



OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

ECB Monetary Policy – Past, Present, Future

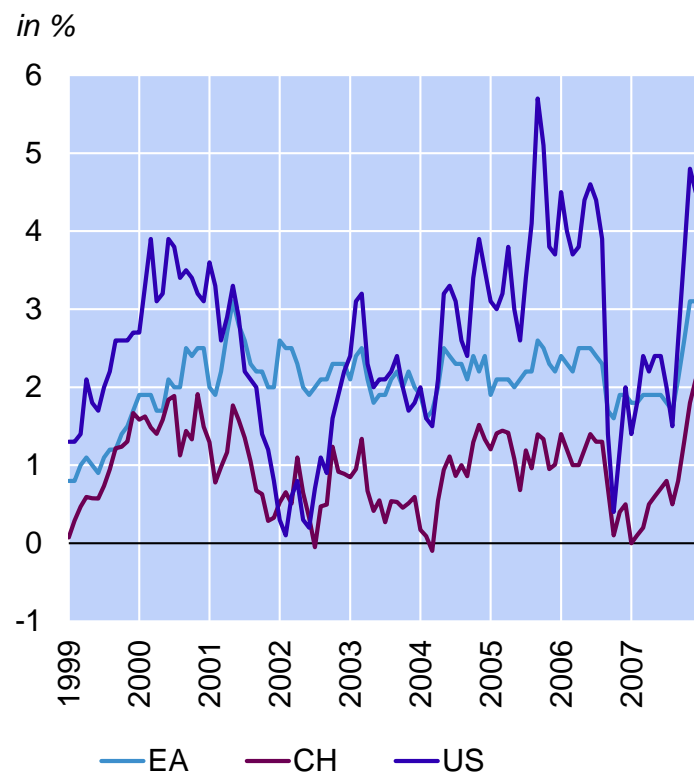
Univ. Prof. Ewald Nowotny
Governor
Oesterreichische Nationalbank

Zürich, 27 October 2015

www.oenb.at

The pre-crisis consensus: Focus on price stability and use of short-term interest rate

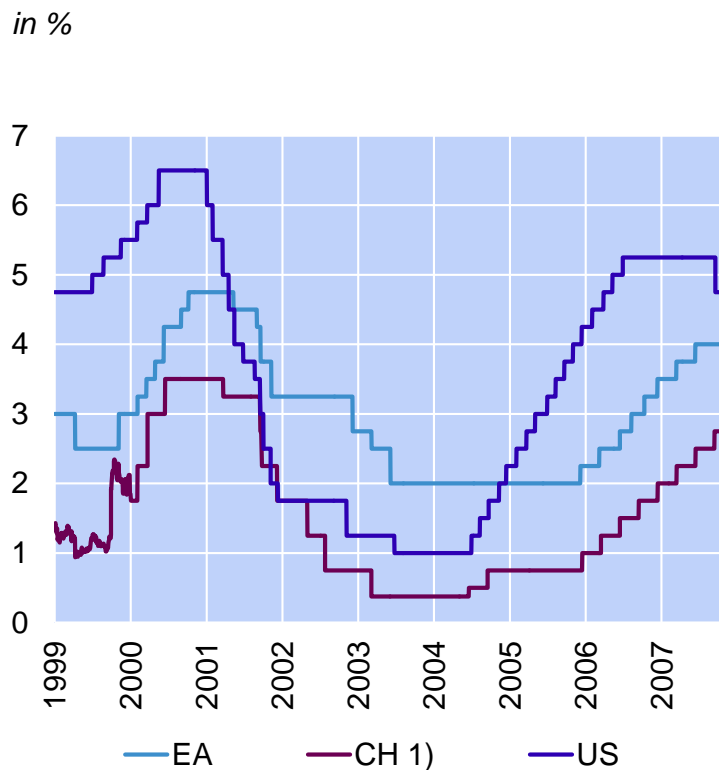
Inflation: Euro area, USA and Switzerland



Source: Eurostat, BIS, Thomson Reuters.

