



EUROPEAN CENTRAL BANK

EUROSYSTEM

# The ECB's policy response to the COVID-19 pandemic

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University of Cyprus, School of  
Economics and Management  
24 June 2021



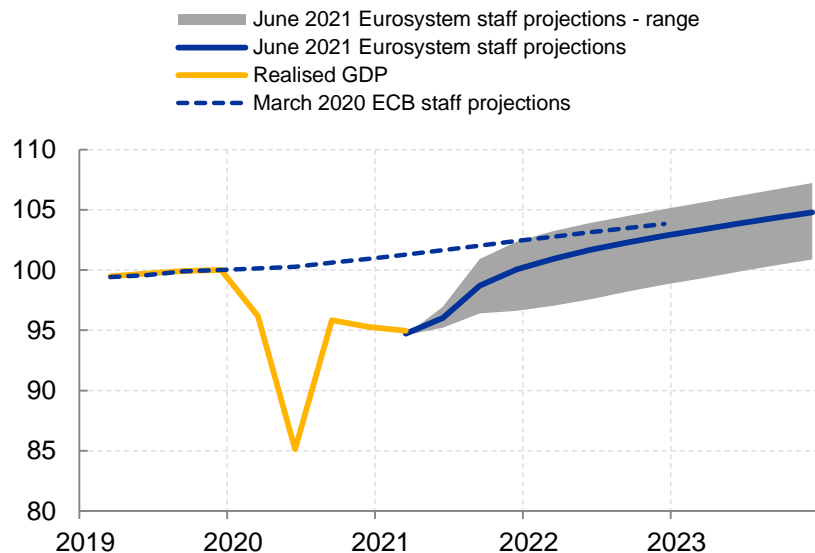
**Isabel Schnabel**  
*Member of the ECB Executive Board*

# Severe economic slump with long-lasting effects

## Current Eurosystem staff projections

### Real GDP

(index: Q4 2019 = 100)



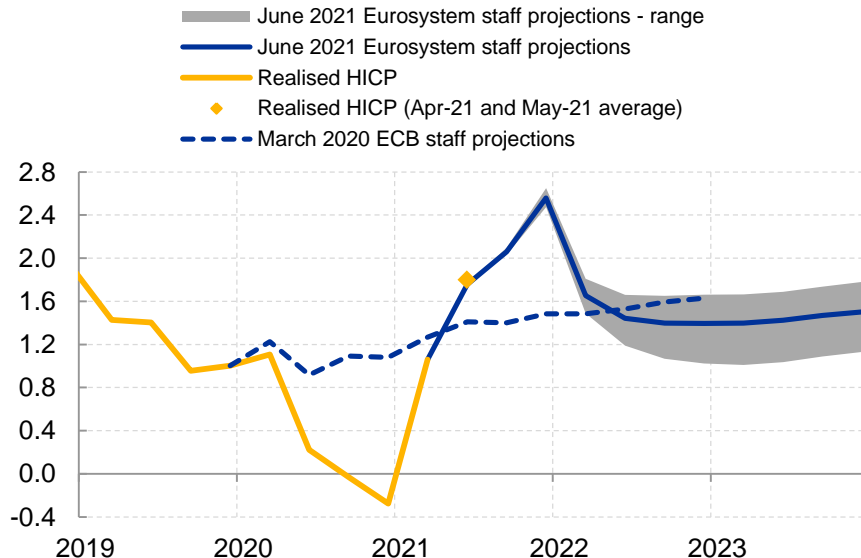
Source: ECB.

Notes: The area shaded in grey indicates the range of Eurosystem staff projections covering a milder and a more severe impact of the crisis.

Latest observations: Q1 2021 for realised GDP data and for ECB staff projections published in June 2021.

### HICP inflation

(year-on-year change, %)



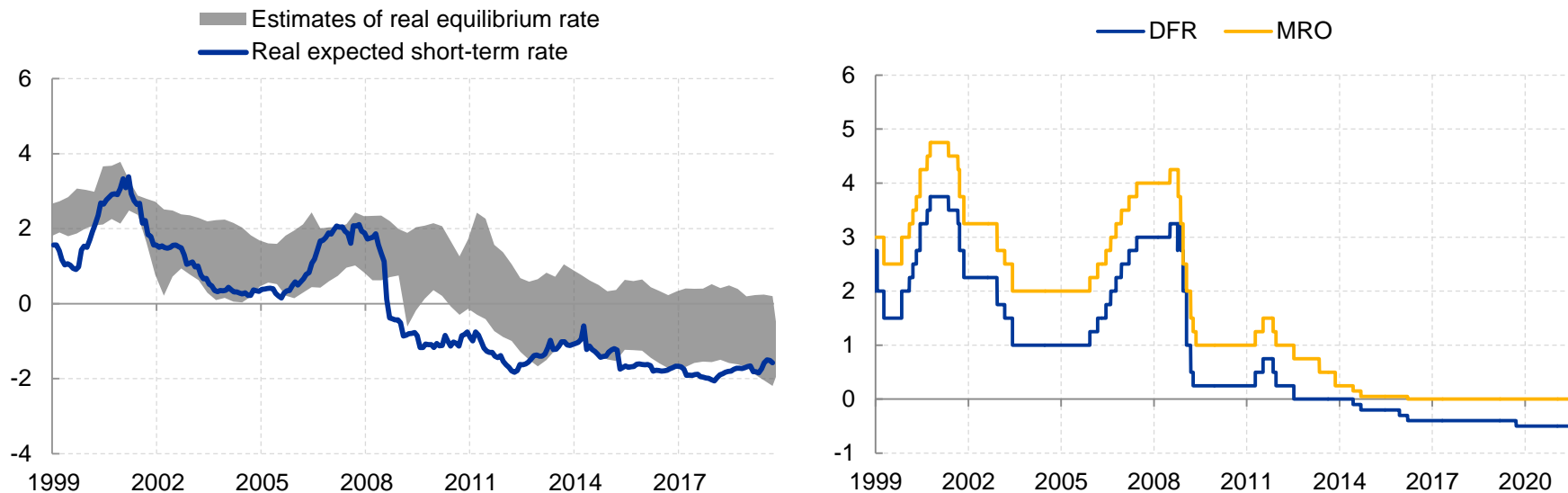
Source: ECB.

