



OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Recent Developments and Outlook for the Euro Area Economy

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Moderate recovery in the euro area

	2012	2013	2014	2015
	<i>annual percentage changes</i>			
Real GDP	-0.6	-0.4	1.1	1.5
Private consumption	-1.4	-0.6	0.7	1.2
Government consumption	-0.6	0.1	0.3	0.4
Investment	-3.8	-3.0	1.6	2.8
Exports	2.7	1.1	3.7	4.8
Imports	-0.8	-0.1	3.5	4.7
HICP	2.5	1.4	1.1	1.3
Unemployment rate (in %)	11.4	12.1	12.0	11.8
Employees	-0.7	-0.8	0.2	0.4
	<i>in % of GDP</i>			
Current account balance	1.4	2.0	2.2	2.6
General government budget balance	-3.7	-3.2	-2.6	-2.4

Source: Eurostat; Eurosystem, December 2013 Forecast.

• World economy

- Falling commodity prices until 2014
- World imports will accelerate sharply in 2014/15 ('13: +2.9%, '14:+5.0, '15:+5.7)

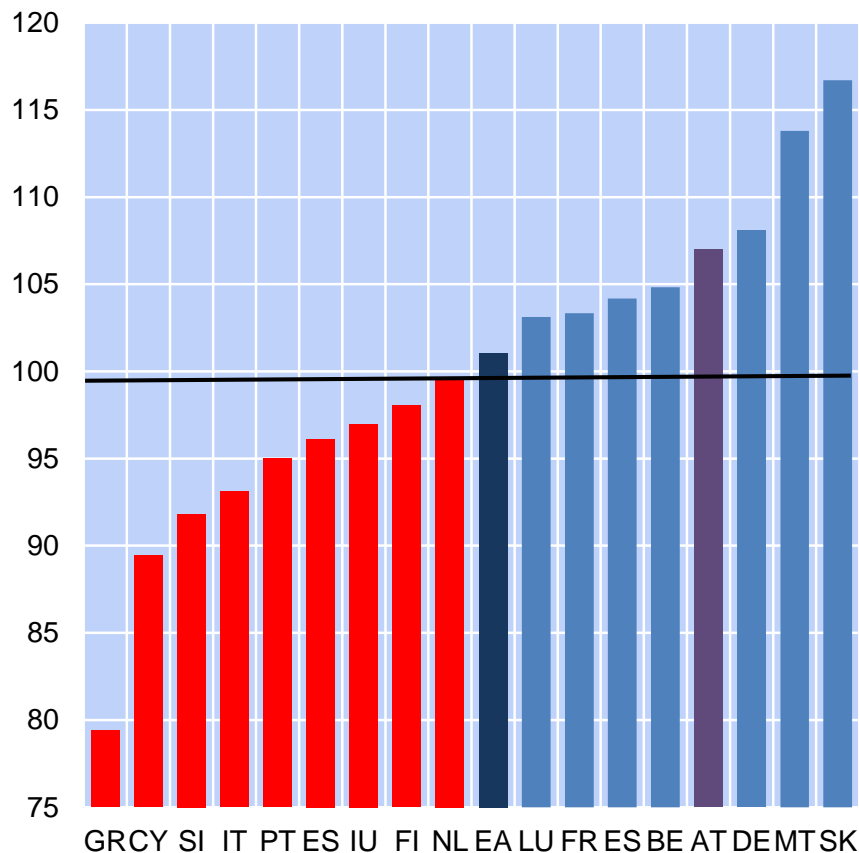
• Euro area

- Accommodative monetary policy
- Lower fiscal drag
- Fading of credit supply restrictions
- Some progress in macroeconomic rebalancing
- Improved sentiment

Euro area output will reach pre-crisis level in 2015 – unemployment rates stay above pre-crisis levels