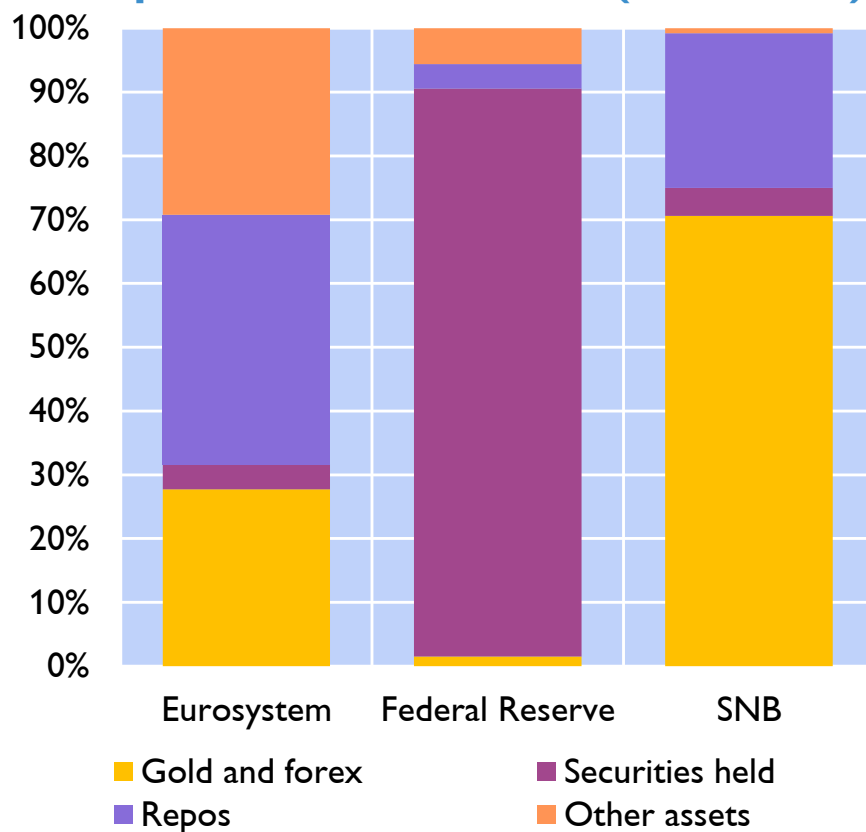
1) Swiss target 3m Libor average - middle rate. Up until Dec. 1999: Swiss 3 month Libor SNB - middle rate .

Policy rates: Euro area, USA and Switzerland



But different approaches to influencing short-term rates

Composition of CB assets (Dec. 2006)



Source: Thomson Reuters.

Implementation differs

- Outright purchases vs. repos
- Number of counterparties
- Breadth of collateral pool
- Domestic vs. foreign assets
- ...

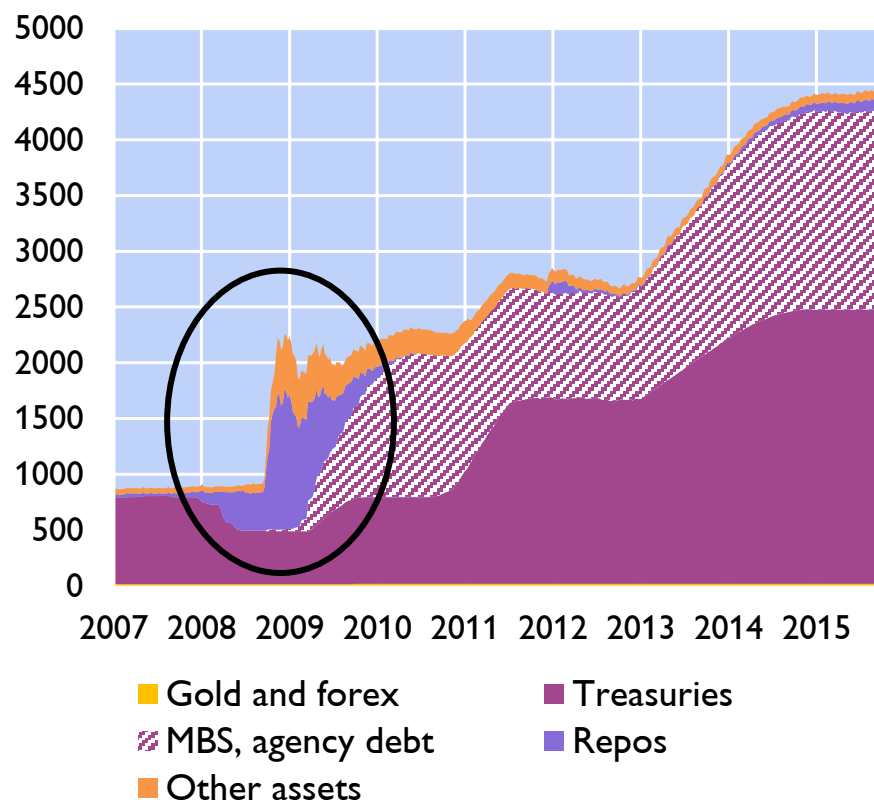
because of historical traditions and different structure of financial systems.

Differences do not matter as long as financial markets works smoothly.