Notes: The area shaded in grey indicates the range of staff projections covering a milder and a more severe impact of the crisis.

Latest observation: Q1 2021 for quarterly data, May 2021 for monthly data (diamond).

# Long-term decline in real equilibrium interest rate in the euro area makes unconventional monetary policy a suitable instrument

Real interest rate, model-based estimates of the real equilibrium rate and policy rates in the euro area (%)

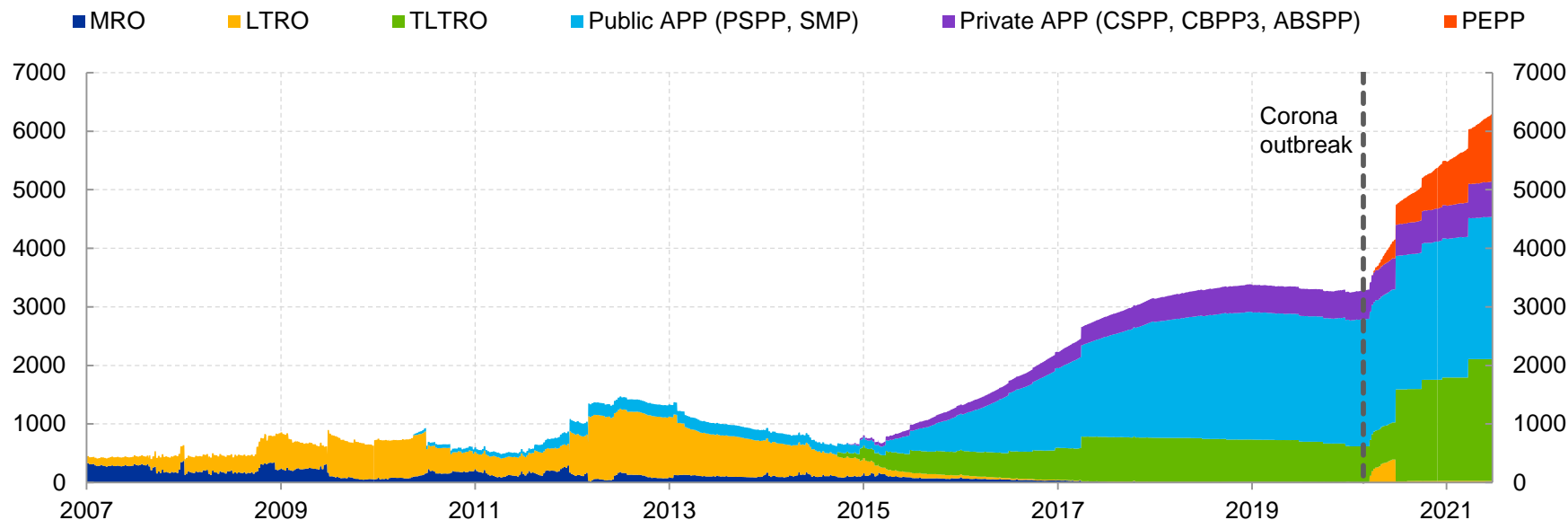


Sources: Brand, C., Bielecki, M. and Penalver, A. (eds.) (2018), “[The natural rate of interest: estimates, drivers, and challenges to monetary policy](#)”, *Occasional Paper Series*, No 217, ECB, December. Updates: Ajevskis (2018), Brand, Goy, Lemke (2020), Brand, Mazelis (2019), Fiorentini, Galesi, Pérez-Quirós, Sentana (2018), Holston, Laubach, Williams (2017), Jarocinski (2017).

Notes: The range of estimates includes point estimates from several models and therefore reflects model uncertainty, but no other source of uncertainty. The real expected short-term rate is based on the difference between EONIA and consensus inflation expectations for the subsequent calendar year.

# Sharp expansion of ECB balance sheet due to pandemic crisis measures

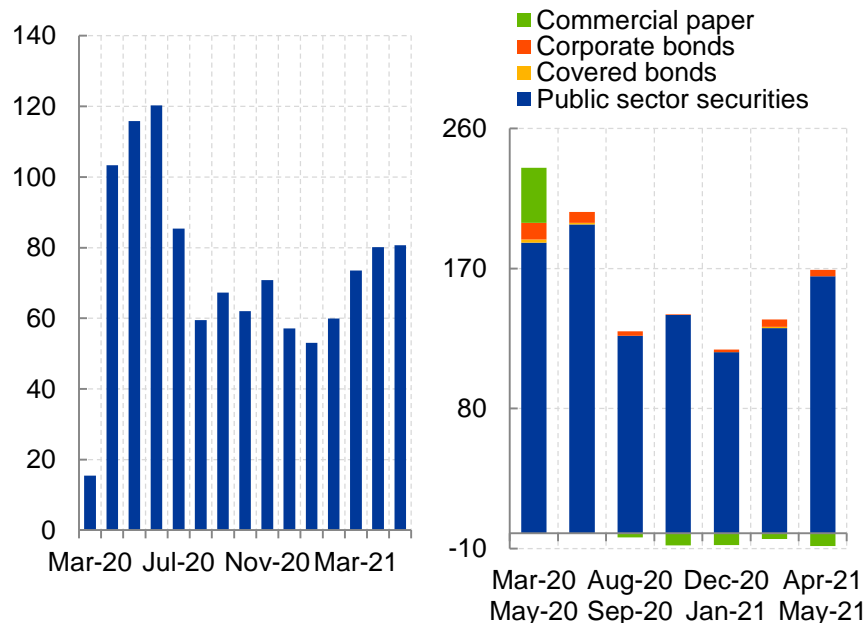
## Evolution of ECB balance sheet (€ billions)



Source: ECB, ECB calculations.  
Latest observation: 22 June 2021.

