



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

Money and Banking in Europe – A Central Banker's View

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Oesterreichische Nationalbank

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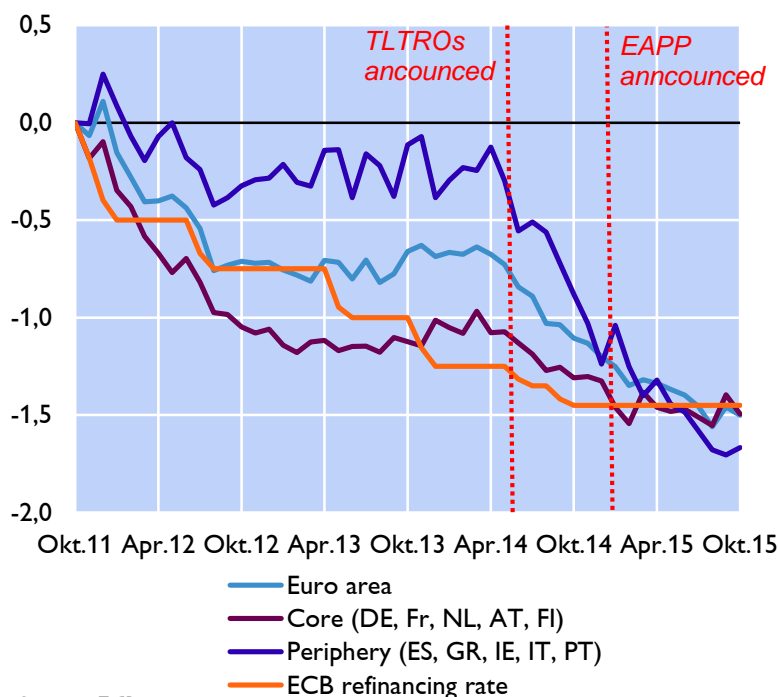
Monetary policy in the euro area since the crisis: Conventional and unconventional measures

- Interest rate policy: *main refinancing rate lowered to currently 0.05%; **deposit facility rate lowered to -0.3%** (December 3, 2015)*
- Tender operations to support lending to private sector:
 - *Full allotment at fixed rate, longer maturities;*
 - ***Targeted longer-term refinancing operations (TLTROs): amount dependent on loans to the private sector; quarterly transactions; last operation scheduled for June 2016***
- Outright purchases of securities to support the monetary transmission mechanism:
 - *Covered bonds programmes (CBPP 1-2)*
 - *Securities markets programme (SMP)*
 - *Outright monetary transactions (OMT)*
 - ***Extended asset purchase programme (EAPP): public securities, ABS, covered bonds***

Unconventional policies are working – Lending rates have declined, growth is recovering

Int'rate on loans to non-financial companies

Cumulated change since Oct 2011 in percentage points



Source: ECB.

	2014	2015	2016	2017
GDP	0,9	1,5	1,7	1,9
Private consumption	0,8	1,6	1,9	1,7
Government consumption	0,8	1,4	1,2	1,0
Investments	1,3	2,3	2,8	3,8
Exports	4,1	4,8	4,0	4,8
Imports	4,5	5,3	4,8	5,3

Source: December 2015 Eurosystem Staff Macroeconomic Projections.


December 3: ECB recalibrates policy measures and signals that excess liquidity will continue to prevail

Rate on deposit facility lowered to -0.3%

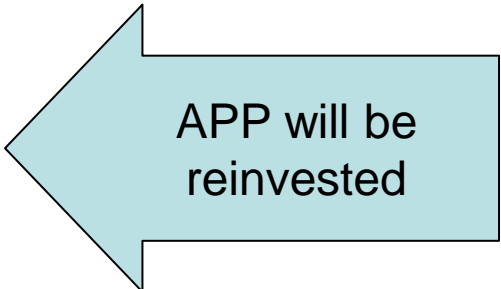
Fixed-rate full allotment until end 2017

Counteract decline in excess liquidity due to


- *Increase in banknotes, minimum reserves*
- *TLTROs that expire (from 9/2016 onwards)*
- *Securities held in SMP and CBPP expire (currently EUR 3 bn per month)*
- *Securities in EAPP start to expire*