In 2008 Fed becomes more like ECB, then QE

Fed assets

in billion USD



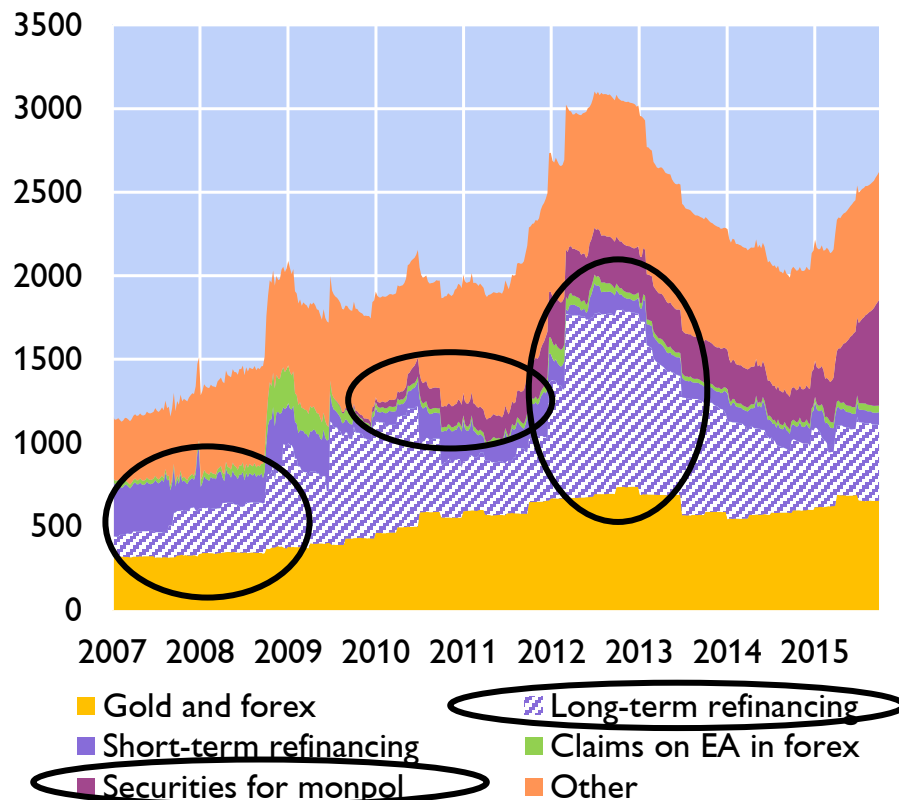
Source: Thomson Reuters.

- Problems in interbank markets
→ new lending programs for banks very much alike existing Eurosystem facilities
- High risk premia for mortgages
→ purchases of mortgage backed securities and agency debt
- Short-term interest rates reach lower bound → QE, purchase of treasuries and further MBS to push down long-term interest rates

Initially Eurosystem was able to accommodate pressure within existing framework

Eurosystem assets

Consolidated balance sheet, in billion EUR



Source: Thomson Reuters.

Eurosystem operations crisis-resilient per construction:

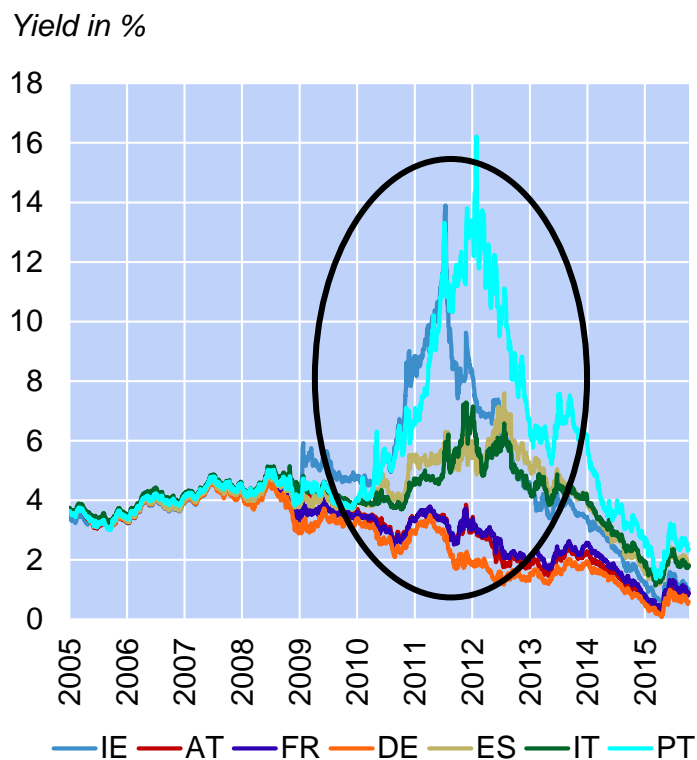
- (practically) all banks in the EA have access to refinancing
- broadly defined collateral set