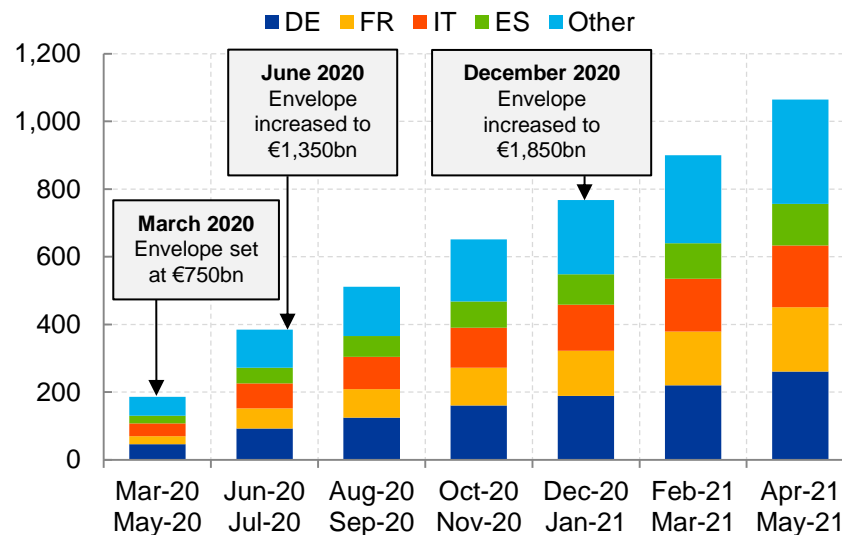
# Flexibility of asset purchases under PEPP over time, across asset classes and among jurisdictions

PEPP monthly net purchases and bimonthly net purchases by asset class (€ billions)



Source: ECB.  
Latest observation: May 2021.

PEPP cumulative net purchases (€ billions)

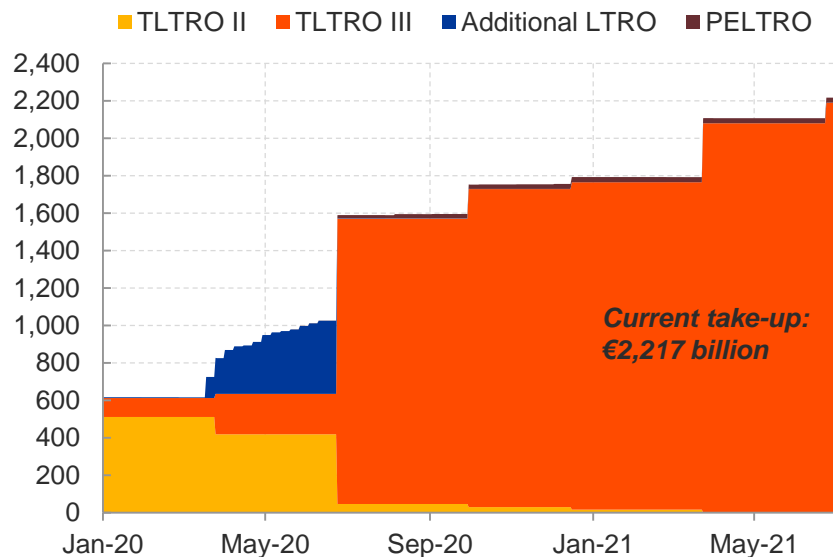


Source: ECB.

Note: Cumulative monthly net purchase figures represent the difference between the acquisition cost of all purchase operations and the redeemed nominal amounts. DE – Germany, FR – France, IT – Italy, ES – Spain. Cumulative net purchase figures exclude private sector purchases.  
Latest observation: May 2021.

# TLTRO operations designed to incentivise bank lending, supporting the transmission of monetary policy to the real economy

## Take-up of ECB liquidity-providing operations (€ billions)

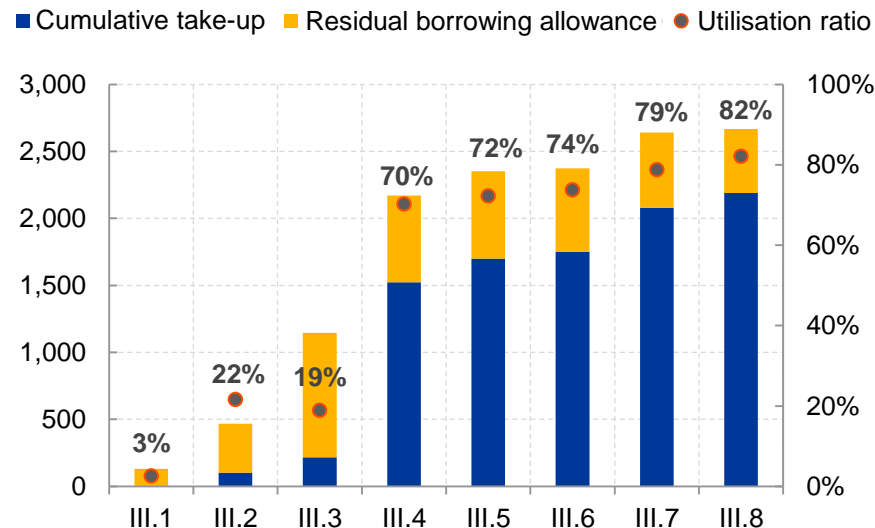


Source: ECB.

Note: TLTRO III refers to the sum of TLTRO III.1-8.  
Latest observation: 22 June 2021.

## Past TLTRO III operations

(left-hand scale – € billions; right-hand scale – %)

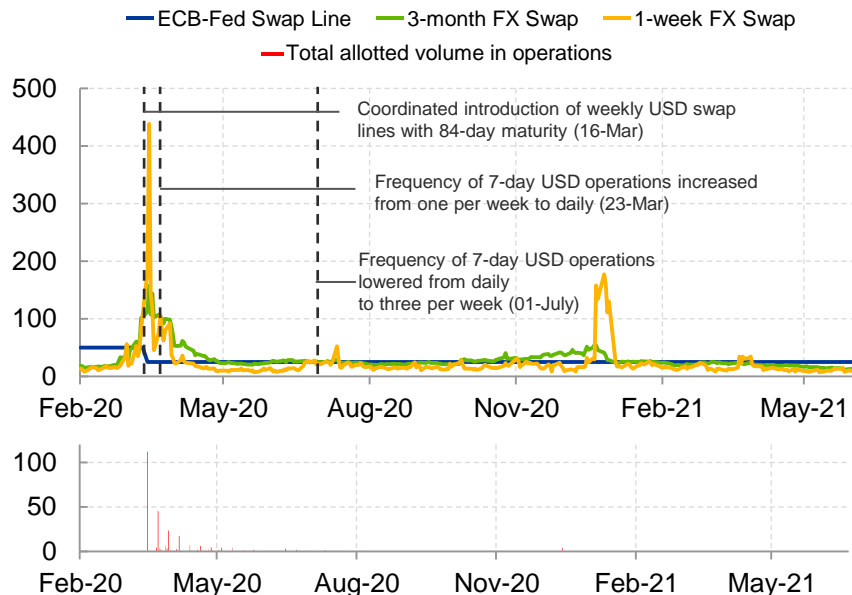


Source: ECB.