APP until March
2017: + EUR
360 bn



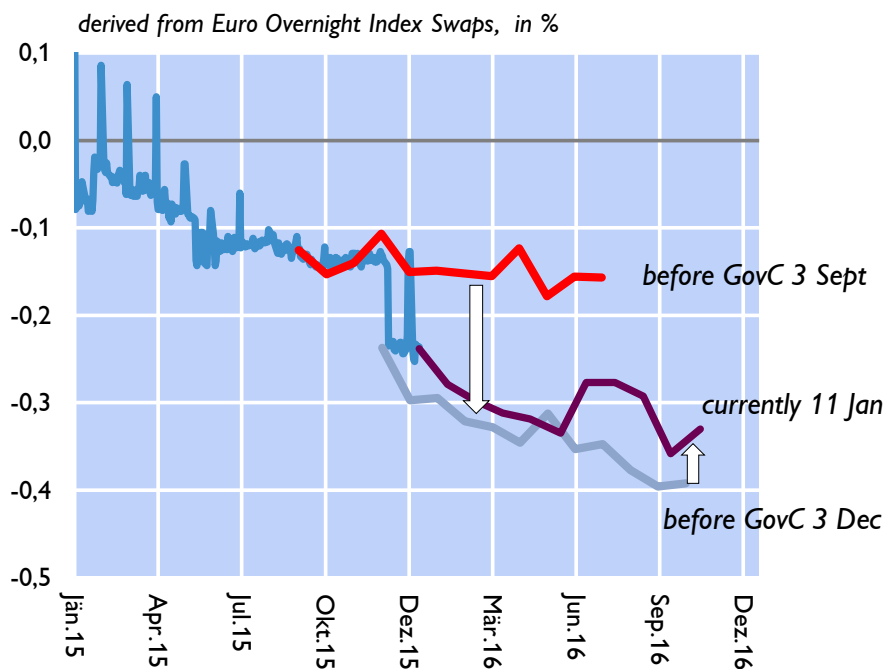
APP will be
reinvested



**until 2019: + EUR 680 bn
compared to previous plans**

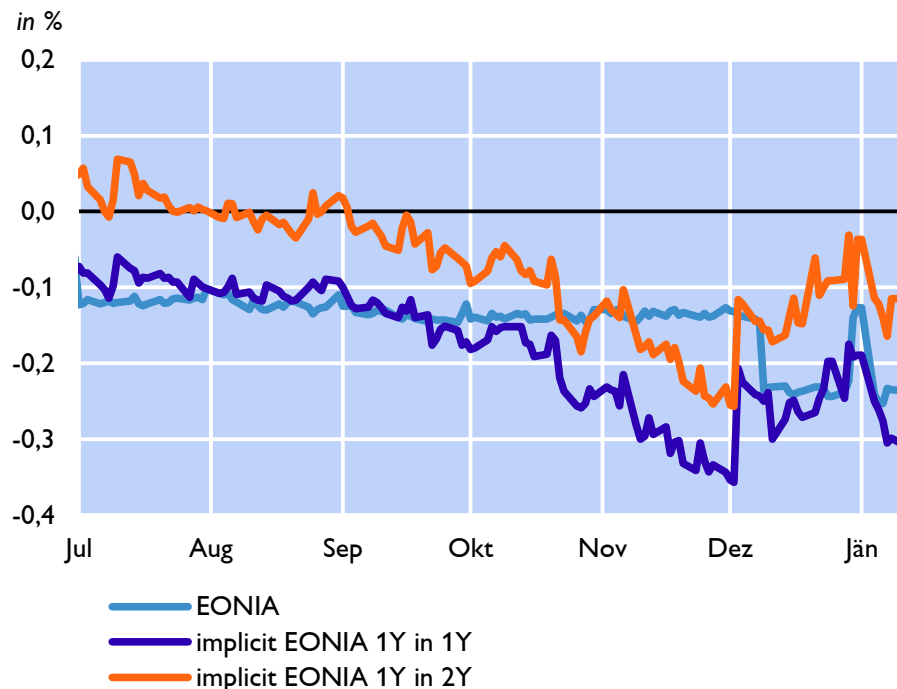
Markets expect short-term rates to remain low for an extended period of time

Expected EONIA rates



Source: Thomson Reuters, own calculations.