Eurosystem provides additional support

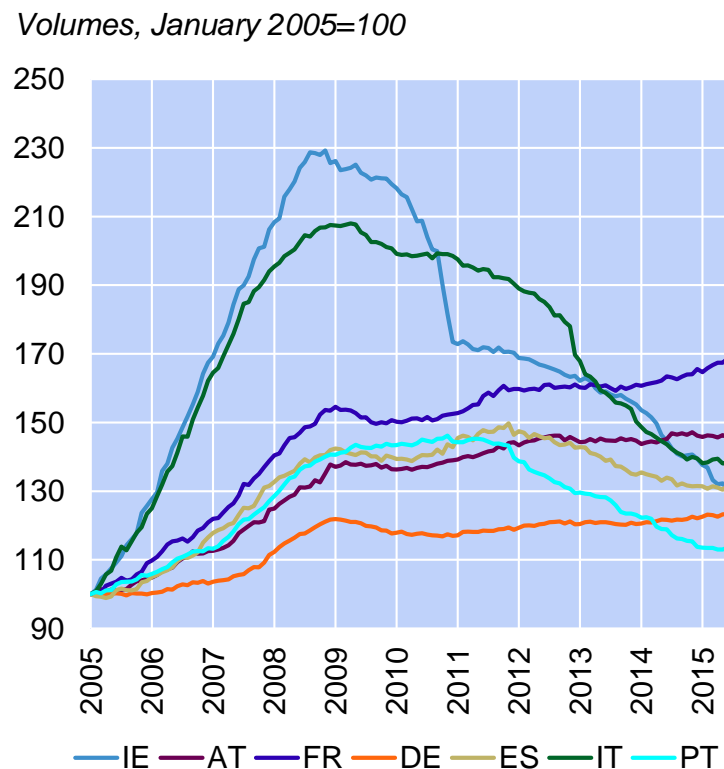
- most important: **fixed rate full allotment**
- enlarging collateral pool
- longer maturities (1, then 3 and 4 years)
- provision of USD and CHF liquidity
- purchase of covered bonds

But crisis in the euro area has an additional twist

10-year Government Bonds of Selected Countries



Lending to Non Financial Corporations of Selected Countries

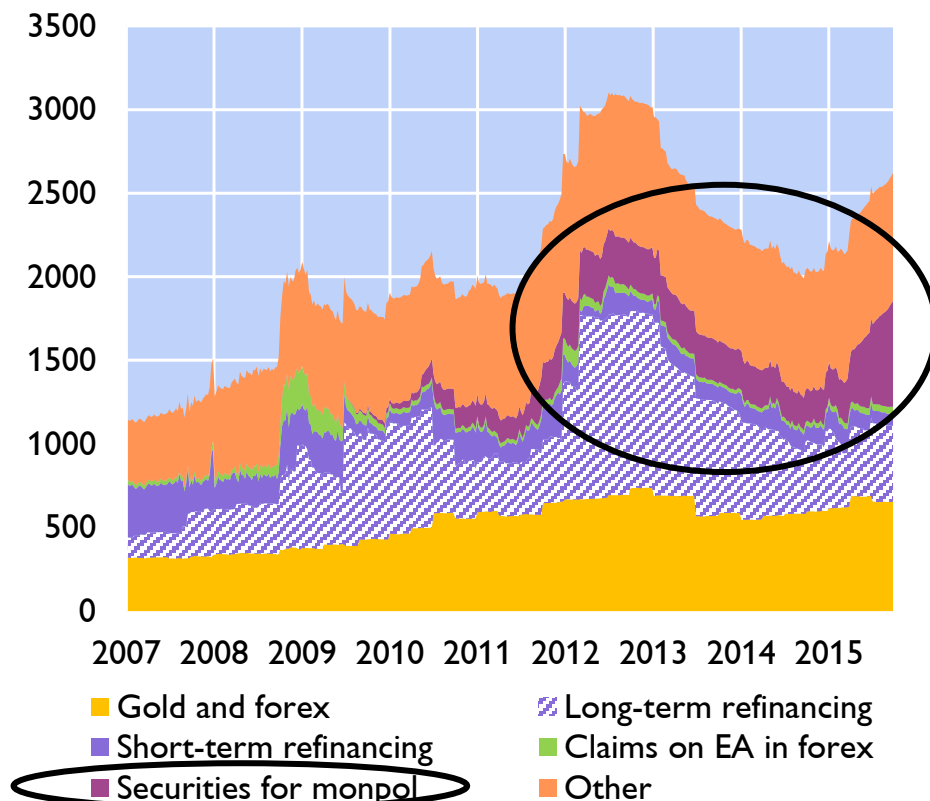


Source: Thomson Reuters, ECB.