Real GDP levels in 2015

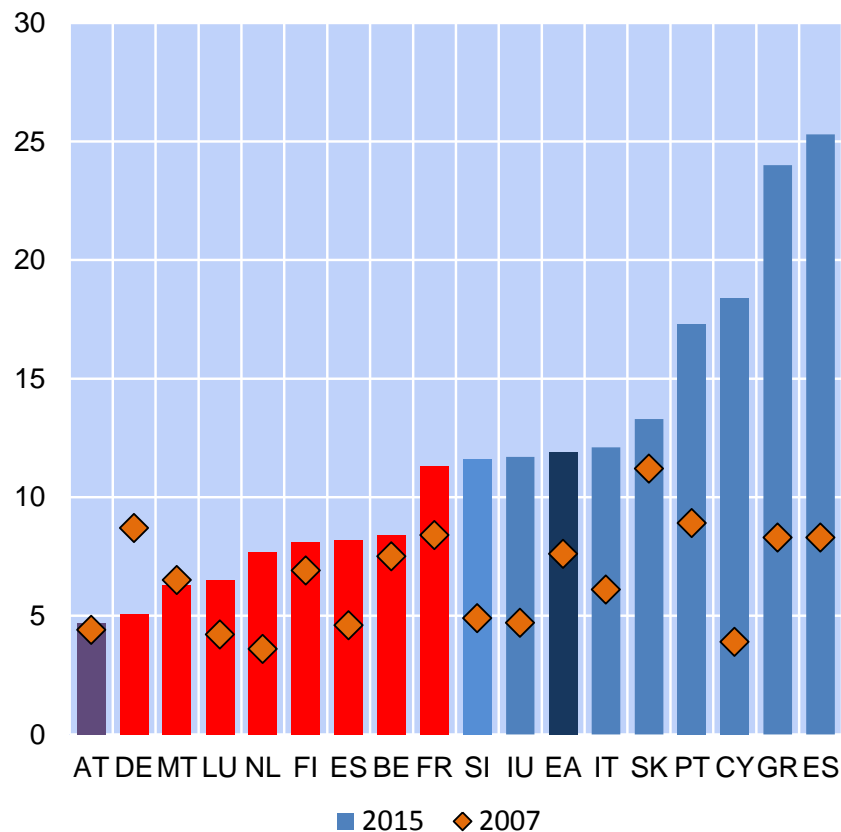
Index: 2007=100



Source: European Commission, Autumn 2013 Forecast

Unemployment rates in 2007 and 2015

in %

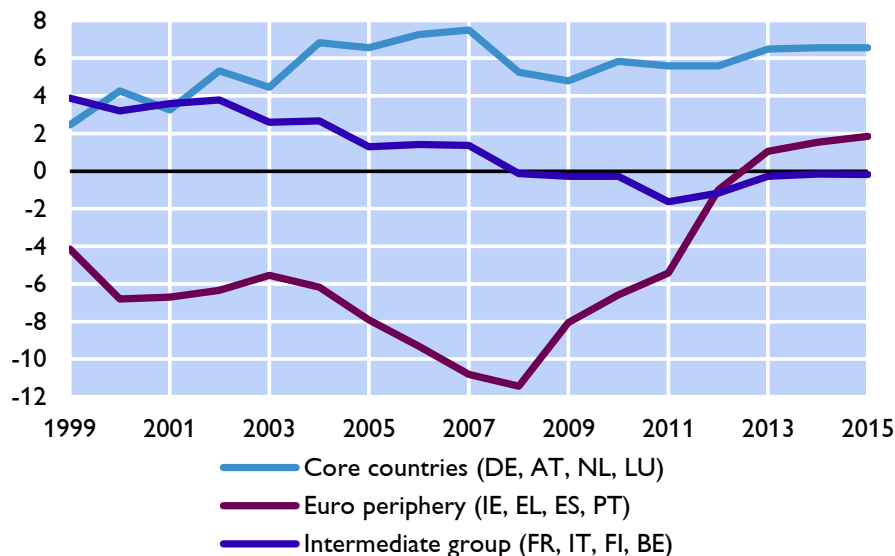


Source: European Commission, Autumn 2013 Forecast.

Ongoing progress in macroeconomic rebalancing

Current Account Rebalancing

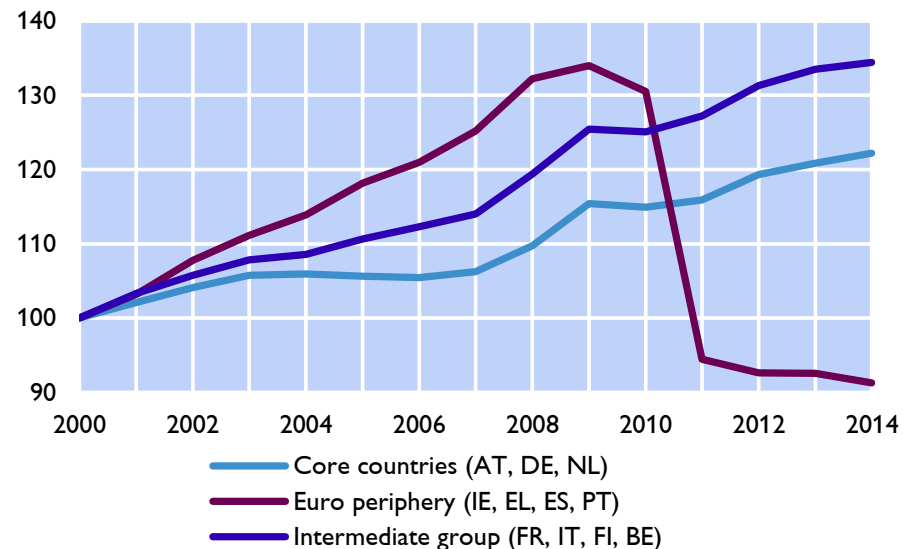
in % of GDP



Source: AMECO; European Commission, Autumn 2013 Forecast.