Note: Allotment dates of the respective TLTRO III operations: 9/2019 (III.1), 12/2019 (III.2), 3/2020 (III.3), 6/2020 (III.4), 9/2020 (III.5), 12/2020 (III.6), 3/2021 (III.7), 6/2021 (III.8). Future allotment dates: 9/2021 (III.9), 12/2021 (III.10).

# Coordinated central bank measures (Fed, ECB, BoE, BoC, BoJ, SNB) for providing US dollar liquidity

**USD funding costs during the COVID-19 crisis** (*upper panel – basis points; lower panel – USD billions*)

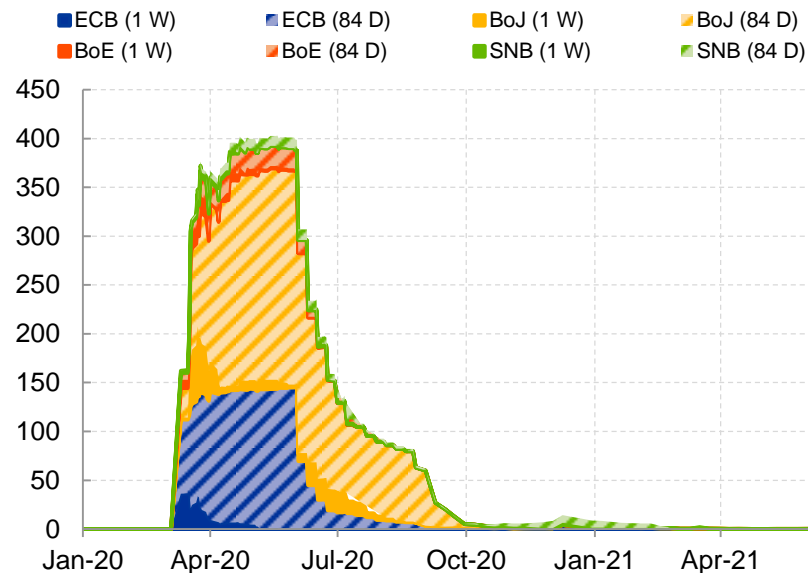


Source: MMSR, Bloomberg, ECB calculations.

Note: Spreads are calculated using transaction data expressed as a spread over the market overnight index swap (OIS) rates. Dates in brackets refer to days from which the measures were in effect.

Latest observation: 22 June 2021.

**Take-up in central banks' USD operations in major jurisdictions** (*USD billions*)

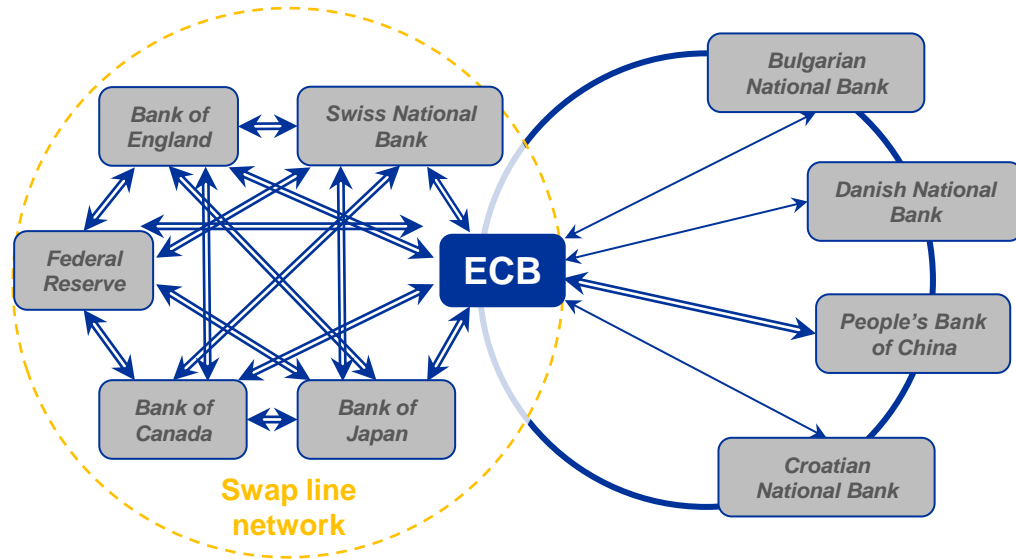


Source: Official websites of selected central banks.

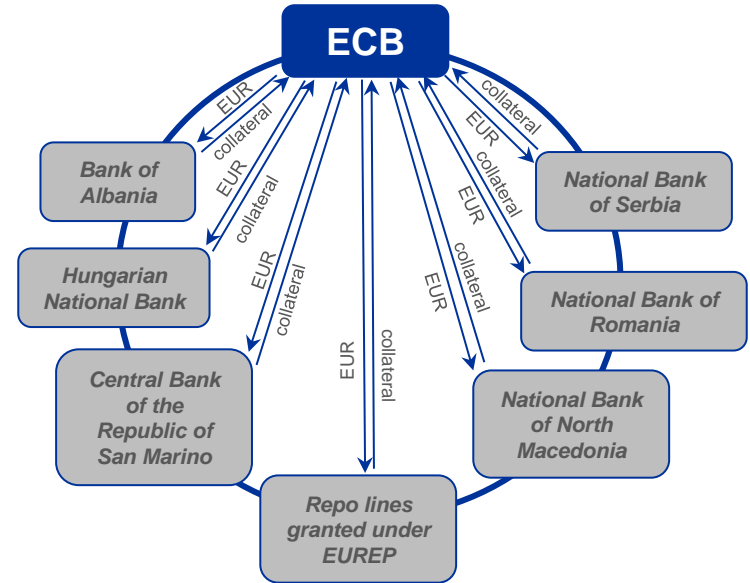
Latest observation: 16 June 2021.