Eurosystem ensures cohesion of euro area

Eurosystem assets

Consolidated balance sheet, in billion EUR



Source: Thomson Reuters.

Fixed rate full allotment serves as back-stop for national banking systems

Targeted LTROs supports lending to real economy

SMP prevented contagion

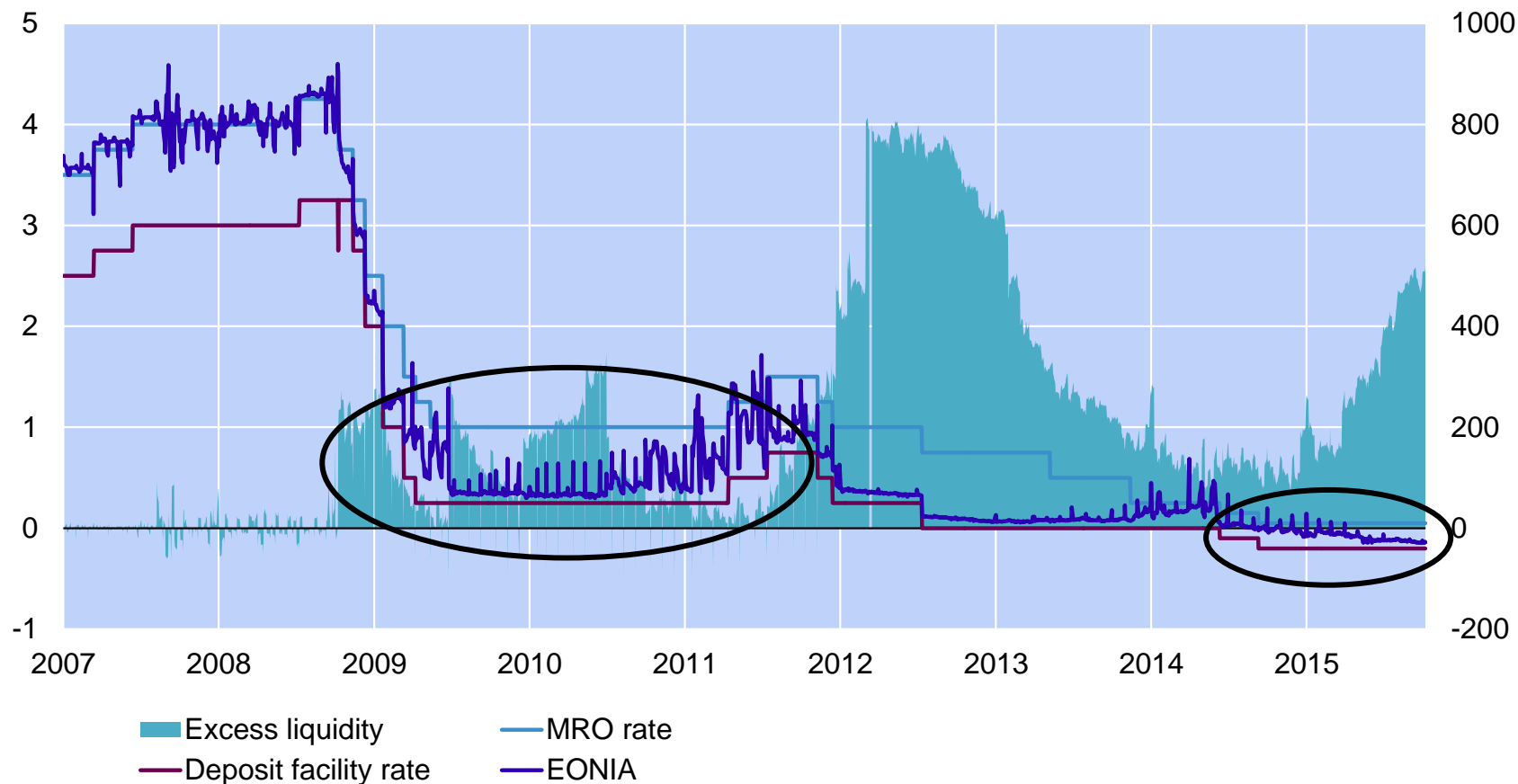
Not visible in the graph because no purchases undertaken, but highly effective:

Announcement of OMT

Why was the Eurosystem so late with QE?