Expected EONIA one and two years ahead

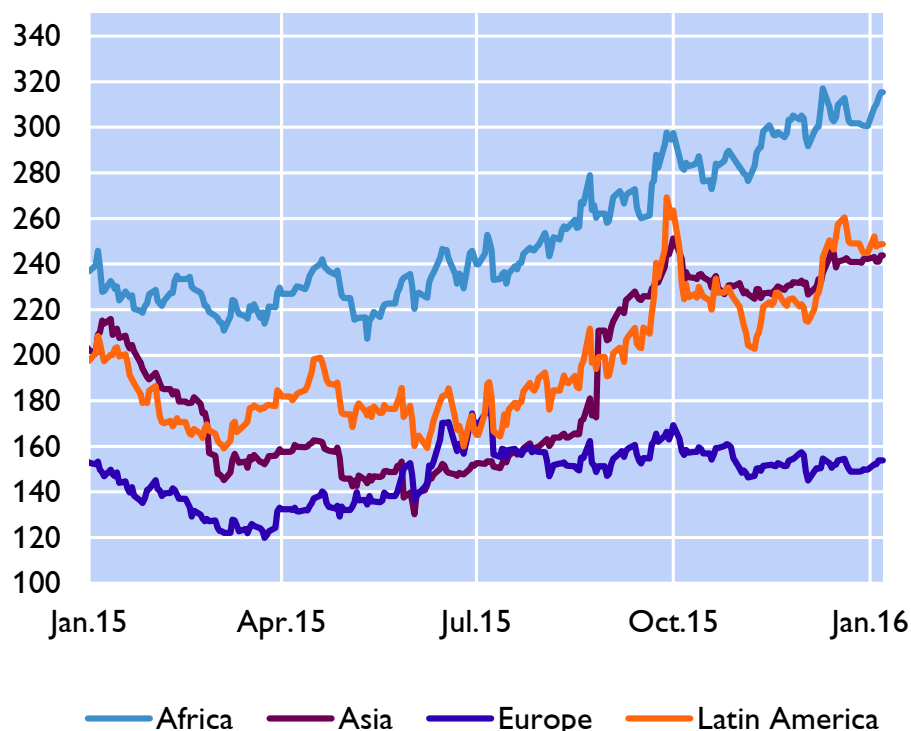


Source: Thomson Reuters, own calculations.

Challenging international environment for emerging markets, CESEE largely spared from negative impacts

Eurobond spreads in selected EM regions

Euro EMBIG spread in basis points



Source: Bloomberg.

- Diverging monetary policy trends in major advanced economies
 - Monetary easing in EA
 - Interest rate hikes in US
- Stock market turbulence in China
- Geopolitical tensions
- Idiosyncratic shocks in individual countries (e.g. Brazil)
- => financial market volatility
- => capital outflows

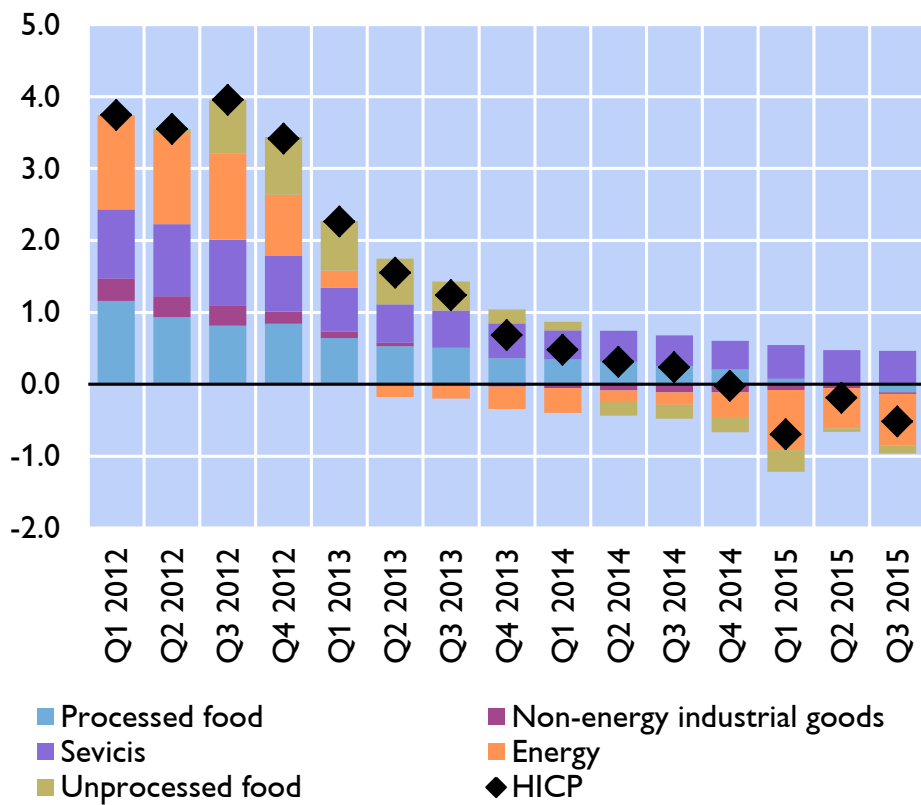
CESEE broadly spared from negative impacts

