



OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Economic and monetary policy issues in the euro area

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University Club New York, 11 October 2022

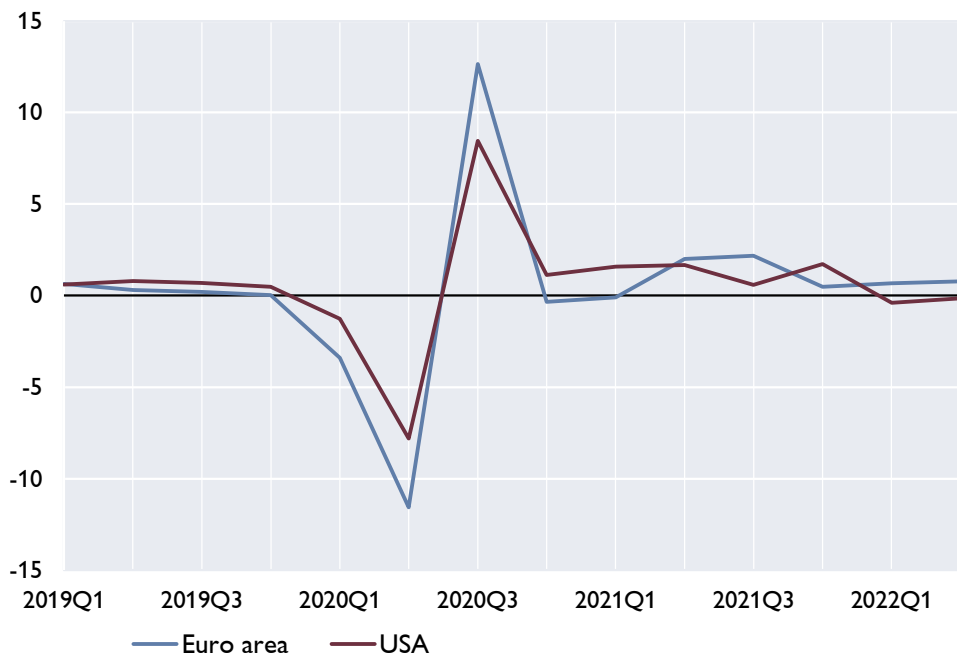
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Subdued growth in the euro area with inflation still on the rise

Real GDP growth in the euro area and the US

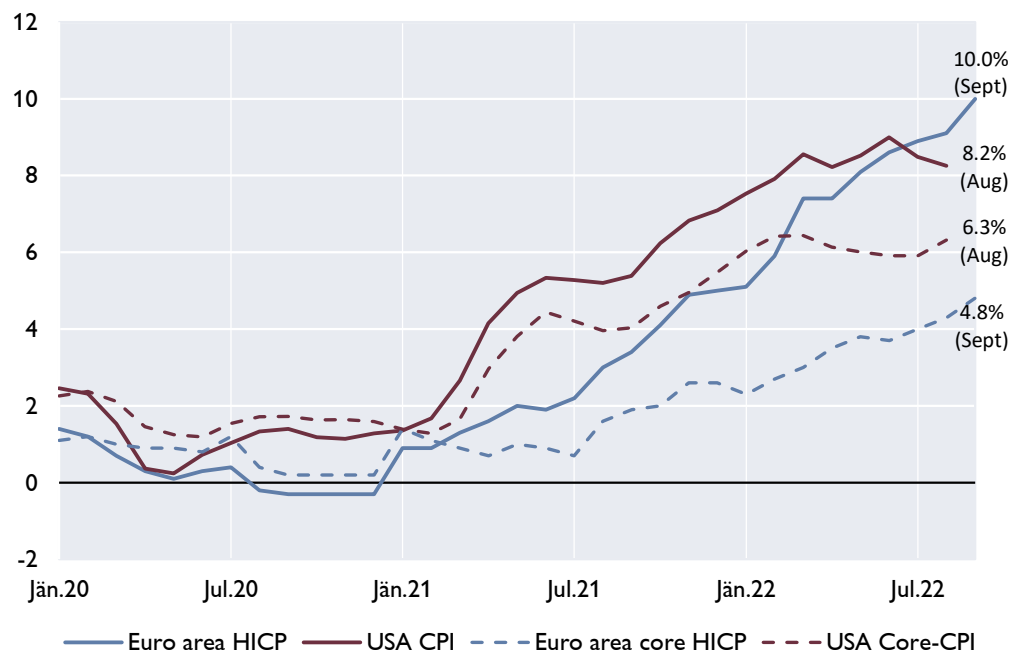
Quarterly growth rates in percent



Source: Eurostat, Bureau of Economic Analysis.