Excess liquidity and market interest rates

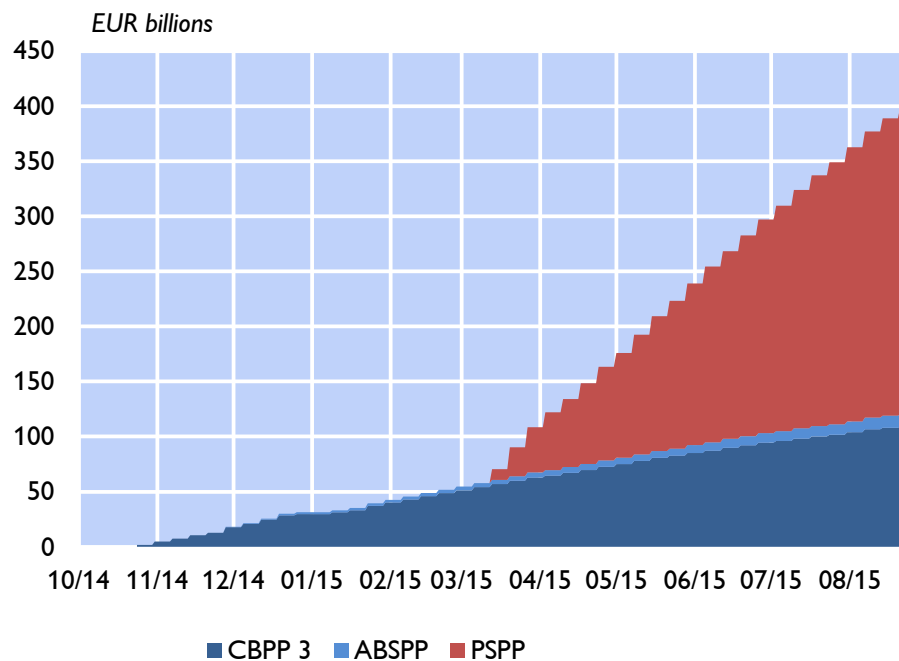
in % (lhs), in billion EUR (rhs)



Source: ECB, Thomson Reuters.

Asset purchase programme APP – Covered bonds, ABS and (mainly) public sector securities

The New Purchase Programmes (CBPP3, ABSPP, PSPP)



Source: ECB.

Decided in January 2015

- Purchase of 60 billion EUR/month, 1,140 billion EUR in total
- Covered bonds, asset backed securities, public sector securities

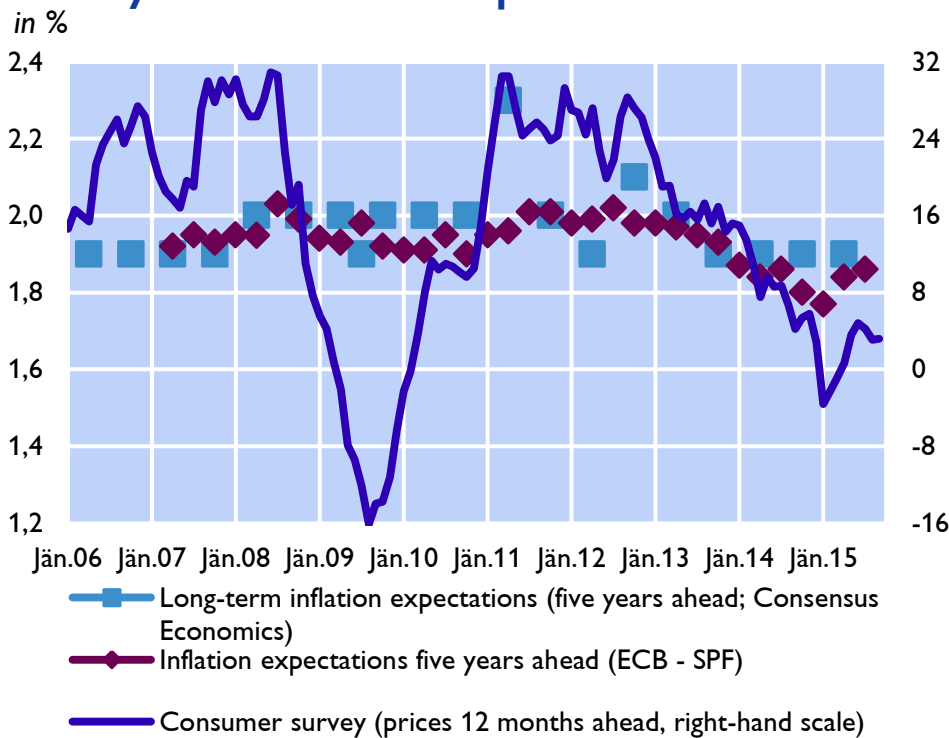
Objectives:

- prevent decrease in inflation rate
- anchor inflation expectations

Continue purchases until September 2016 and at least until inflation close to target