# Eurosystem framework for providing euro liquidity to other central banks

## Overview of swap line arrangements



## Overview of repo line arrangements

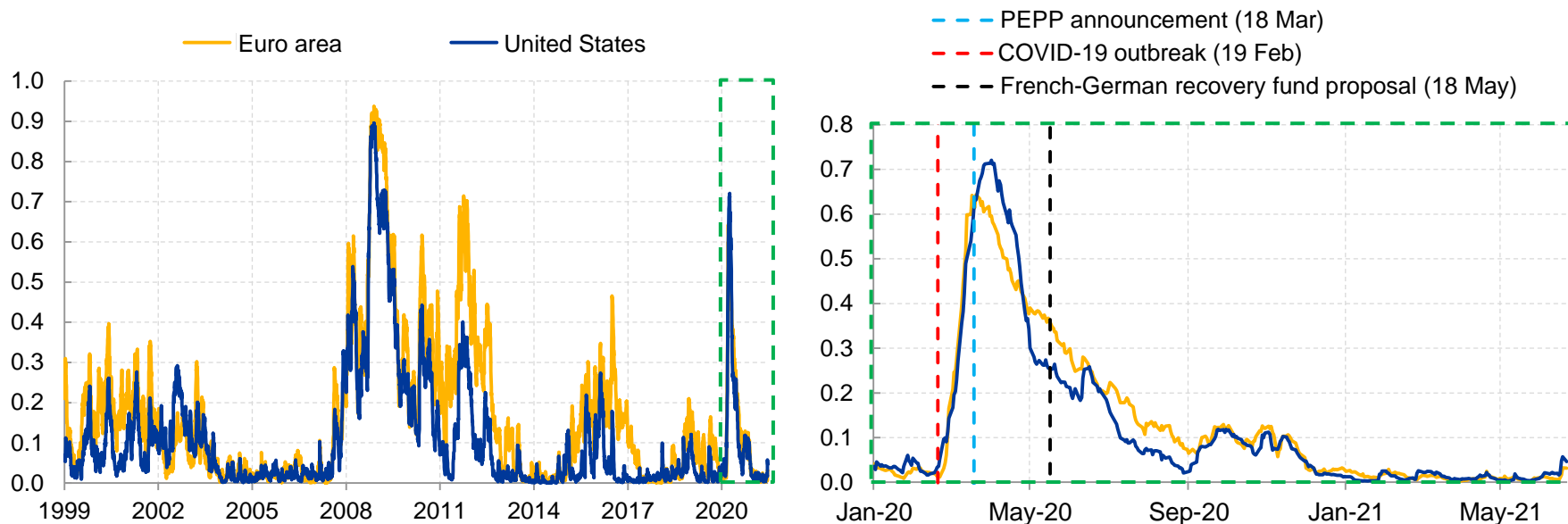


Source: ECB.

Note: Under the swap line arrangements, the ECB provides euro liquidity against currencies accepted by the ECB for swap line operations. Under the repo line arrangements, the ECB provides euro liquidity against adequate euro-denominated collateral accepted by the ECB. EUREP is the Eurosystem repo facility for central banks. The countries mentioned in the overview of the Eurosystem's repo line arrangements are only examples to illustrate the functioning of these types of agreements. A double line in the swap lines overview indicates that the agreement is reciprocal.

# Monetary policy measures prevented a severe financial crisis

## Indicator of systemic stress in financial markets (CISS) (index)



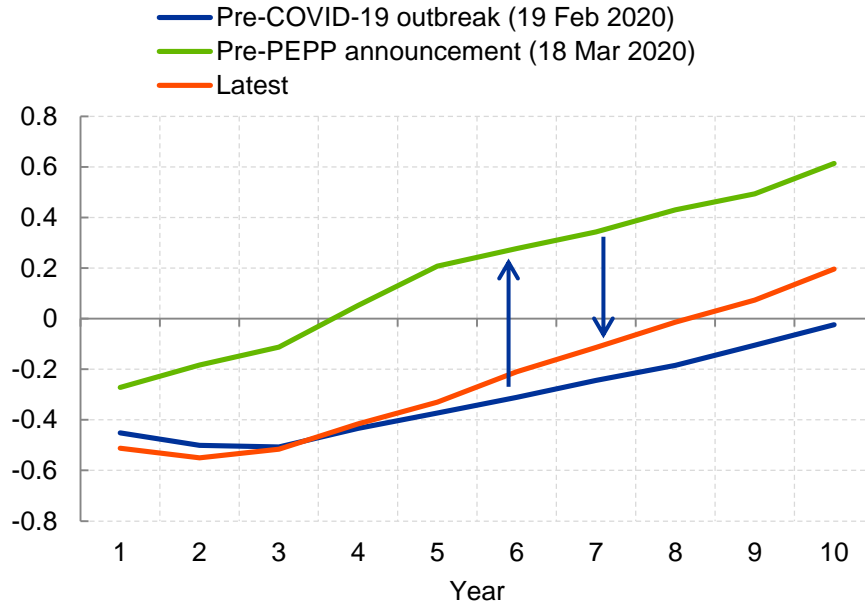
Source: Holló, D., Kremer, M. and Lo Duca, M. (2012), "[CISS – A composite indicator of systemic stress in the financial system](#)", *Working Paper Series*, No 1426, ECB, March.

Notes: CISS stands for Composite Indicator of Systemic Stress (0 = no stress, 1 = high stress). The indicator aggregates stress signals from money, bond, equity and foreign exchange markets.

Latest observation: 21 June 2021.