Possible positive spill-overs on CESEE EU MS from accommodative monetary policy in euro area

CESEE EU MS: Broad-based monetary easing against the background of declining inflation rates

Inflation in the CESEE EU member states

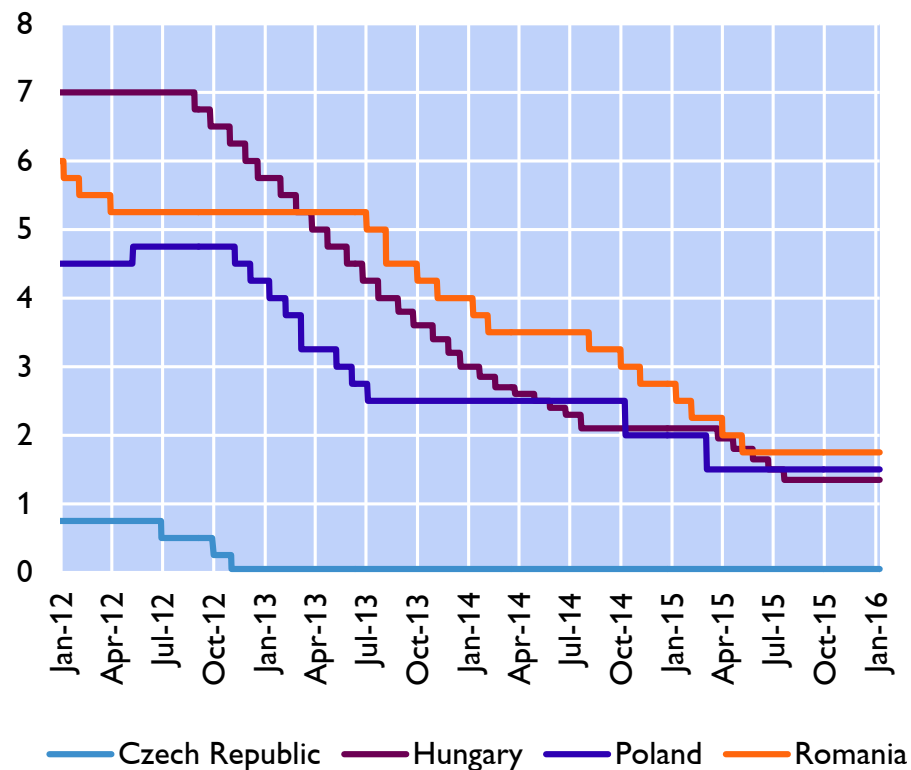
in percentage points, diamonds in % against previous year



Source: Eurostat.