Unit Labor Costs Rebalancing

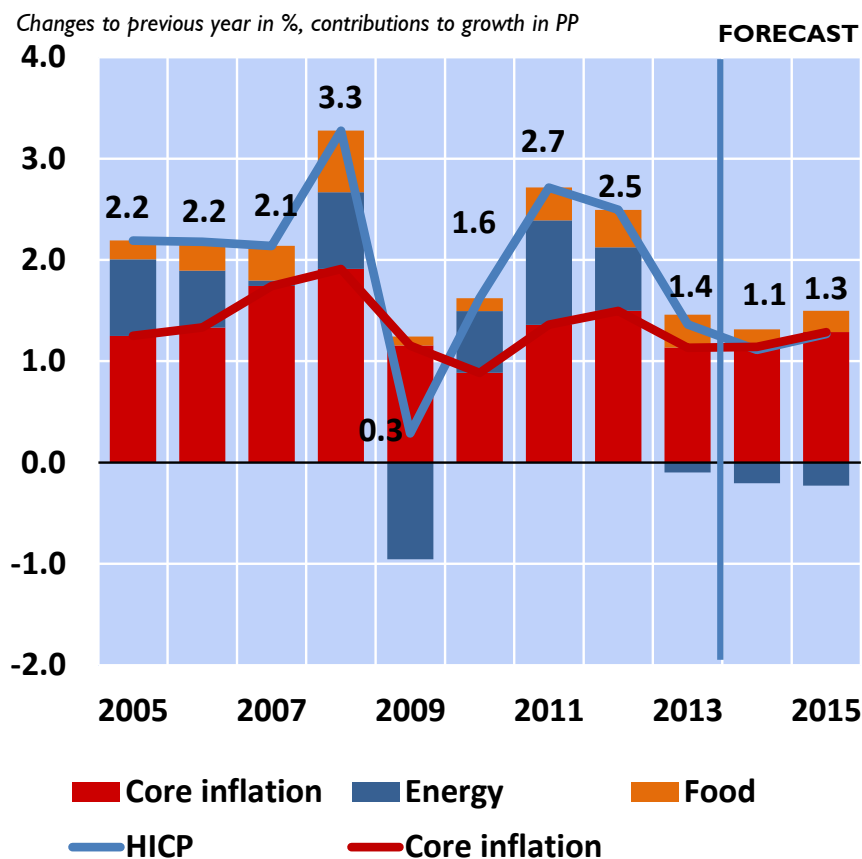
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Source: Eurostat; European Commission, Autumn 2013 Forecast.

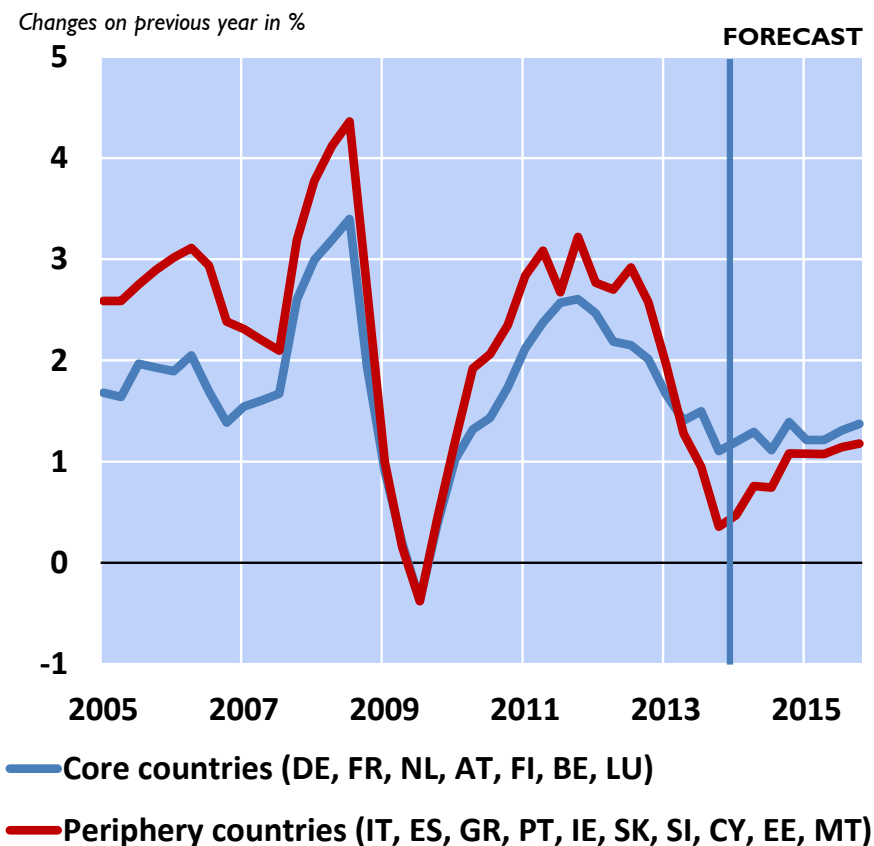
Disinflation comes to an end

Contributions to euro area HICP-Inflation



Source: Eurostat; Eurosystem, December 2013 Forecast.