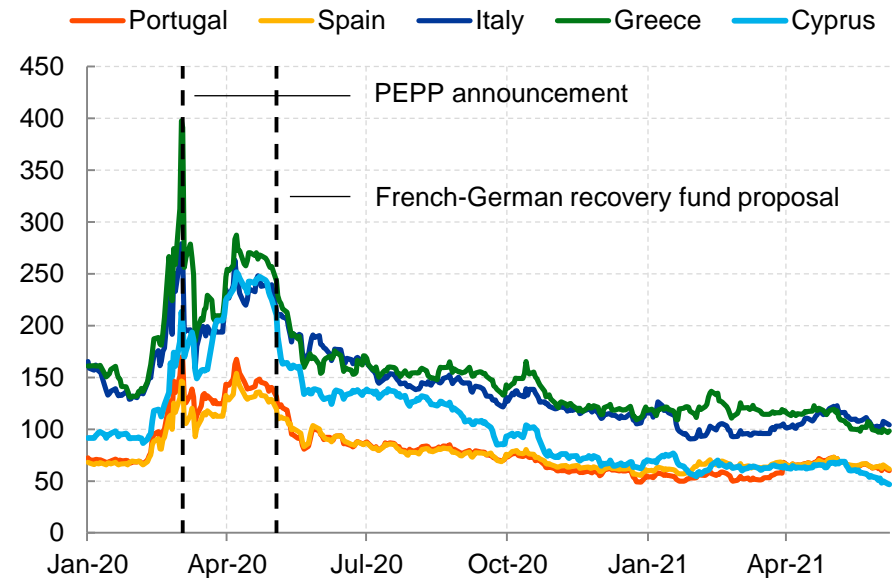
# Asset purchases offsetting upward pressure on sovereign bond yields and reducing risks of fragmentation in the euro area

## GDP-weighted sovereign bond yield curve in the euro area (%)



Source: Bloomberg, ECB.  
Latest observation: 22 June 2021.

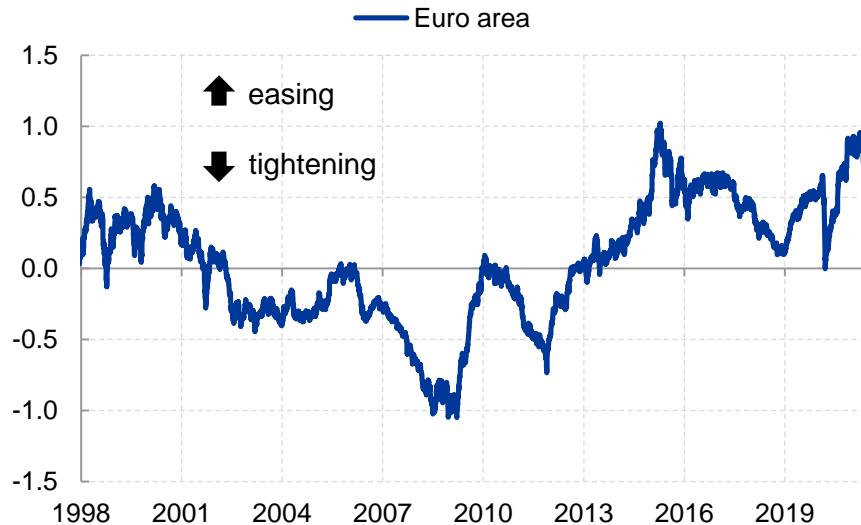
## 10-year yield spreads of selected government bonds over German equivalents (basis points)



Source: Bloomberg.  
Latest observation: 22 June 2021.

# Easing of financial conditions in the euro area, sharp jump in bank lending to corporates in spring 2020

Financial condition index for the euro area  
(index)

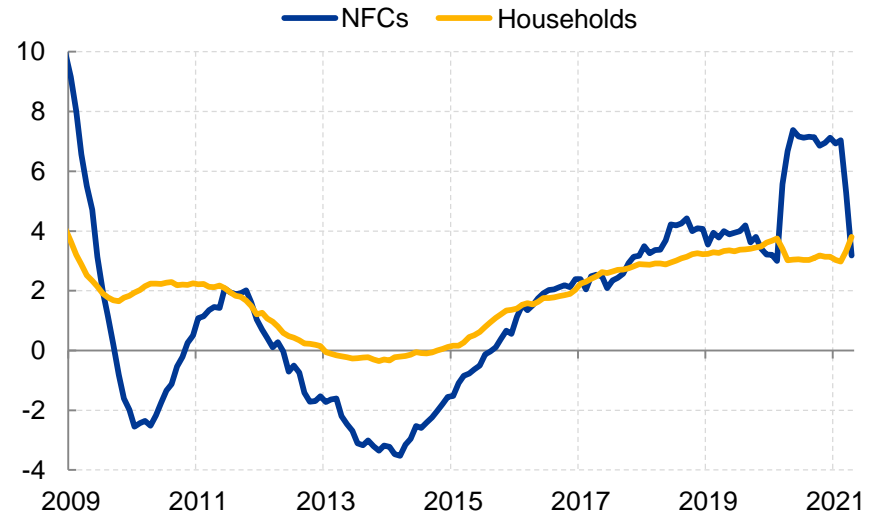


Source: Refinitiv Datastream, ECB staff calculations.

Notes: Financial condition index is computed as a weighted average of five daily financial indicators (spreads, equity prices, short and long rates, exchange rates). Euro area aggregate is the average of Germany, Italy, France and Spain.

Latest observation: 22 June 2021.

Loan growth in the euro area  
(year-on-year growth rate, %)



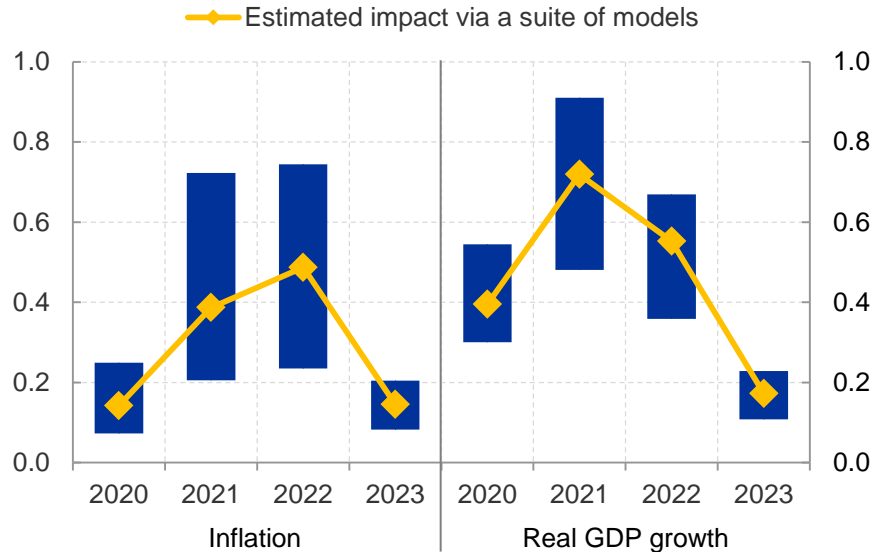
Source: Dealogic.

