and "liquidity position"; "Risk perception" as unweighted average of "general economic situation and outlook", "industry or firm-specific situation and outlook/borrower's creditworthiness" and "risk on collateral demanded"; Competition as "bank competition", "non-bank competition" and "competition from market financing". "Risk tolerance" introduced in 2015Q1. The historical average is calculated since the beginning of the survey and excludes the most recent round.

Latest observation 2016Q1.

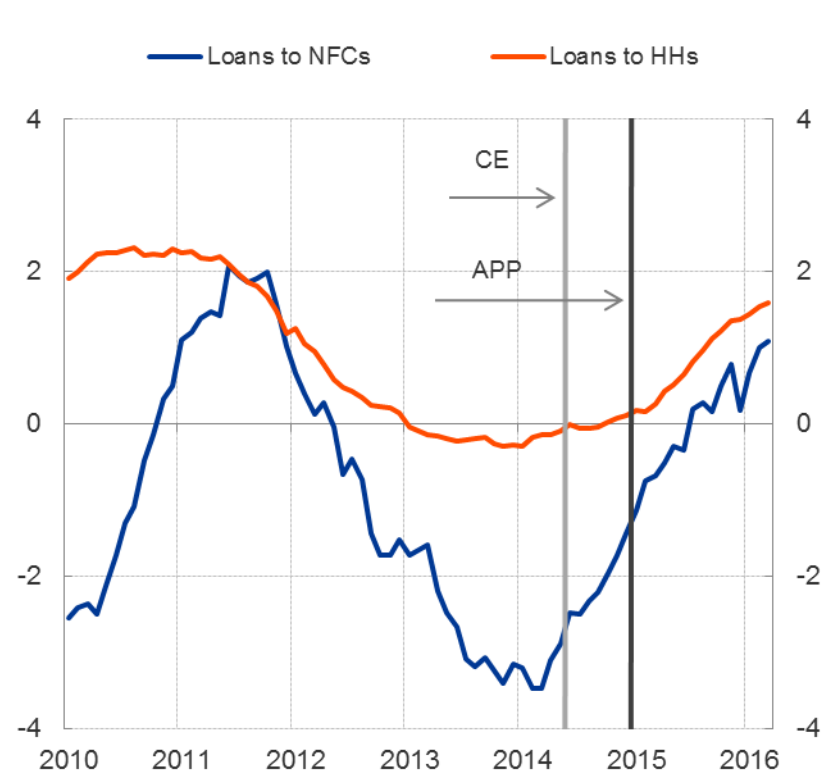
Money and loan developments

M3, M1 and loans to the private sector (annual percentage changes)



Source: ECB.
Latest observation: March 2016.

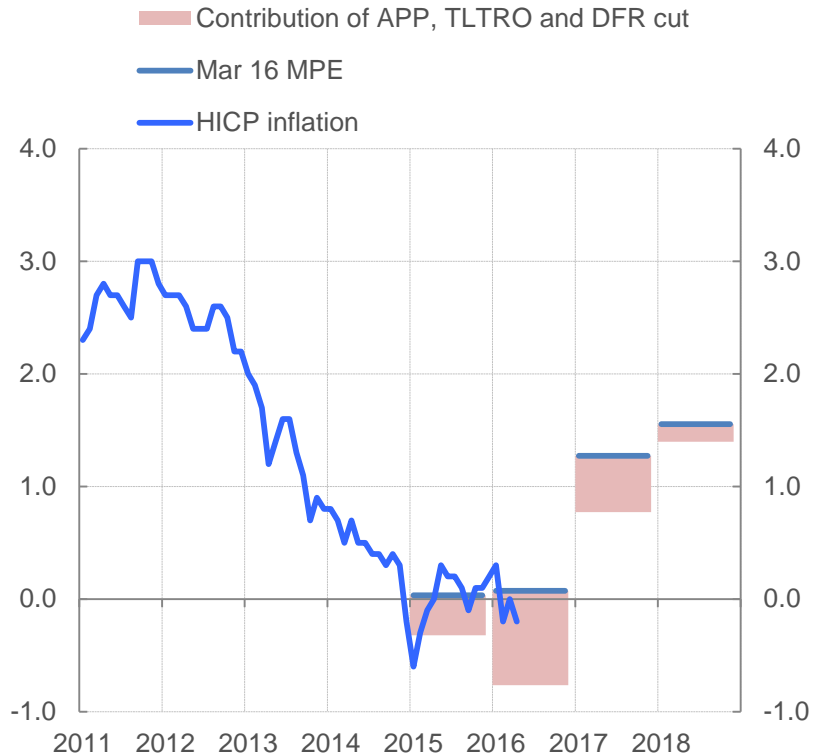
MFI loans to the non-financial private sector (annual percentage changes)