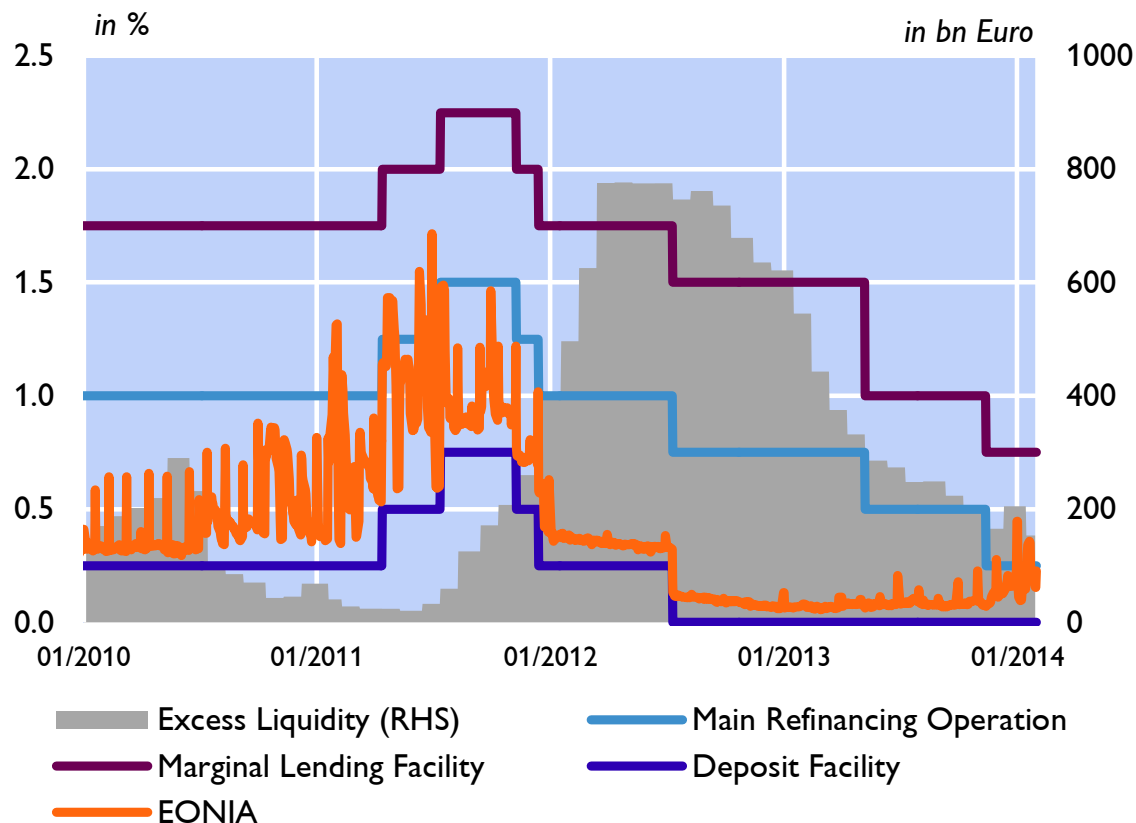
Inflation rates for country groups



Source: Eurostat; Eurosystem, December 2013 Forecast.