Note: Annual growth rates of loans are adjusted for sales, securitization and cash pooling activities.

Latest observation: April 2021.

# Noticeable impact of monetary policy on inflation and economic growth, strong economic recovery with sectoral heterogeneity

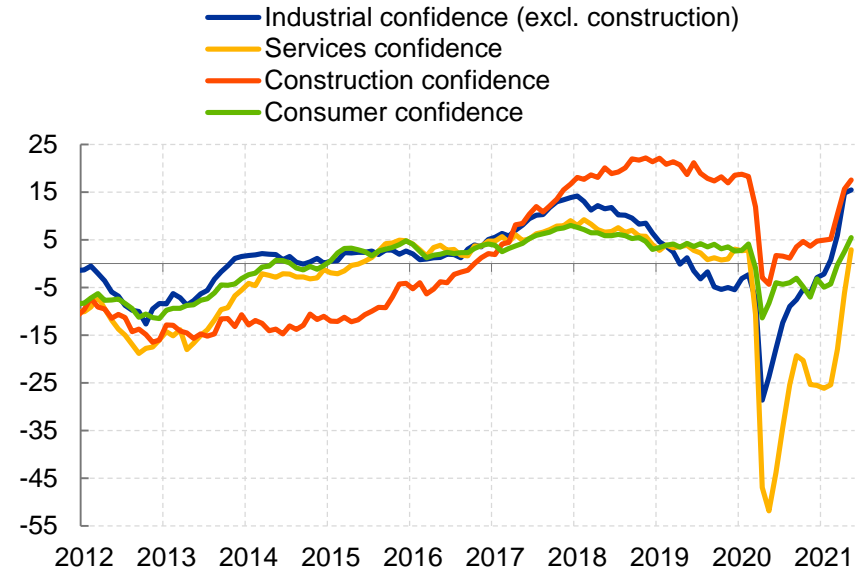
**Estimated impact of the monetary policy measures taken since March 2020 (percentage points)**



Source: ECB.

Notes: The chart shows the average of estimates from various models. The measures include the PEPP, the TLTRO III and the increase in the APP of €120 billion. The analysis refers to the estimated impact of the APP, PEPP, and TLTRO decisions in March, April and June 2020. The chart does not include the impact of the December 2020 monetary policy decision.

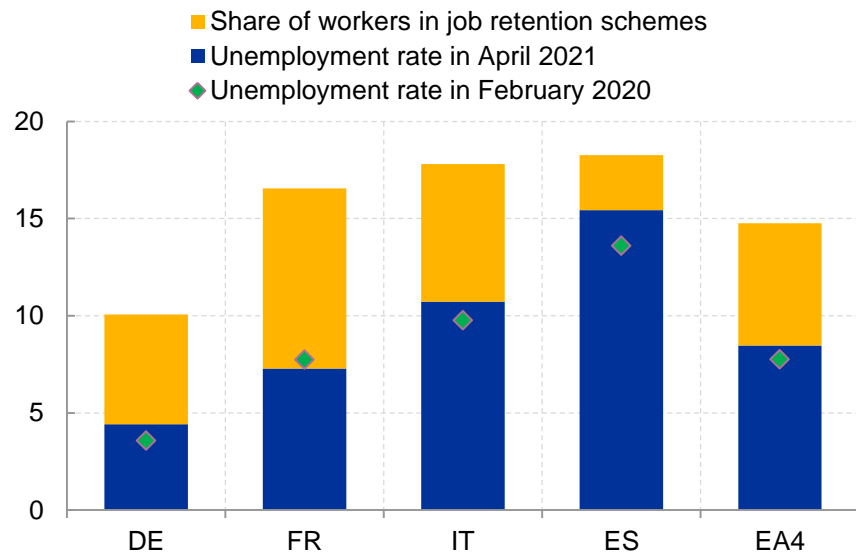
**Confidence indicators in the euro area by sector (mean-adjusted)**



Source: European Commission (DG ECFIN), ECB calculations.  
Latest observation: May 2021.

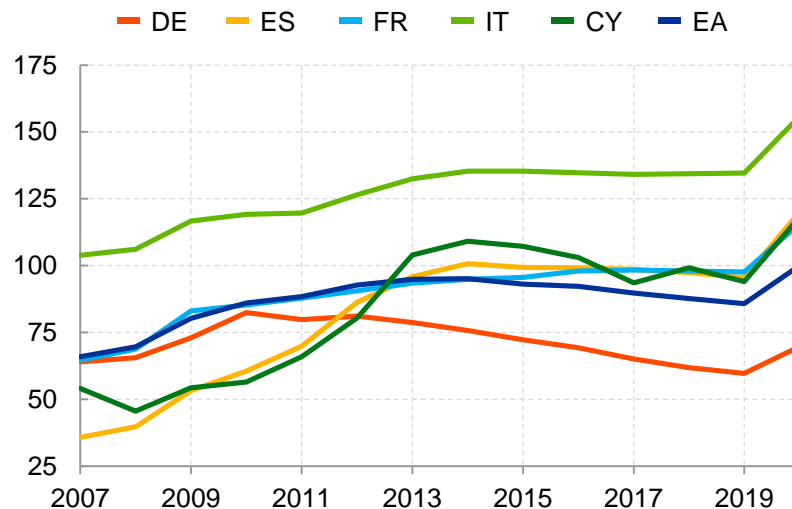
# Fiscal policy cushioning the impact of the pandemic on the labour market, rising public debt ratios with cross-country heterogeneity

## Unemployment rate and effect of short-time work schemes (%)



Source: Eurostat, Bundesagentur für Arbeit, ifo Institut, Ministère du Travail, de L'Emploi et de L'Insertion, INPS, Ministerio de Inclusión, Seguridad Social y Migraciones, ECB calculations.  
 Note: DE – Germany, FR – France, IT – Italy, ES – Spain, EA4 – Germany, France, Italy and Spain.  
 Latest observation: April 2021: Kurzarbeit, Chômage Partiel and ERTE; March 2021: Cassa Integrazione; April 2021: unemployment rate.