Consumer price inflation in the euro area and the US

annual percentage change

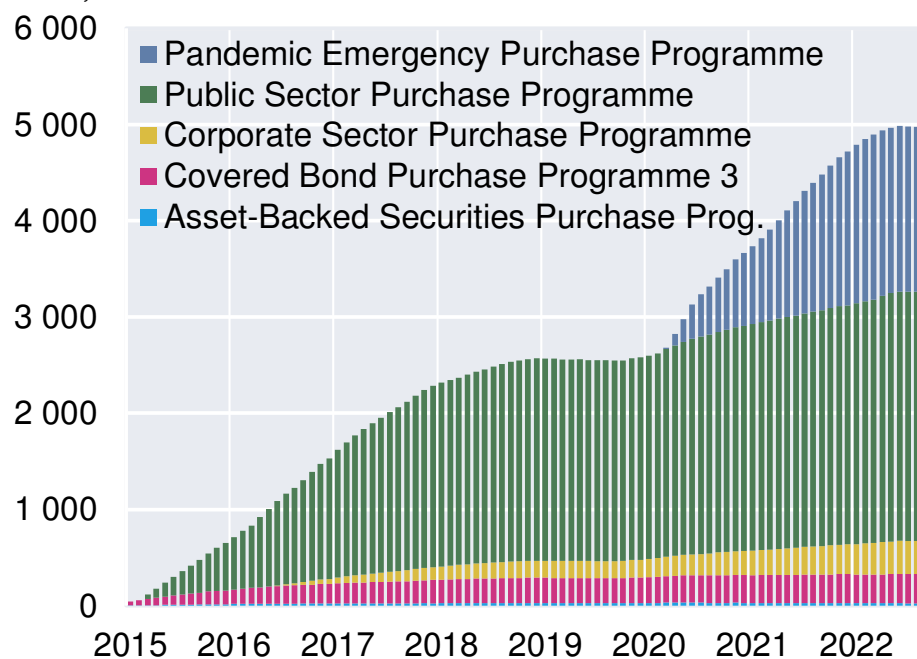


Source: Eurostat, Macrobond.

What happened so far or exiting the highly accommodative stance

Monetary policy purchase programmes

EUR, billion



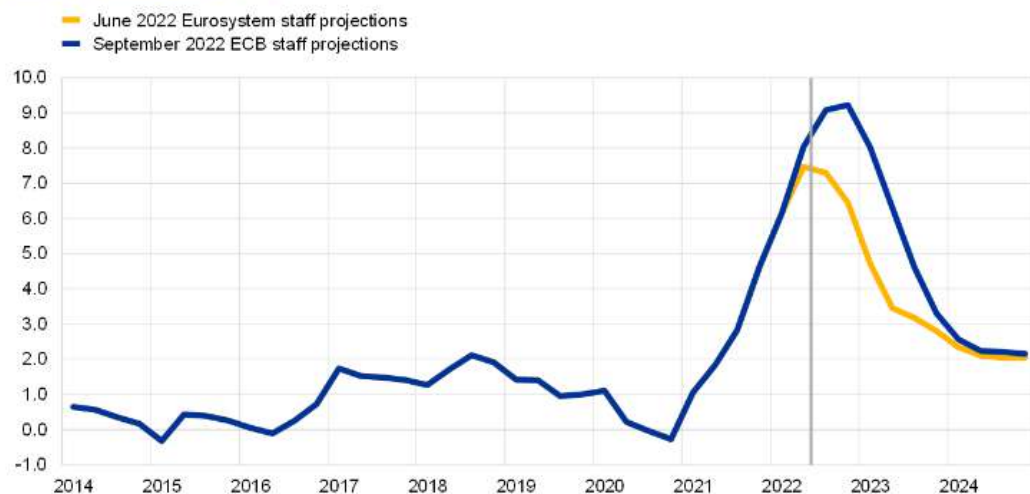
Source: ECB.