The Eurosystem's monetary policy is accommodative

Excess liquidity and the EONIA

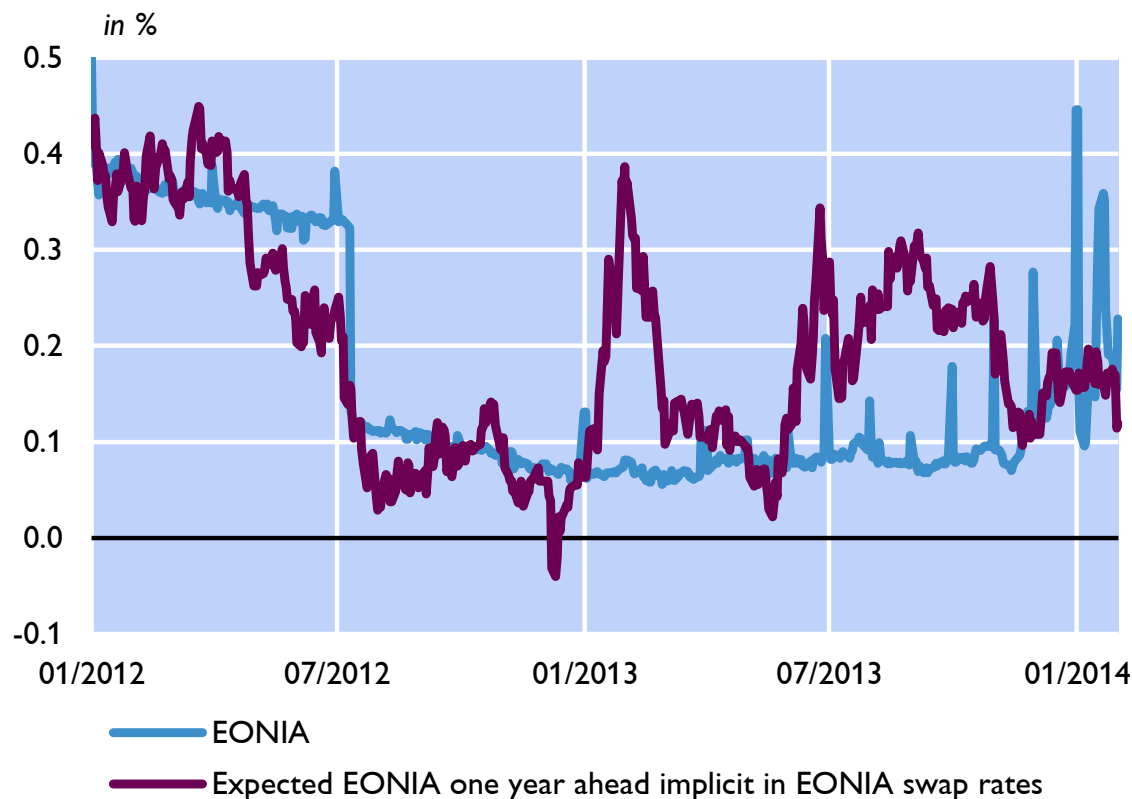


Source: ECB, Thomson Reuters.

- 1. Key interest rate** (on main refinancing operations) cut by 25 bp to 0.25% in November 2013
- 2. Forward guidance**
(“...that we continue to expect the key ECB interest rates to remain at present or lower levels for an extended period of time.”)
- 3. Monetary policy stance**
(“... we are monitoring developments closely and are ready to consider all available instruments.”)
- 4. “fixed-rate full allotment” extended until mid-2015**

Monetary policy successful in containing upward pressure on money market rates

Expected EONIA one year ahead

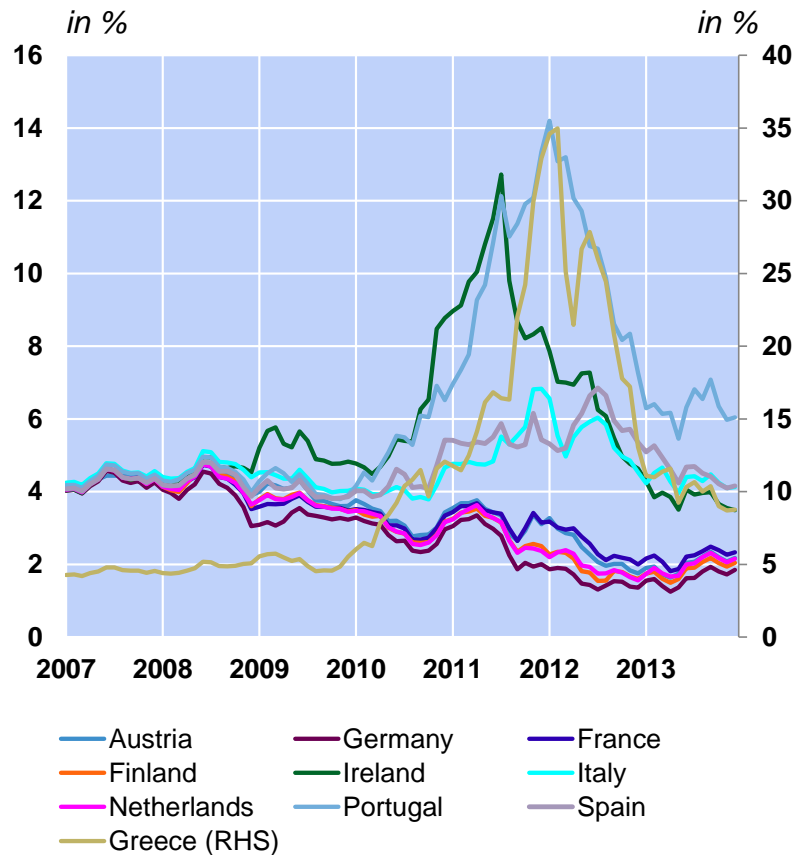


Source: Thomson Reuters.