Policy rates in selected CESEE countries

in %

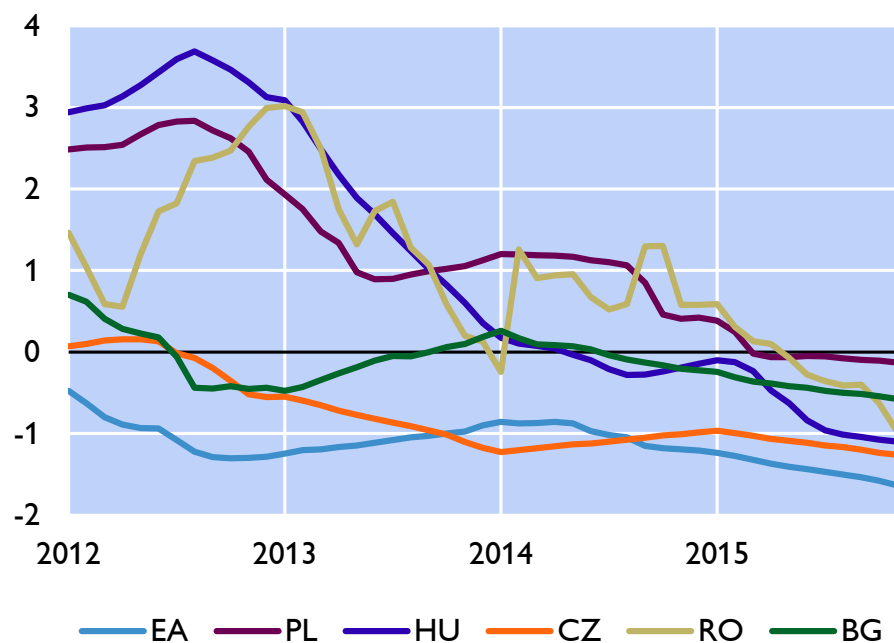


Source: Bloomberg.

CESEE EU MS: Negative real interest rates and credit growth

Real short-term interest rates (ex-ante)

in %, period average

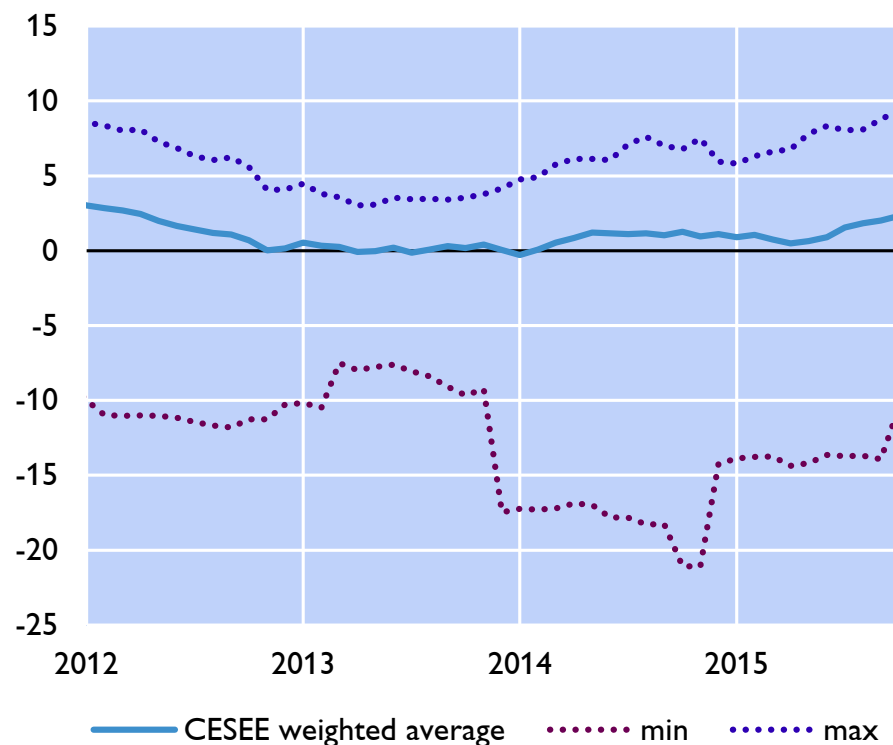


Note: Three-month money market rates deflated by average inflation forecast of the European Commission for the next two years.

Source: Bloomberg, EC, OeNB.

