

Firms, productivity dispersion and sectoral shocks

Monetary policy in a heterogeneous currency area

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The Traditional Euro Area Challenge

One Monetary Policy, Many Economies- Standard Optimum Currency Area (OCA) concern

The ECB sets a single interest rate for all euro-area members. Countries experience different business cycles. Asymmetric shocks reduce the effectiveness of monetary policy.

Example:

Germany may require tighter policy.

Italy or Spain may require looser policy.

Traditional framework

Country heterogeneity -> Different economic conditions -> Uneven monetary-policy effects

A bit beyond

Is the key source of asymmetry really countries, or rather is it becoming the sectors that compose them?



Lesson from Paper 1: Sectoral Exposure Matters

Energy Shock as a Natural Experiment - Main findings

Energy-intensive sectors suffered much larger losses. Effects depended on:

Energy intensity

Position in supply chains

Ability to pass costs to prices

Input-output linkages amplified the shock.

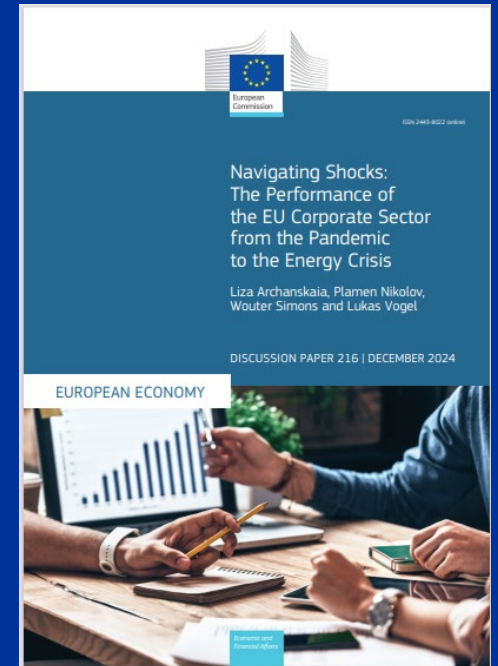
Key insight

Shocks affect sectors differently before they affect countries.

Sectoral shock -> Sector-specific impact -> Propagation through production networks -> Country-level outcomes

Monetary-policy analogy

Replace energy intensity with financial dependence. Credit-intensive sectors should react more strongly to ECB rate changes.



Lesson from Paper 2: Inflation as a Sectoral Process

Inflation Does Not Originate Everywhere Equally European Commission findings:

Inflation drivers evolved over time:

- 2021–2022: Import prices
- 2022–2023: Profits
- 2023–2024: Wages

Important sectoral contributors

- Energy sector
- Real estate sector
- Labour-intensive services

Key insight

Different inflation sources imply different monetary-policy effectiveness.

Implication

The effectiveness of monetary policy depends on the composition of inflation.



Developing the analogy to monetary policy

From Countries to Sectors - Monetary policy affects sectors through:

Interest-rate sensitivity, Debt exposure, Bank-credit dependence, Housing exposure, Position in production networks

Transmission chain

ECB rate change -> Sectoral response -> Production-network spillovers -> Inflation and output -> Country outcomes

Key hypothesis

Countries react differently because they specialize in different sectors.

Examples: Germany → manufacturing, Spain → tourism and housing, Ireland → multinational services , Baltic countries → specific export sectors



Main conclusions

Can One Interest Rate Fit Many Sectors? Combined lesson from both papers

Shocks are sector-specific.

Inflation is sector-specific.

Monetary-policy transmission is likely sector-specific too.

New interpretation of euro-area asymmetries

One interest rate for many countries vs one interest rate for many sectors.

Estimate sectoral monetary exposure using: Debt-to-value-added ratios, Credit dependence, Variable-rate borrowing, Refinancing needs, Input-output linkages

May the effectiveness of ECB monetary policy depend less nowadays on national borders and more on sectoral specialization ?



Thank you

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