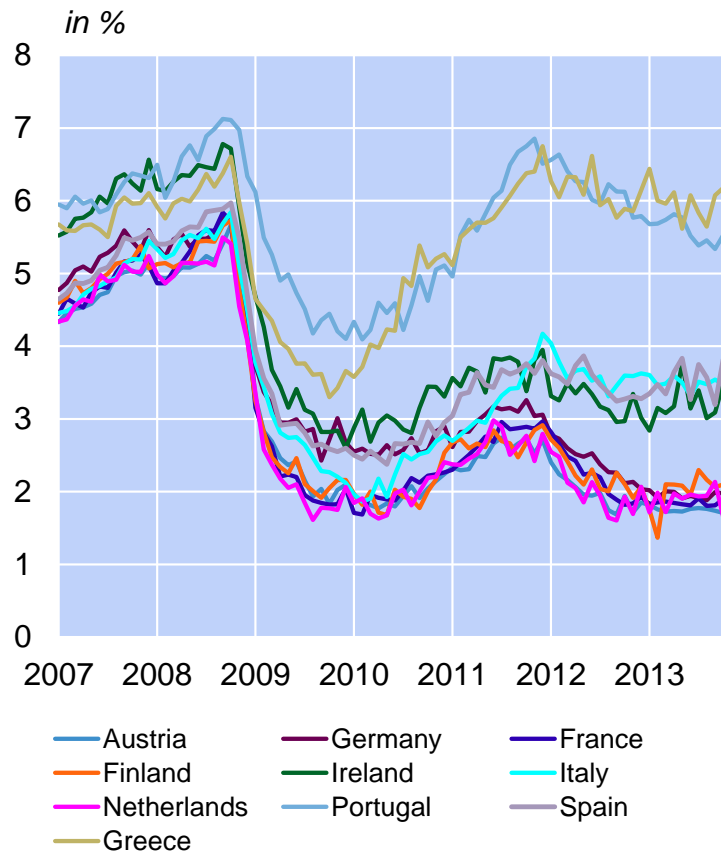
- **EONIA expectations** one-year-ahead fluctuated between 0.2% und 0.3% in the second half of 2013.
- Currently **interest rate expectations** are less volatile and below 0.2%.
- **The level of inflation** is very low (currently below 1%). Over the medium term, underlying price pressures are expected to remain subdued.
- **Comfort-zone for inflation** rates has shrunk considerably → monetary policy stands ready to react in the case of new shocks.

Financial markets in the euro area are still partly fragmented

Government bond yields



Retail interest rates for loans to small NFCs

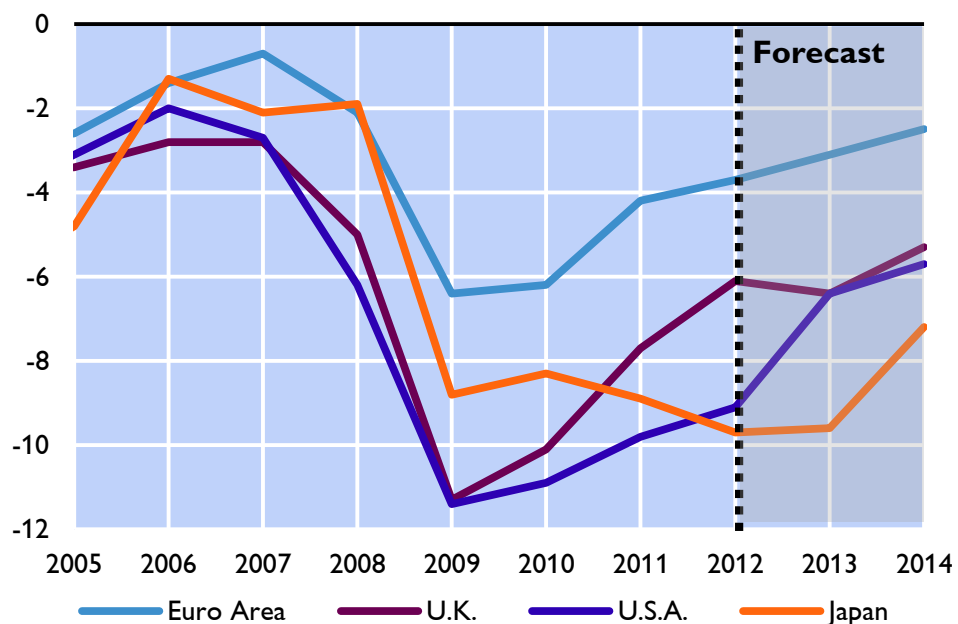


Source: Datastream, ECB.