Credit growth in CESEE EU member states

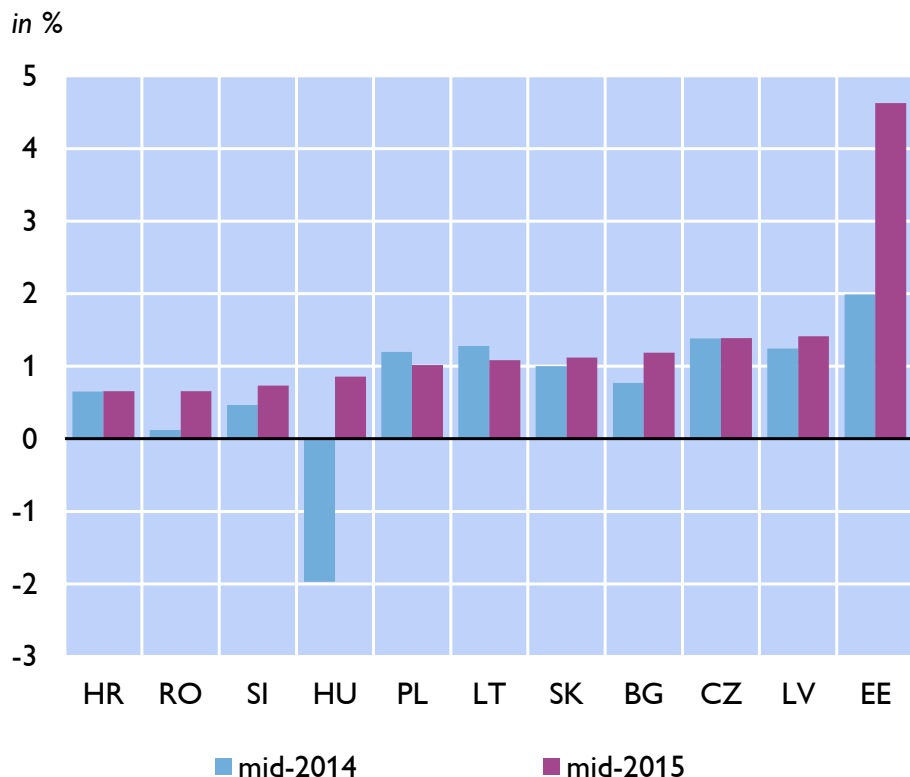
yoy in %, adjusted for exchange rate changes



Source: National central banks, Eurostat, OeNB.

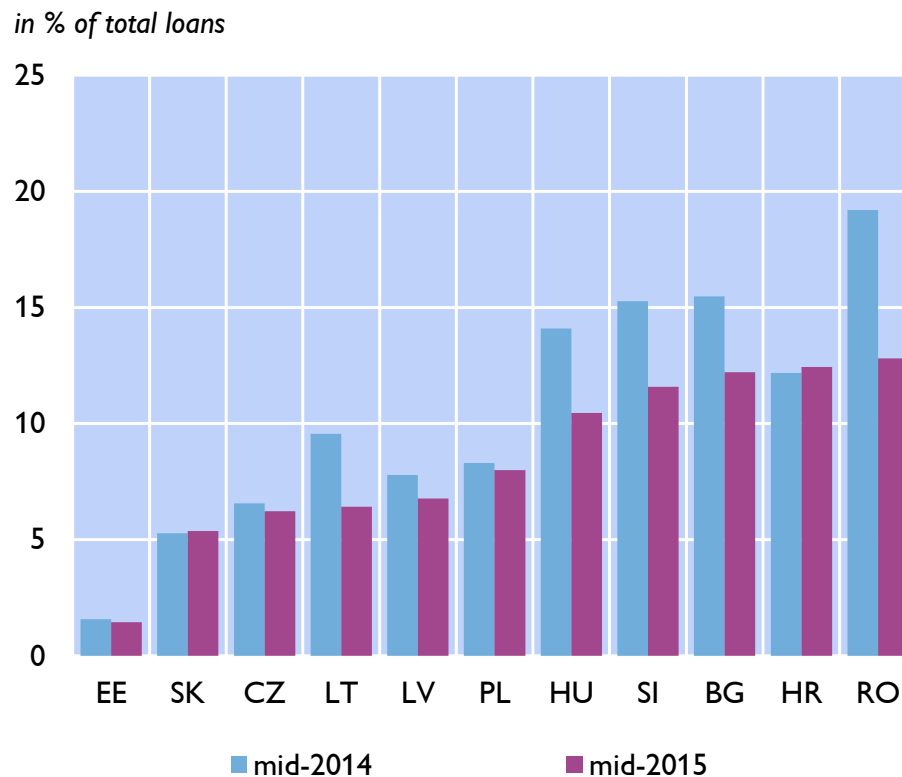
CESEE EU MS: Improving asset quality impacts favorably on banking sector profitability

Return on assets



Source: National central banks.

Non-performing loans



Source: National central banks.

Conclusions

- **Unconventional policies in the euro area are working...**
 - **lending rates ▼, growth ▲**
- **... but inflation has remained weak so far**
- **CESEE EU member states are performing solidly in the challenging international environment**
- **Monetary accommodation has so far not fuelled credit growth...**
- **...nor has it led to regional asset price bubbles**
- **...with house price developments in some countries indicating the need for cautious monitoring**