- In Q4/2021 the ECB Governing Council started to **lower the pace of net asset purchases under PEPP**
- **PEPP** net asset purchases **ended in March 2022**
- **APP** net asset purchases **ended in June 2022**
- The **three key policy interest rates** were raised in **two steps** (on July 21 and September 8, 2022) by a total of **125 basis points**
- The ECB Governing Council announced **further interest rate hikes**
- They will, however, continue to **be data-dependent** and follow a **meeting-by-meeting approach**

Inflation developments in the euro area and the inflationary outlook

Euro area HICP-inflation and outlook

(annual percentage changes)



Source: ECB staff macroeconomic projections for the euro area, September 2022.

Note: The vertical line indicates the start of the projection horizon in September 2022.

- **Inflation** in the euro area **remains far too high** and is likely to **stay above target** for an extended period of time
- Inflation projections (y-o-y):
2022: 8.1%; 2023: 5.5%; 2024: 2.3%
- The September-projections show a substantial **upward revision** relative to the June-projections (see Chart)
- The risks to the inflation outlook are primarily on the **upside**
- The Governing Council is determined to ensure a timely return of inflation to the **2% medium-term inflation target**

Risks to the inflation outlook are primarily on the upside

September 2022 baseline projections and downside scenario for the euro area

(annual percentage changes, unless otherwise indicated)

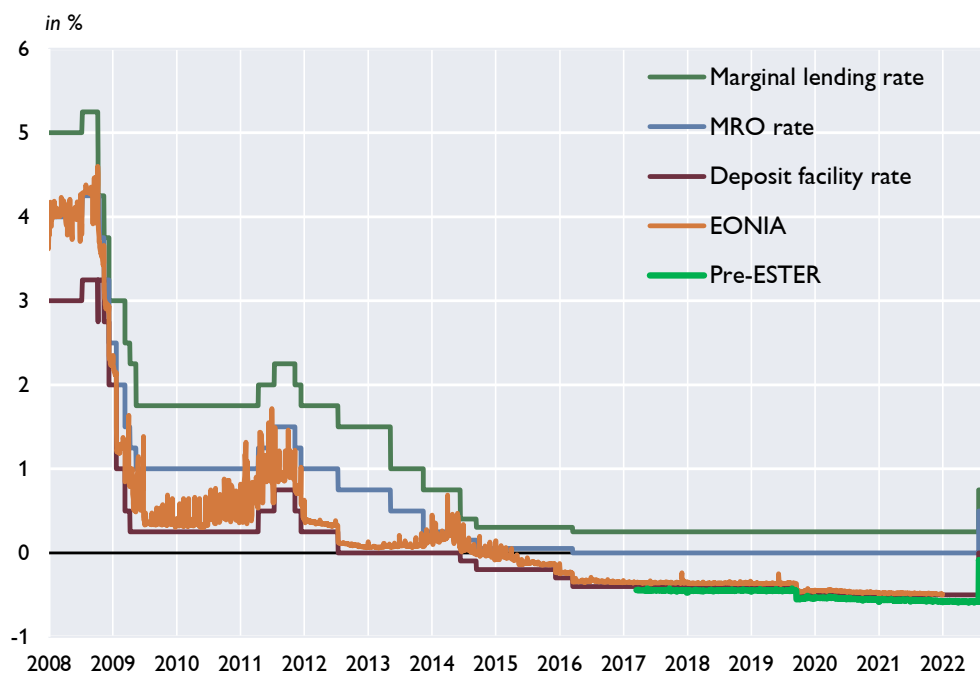
	September 2022 baseline projections		
	2022	2023	2024
Real GDP	3.1	0.9	1.9
HICP	8.1	5.5	2.3
HICP excluding energy and food	3.9	3.4	2.3
	Downside scenario		
	2022	2023	2024
Real GDP	2.8	-0.9	1.9
HICP	8.4	6.9	2.7
HICP excluding energy and food	3.9	3.5	2.4

Source: ECB staff macroeconomic projections for the euro area, September 2022.