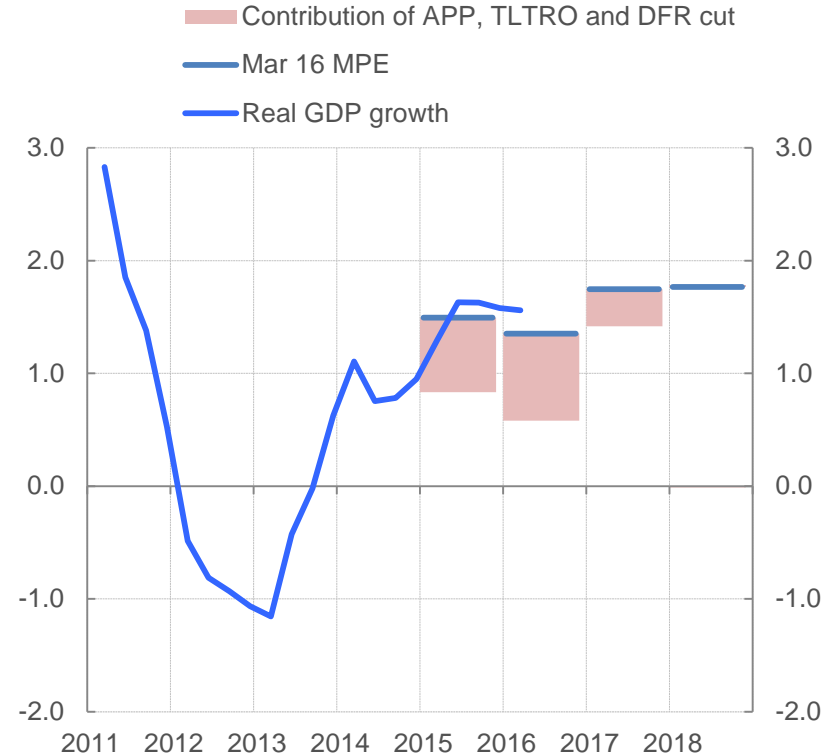
Source: ECB.
Notes: Data are adjusted for sales and securitisation.
Latest observation: March 2016.

Impact on inflation and activity

HICP Inflation, inflation projections and AAP/DFR/TLTRO contribution (y-o-y percent change)



GDP growth, growth projections and APP/DFR/TLTRO contribution (y-o-y percent change)



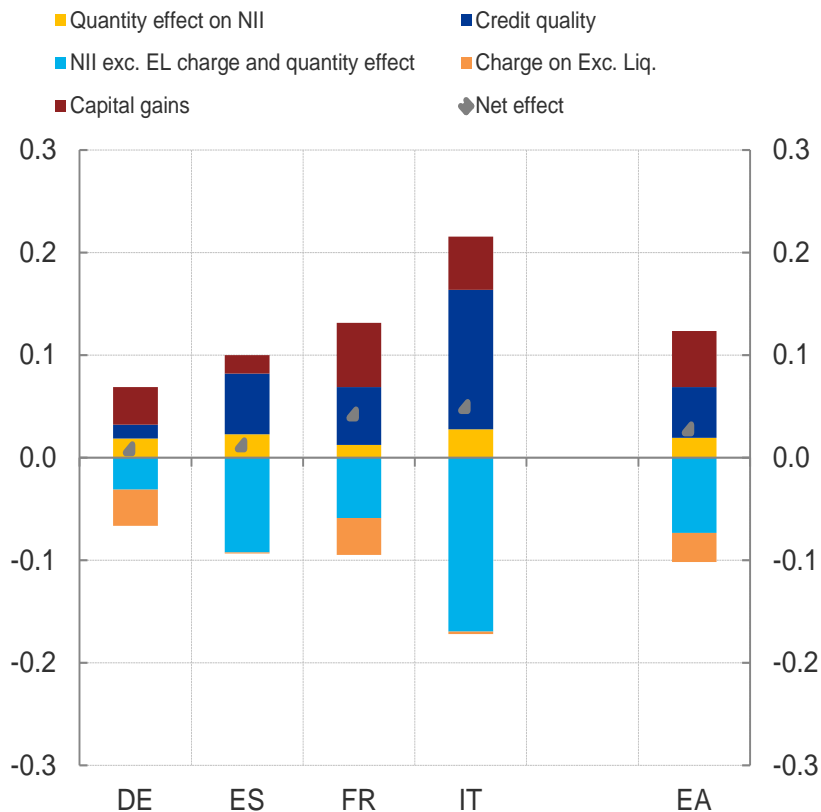
Sources: ECB calculations, SAPI taskforce, March 2016 MPC.