High debt ratios necessitate fiscal adjustments

Budget Deficit

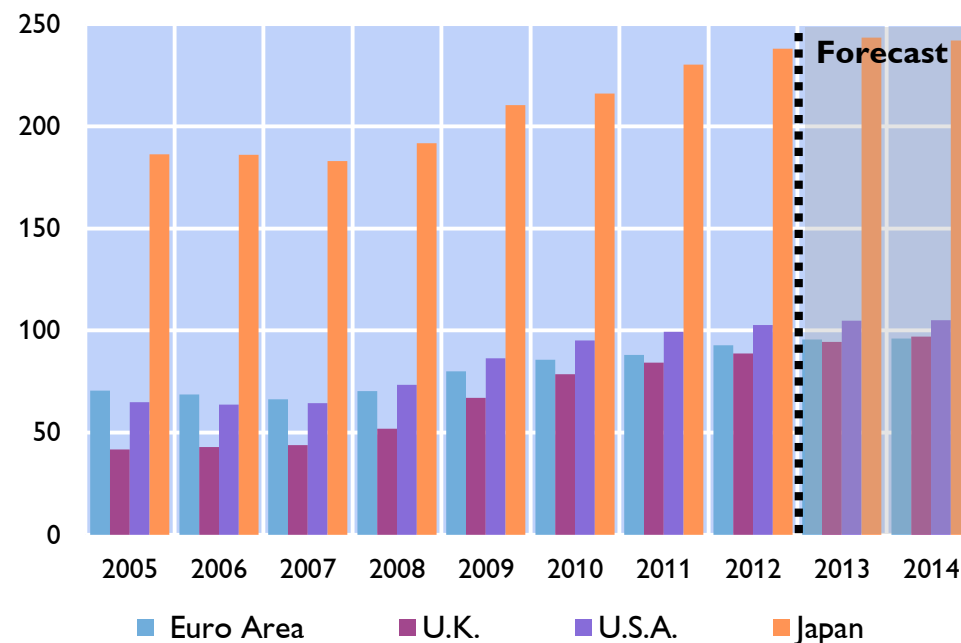
in % of GDP



Source: AMECO; European Commission, Autumn 2013 Forecast.

Debt Ratio

in % of GDP



Source: AMECO; European Commission, Autumn 2013 Forecast.

European Banking Union takes shape

Single Supervisory Mechanism ("SSM")

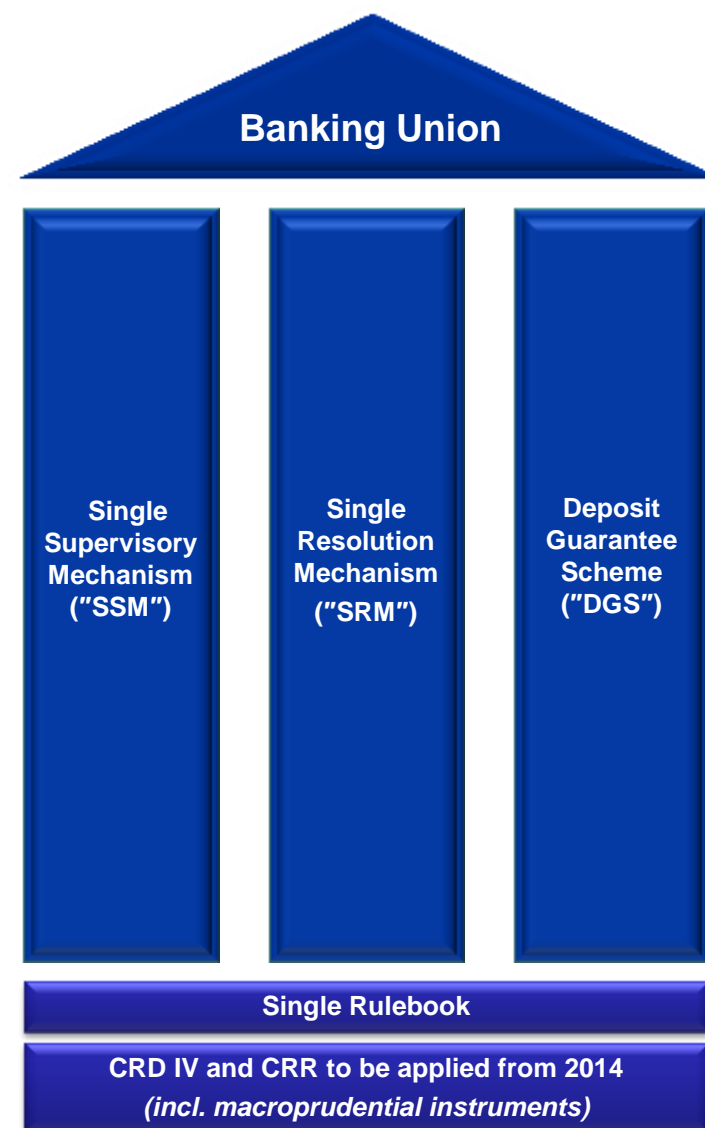
- ECB is the competent authority for banking supervision
- Differentiation between "significant" and "less significant" banks
- Consistent application of supervisory tools for crisis management within the SSM
- SSM to start in November 2014

Single Resolution Mechanism ("SRM")