- **Key risks to the euro area outlook:** possibility of more severe disruptions to European **energy supplies**, combined with a cold winter → further spikes in energy prices and more severe production cuts
- Moreover, protracted **second round effects** and **price-wage spirals** cannot be ruled out
- New waves of **protectionism** and **renationalization** of **production** could drive inflation upward as well
- **Labour shortage** can add to **inflationary pressures**
- On the other hand: a more pronounced **deterioration in economic activity** could **dampen inflation dynamics**

Where are monetary policy rates heading?

ECB key interest rates and money market rates



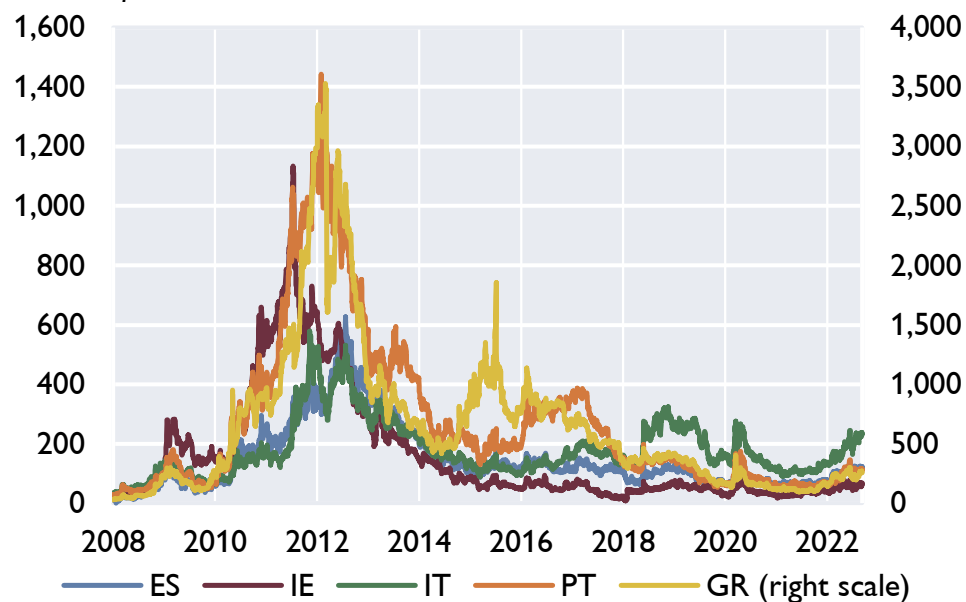
Source: ECB, Macrobond.

- The **prevailing level** of policy rates is still **accommodative**
- **Further** policy rate **increases** will **follow**
- **Estimates** of r^* **vary widely** and can only give **rough guidance** in actual policy decisions
- Consequently, the ECB Governing Council will judge about the appropriateness of policy rates on a **meeting-by-meeting basis**
- The **September-projections** are based on interest rate expectations applicable at the time: **3M-EURIBOR around 2% in 2023/24**
- Whether this will be the **terminal rate** depends on **cyclical factors**, as they will influence price dynamics, e.g. second round effects