Notes: The contribution of APP, TLTRO and DFR cut does not include the impact of the measures taken at the March 2016 Governing Council.

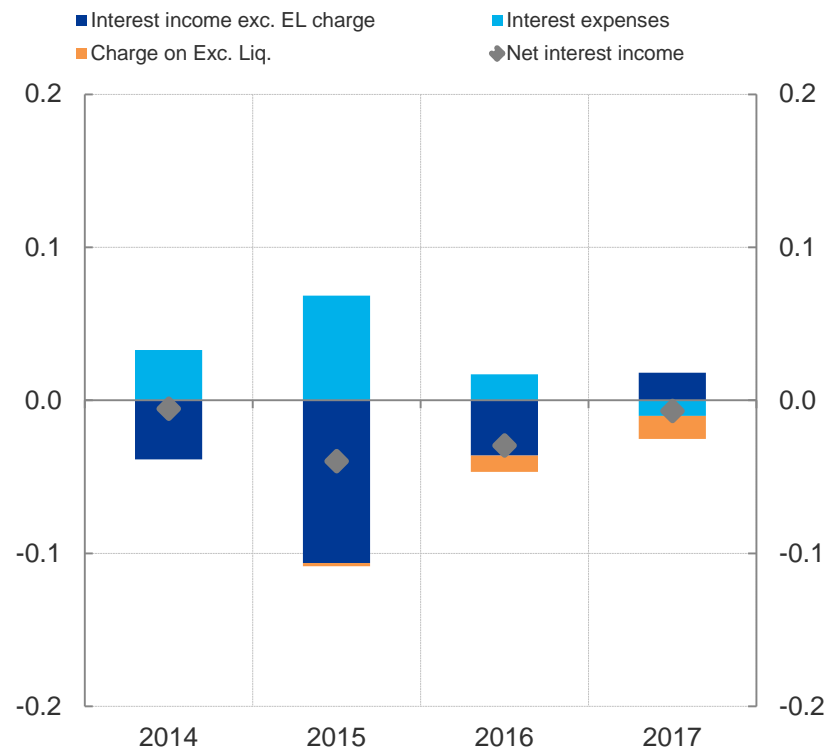
Latest observation: April 2016 for HICP inflation and 2016 Q1 for real GDP growth.

Overall impact of policy on bank profitability limited at euro area level

Bank profitability and monetary policy: 2014-2017 (contribution to ROA, percentage points)



Net interest income and monetary policy: 2014-2017 (contribution to ROA, percentage points)



Source: EBA, ECB and ECB estimates.

Notes: Deviation from no policy action scenario. Capital gains based on data on a consolidated basis for 68 euro area banking groups under direct ECB supervision and included in the 2014 EU-wide stress test. Euro area figures calculated as the weighted average for the countries included in the sample using Consolidated Banking Data (CBD) information on the weight of each country's banking system on the euro area aggregate. Effect on net interest income based on aggregate BSI data and obtained by simulation of the interest income and interest expenses based on estimates of the effect of APP on bond yields, lending and deposit rates, excess liquidity and economic growth taking into account BMPE projections for interest rates and credit quantities. Effect on credit quality based on the median of estimates obtained from a suite of empirical studies.