APP halts decline in inflation expectations, but inflation expectations remain low

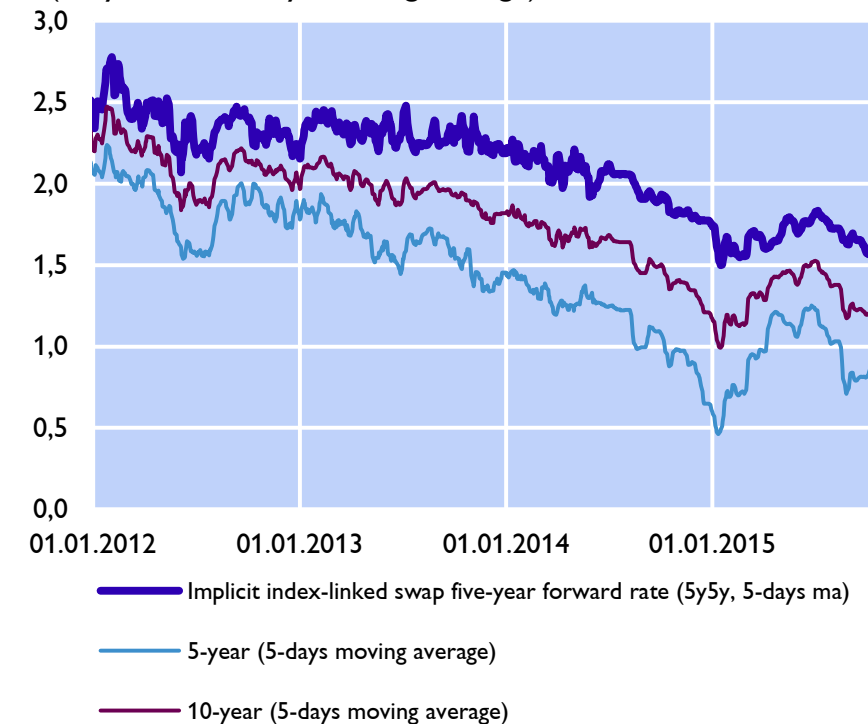
Survey-based inflation expectations



Source: ECB, European Commission, Consensus Economics Inc.

Inflation linked swaps - euro area

% (daily data, five-days moving average)



Source: Thompson Reuters.

Euro area (slowly) returns to growth but inflation remains weak

	ECB projections September 2015			Changes from June		
	2015	2016	2017	2015	2016	2017
Real GDP	+1.4%	+1.7%	+1.8%	-0.1pp	-0.2pp	-0.1pp
HICP- Inflation	+0.1%	+1.1%	+1.7%	-0.2pp	-0.3pp	-0.1pp

The challenges for monetary policy in the euro area

Monetary policy will remain “unconventional” for some time to come:

- Policy at the zero lower bound
- Normalization will be challenging

However, reforms undertaken during the last years should reduce the probability that the Eurosystem would have to intervene as it as during the recent years:

- Banking union weakens link between banks and fiscal position of member states
- Improvement in economic governance should prevent recurrence of fiscal and macroeconomic imbalances
- Capital market union should reduce dependency of households and firms on their national banking system

As a result, in the mid-term monetary policy should become more standard again.