The problem of fragmentation in times of monetary policy normalization

Spread of 10Y government bond yields vis-à-vis Germany

in basis points



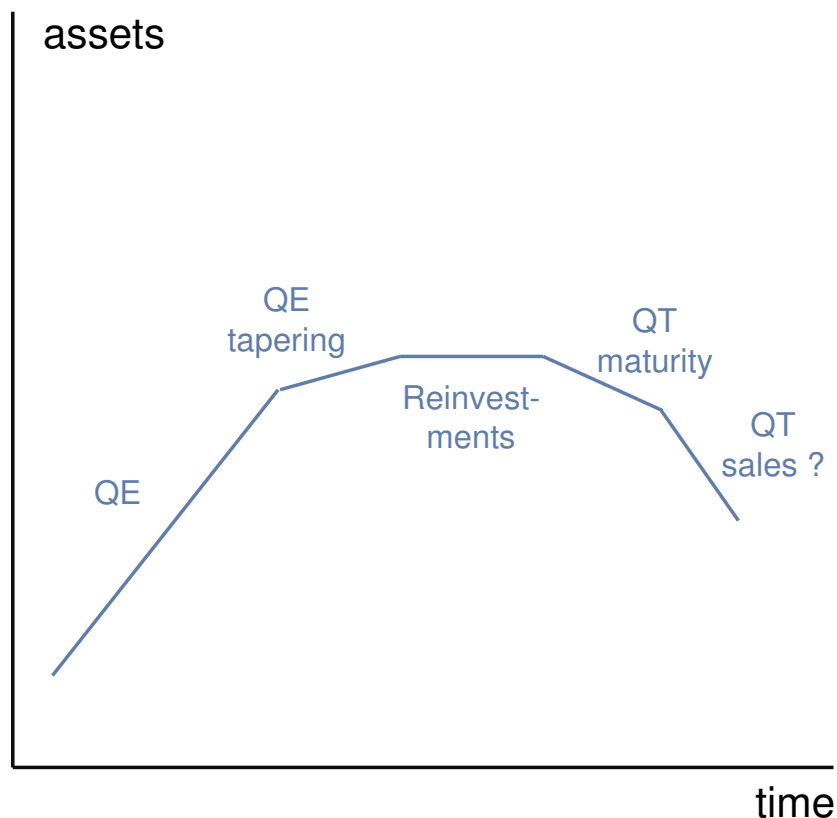
Source: Macrobond.

The process of **normalization** in **monetary policy** harbors **fragmentation risk** → unjustified and disorderly market dynamics, especially for (long-term) government bonds in the euro area → threat for the singleness of monetary policy

Transmission Protection Instrument: necessary to support the effective transmission of monetary policy

- **Criteria:** sound and sustainable fiscal and macroeconomic policies
- **Activation:** based on a comprehensive assessment of market and transmission indicators, decision taken by the ECB Governing Council
- **Size:** Purchases are not restricted ex ante

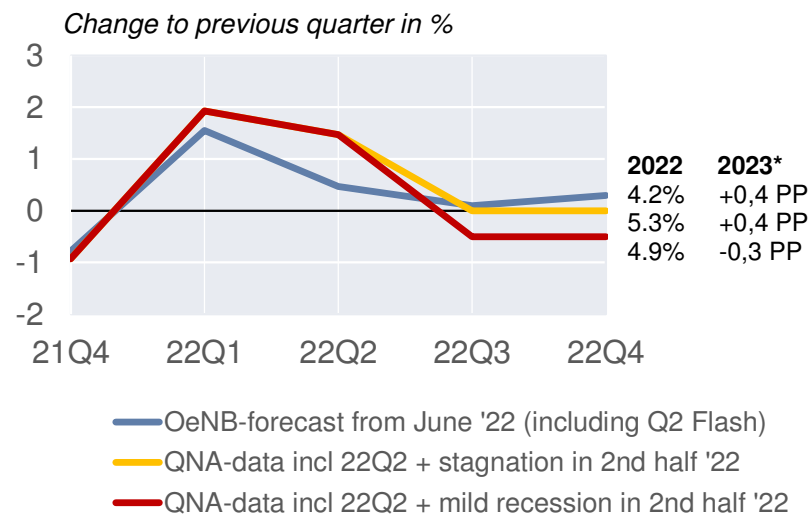
Looking into the distant future: Quantitative Tightening



- ECB Governing Council **ended QE in March (PEPP)** and **June 2022 (APP)**, respectively
- Currently **principal payments** from maturing securities are **reinvested**:
 - APP-reinvestments will continue for “an extended period of time” past the first rate hike
 - PEPP-reinvestments will continue until the end of 2024
- **Reducing Eurosystem’s balance sheet via asset sales** is currently **not** an issue
- The marginal monetary policy tool are **policy rates**, which work very well in a floor system with excess-liquidity conditions