- Implementation of a "Single Resolution Board"
- Establishment of resolution funds in member states financed by banks; goal: Single Resolution Fund
- "Preparatory" activities to start in 2015

Deposit Guarantee Scheme ("DGS")

- Further harmonization of national deposit guarantee schemes
- Uniform level of protection
- Ex-ante funding



Comprehensive assessment – The first big test of the SSM

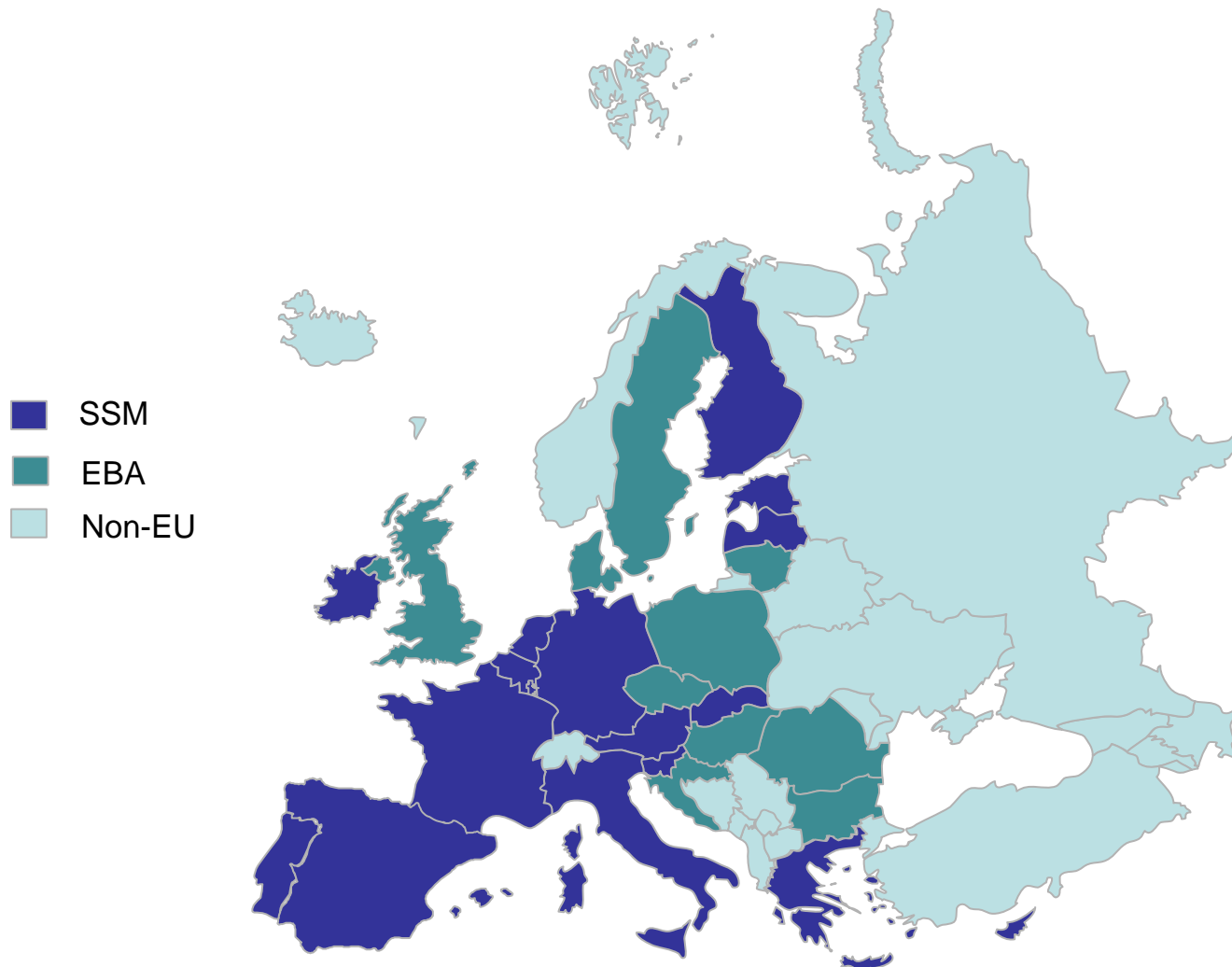
Three-step approach



Main challenges:

- Unprecedented scale of the exercise
(128 international active banks from 18 countries)
- Ensuring quality and consistency across all countries
- Tight time frame (12 months from November 2013 to November 2014)
- Backstops

SSM allows for consistent supervision – and intensifies coordination needs



Challenges

Different regimes challenge supervisory coordination

Euro area:

- **SSM requires strong coordination among ECB and national competent authorities (NCAs)**
- **SRM only applicable to SSM banks**

Non-euro area EU:

- **Some countries may opt into SSM**
- **All others continue to report to the European Banking Authority**

Non-EU:

- **Partial MoUs with NCAs but heterogeneous regulations**



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