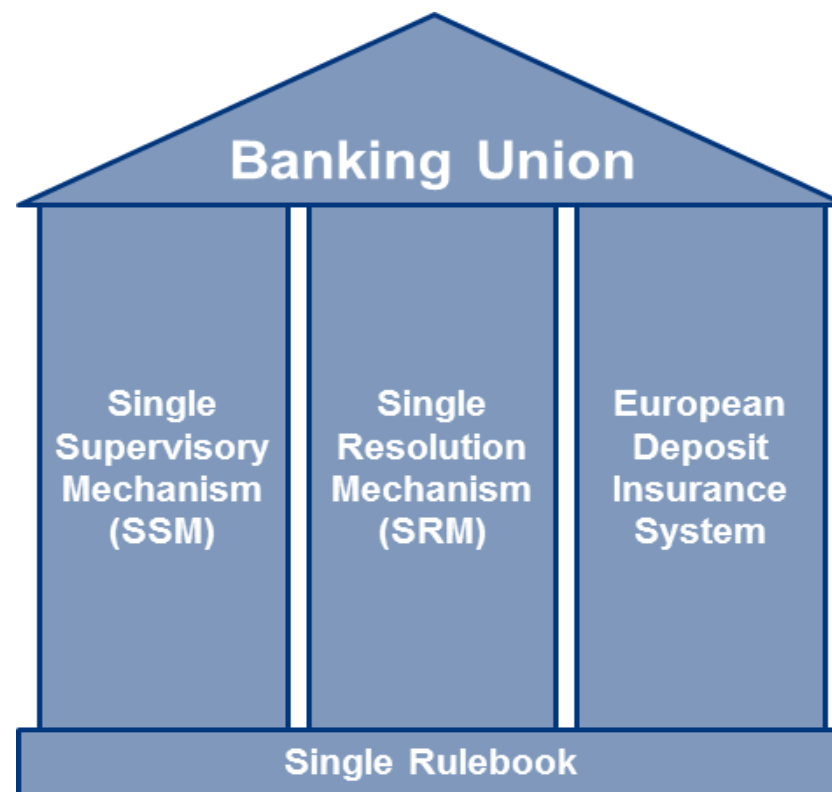
The European Banking Union

Single Supervisory Mechanism (SSM):

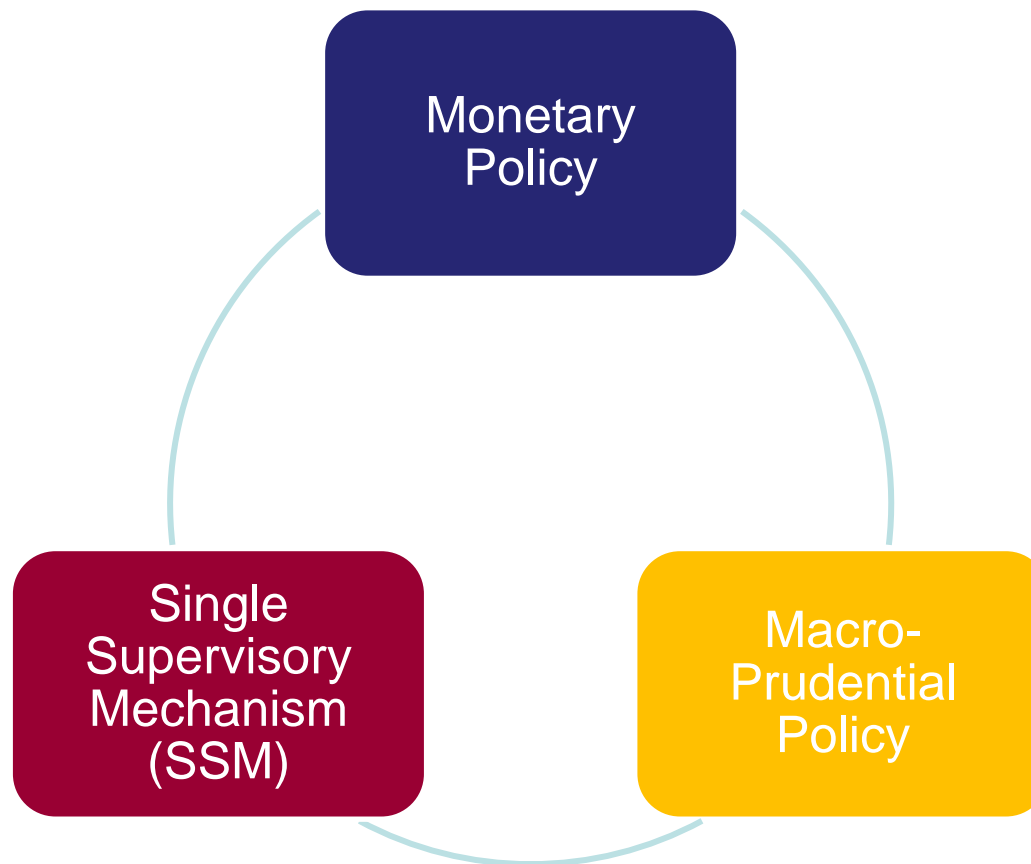
- ECB supervises about 120 large banks directly (more than 80% of banking sector's balance sheet)
- Makes the ECB one of the world's largest supervisors
- Objective: ensuring the safety and stability of the banking system as a whole

Single Resolution Mechanism (SRM):

- Providing a framework for the recovery and resolution of credit institutions and investment firms.
- Has a resolution fund at its disposal.
- A big step towards solving the too-big-to-fail problem.



Three tasks under one roof



Action plan for Capital Market Union

Objectives

- Support investment
- Open alternatives to bank loans such as capital markets, venture capital, crowdfunding
- Deepen integration and increase competition, encourage cross-border risk sharing
- Mid- to long-term project, but includes some initiatives that can be realized quickly

List of actions

- Financing for innovation, start-ups and non-listed companies
- Ease access for companies to enter and raise capital on public markets
- Long-term infrastructure investment
- Fostering retail and institutional investment
- Help banks to finance wider economy
- Facilitating cross-border investing

Thank you for your attention.