Austria: Economic Growth and Inflation

GDP-forecasts for 2022, carry-over for 2023

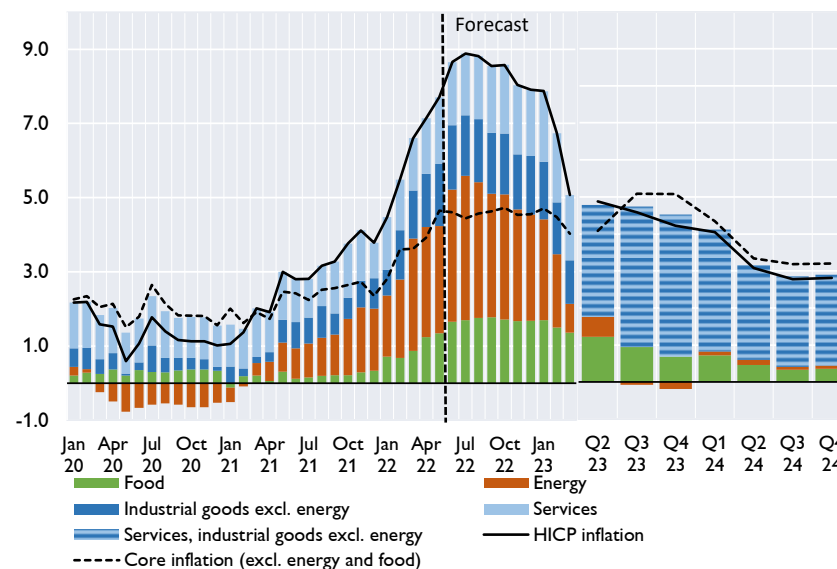


Source: Statistics Austria, WIFO, OeNB.
 Remark: 2023*: Carry-over effect.

- Strong catching up effects in first half of '22 explain strong GDP growth in 2022
- High **downside risks for GDP** for 2023
- **Upwards risk for HICP Inflation**

Contributions of components to HICP inflation

Inflation in %; inflation contributions of components in percentage points



Source: OeNB, Statistics Austria.

Recent OeNB Forecasts

	2021	2022	2023	2024	
GDP-Growth (June)		4.9	4.2 ^{*)}	1.9	1.9
HICP-Inflation (July)		2.8	7.6	5.0	3.2
Core-Inflation (July)		2.3	4.2	4.7	3.5

Source: GDP: OeNB 2022 June Pojection, HICP: Forecast of OeNB from July 2022, *) incl. Q2 Flash.

Investment in Austria? Selected Arguments in a Nutshell

Wealthy economy

GDP/Capita ¹⁾

Actual individual consumption ¹⁾

Rank 5 in EA, Rank 7 in EU (AT: 120; EA=105, EU=100)

Rank 3 in EA, Rank 5 in EU (AT: 115; EA=105, EU=100)

High investment dynamics

R&D investment in % of GDP ²⁾

Investment share, increasing since 2011 ³⁾

Net international investment position positive since 2013 ⁴⁾

Rank 1 in EA, Rank 2 in EU (AT: 3,2%, EA: 2,36%, EU: 2.32%)

Rank 3 in EA, Rank 5 in EU (AT: 24.8%, EA: 21,9%, EU 22,2%)

Rank 5 in EA, Rank 8 in EU (AT: 14,7%, EA: 19,1%, EU: 0,4%)

Well diversified and stable economy

No major macroeconomic imbalances - EC Scoreboard ⁵⁾

Export oriented economy; regionally diversified

Stable social conditions ⁶⁾

No in-depth review has been carried out for Austria so far

"In the heart of Europe", Exports to "Western" and "Eastern" Europe

Strike days "nerby zero" (AT: 2 Days, US: 9, DE: 18)

Ratings between AAA and AA+ ⁷⁾

Moody's: Aa1, S&P: AA+, Fitch: AA+, DBRS: AAA

1) Eurostat, 2021, EU=100, 2) Eurostat, 2020, 3) Eurostat, average 2018-2019, 4) Eurostat, 2020, 5) EC: Scoreboard Macroeconomic Imbalance Procedure, 6) Statista, average 2011- 2020, per 1000 Employees, 7) OeBFA.


Danke für Ihre Aufmerksamkeit

Thank you for your attention


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