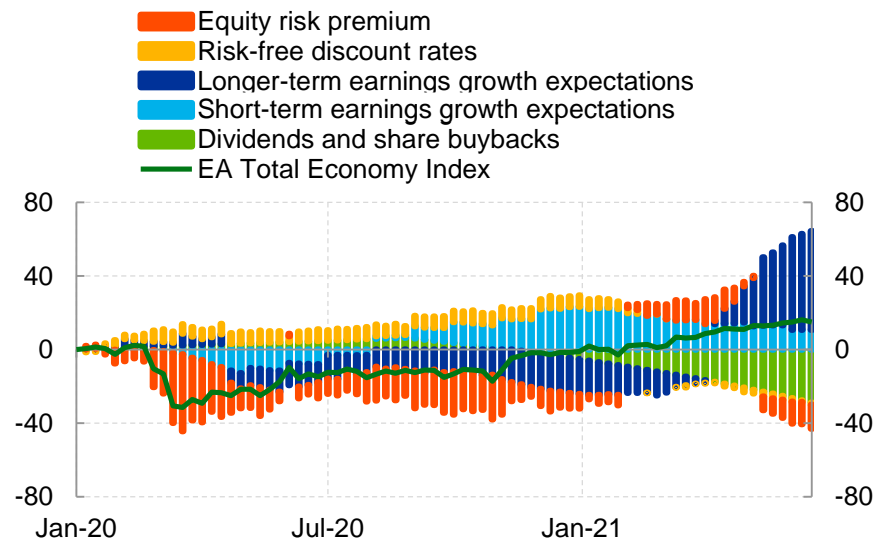
## Public debt ratios (% of GDP)



Source: European Commission.  
 Note: DE – Germany, ES – Spain, FR – France, IT – Italy, CY – Cyprus, EA – euro area.  
 Latest observation: 2020.

# Rising equity prices driven by longer-term earnings expectations, fewer signs of overvaluation in euro area equity markets than in US

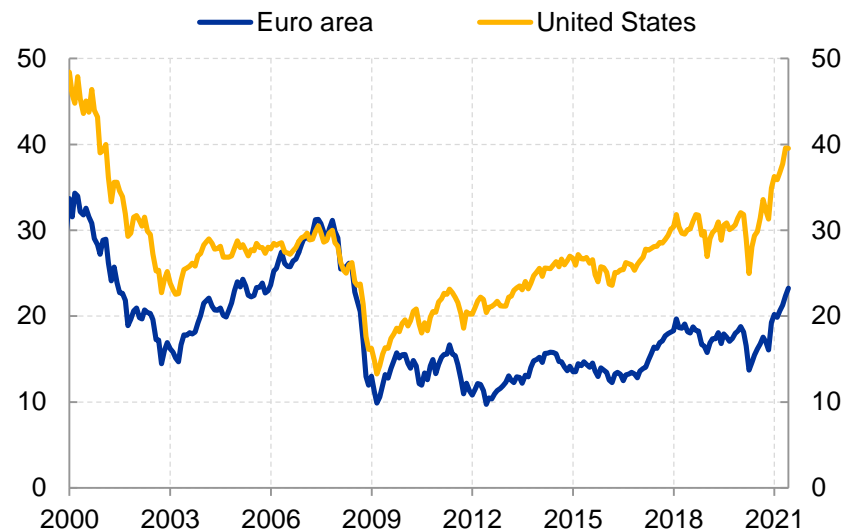
## Drivers of equity prices in the euro area (cumulative change measured in %, re-based to zero in Jan-2020)



Sources: Refinitiv, IBES, Consensus Economics, Bloomberg and ECB calculations.

Notes: The decomposition is based on a dividend discount model. The model includes share-buybacks, discounts future cash-flows with interest rates of appropriate maturity, and includes five expected dividend growth horizons. See ECB (2018), *Economic Bulletin*, Issue 4 for more details. Latest observation: 18 June 2021 (weekly data).

## US and EA Cyclically Adjusted Price-to-Earnings (CAPE) (ratio)

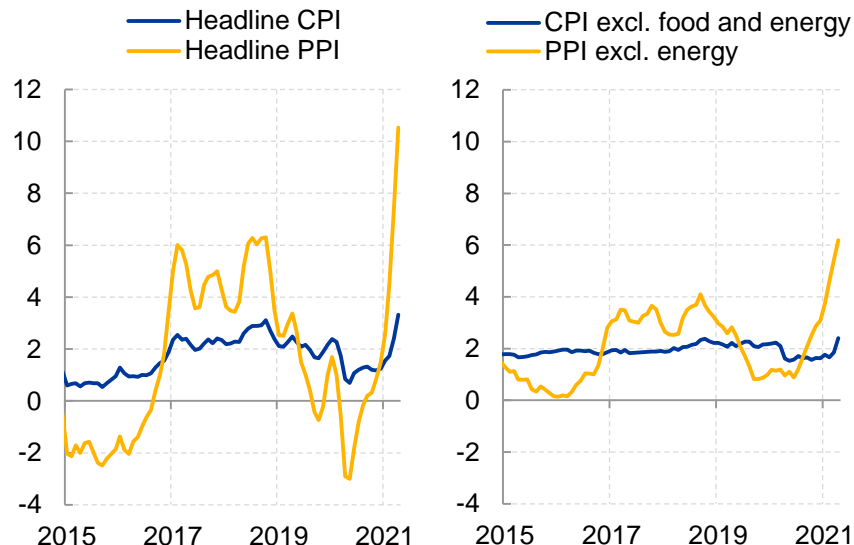


Sources: Refinitiv and ECB calculations.

Notes: The Cyclically Adjusted Price-to-Earnings (CAPE) ratio is the inflation-adjusted value of an equity index divided by the real earnings of the constituent companies averaged over the last ten years. Latest observation: May 2021 (monthly data).

# Global recovery accompanied by sharply rising commodity and producer prices, uncertainty about pass-through to consumer prices

## Global inflation measures (annual percentage changes)

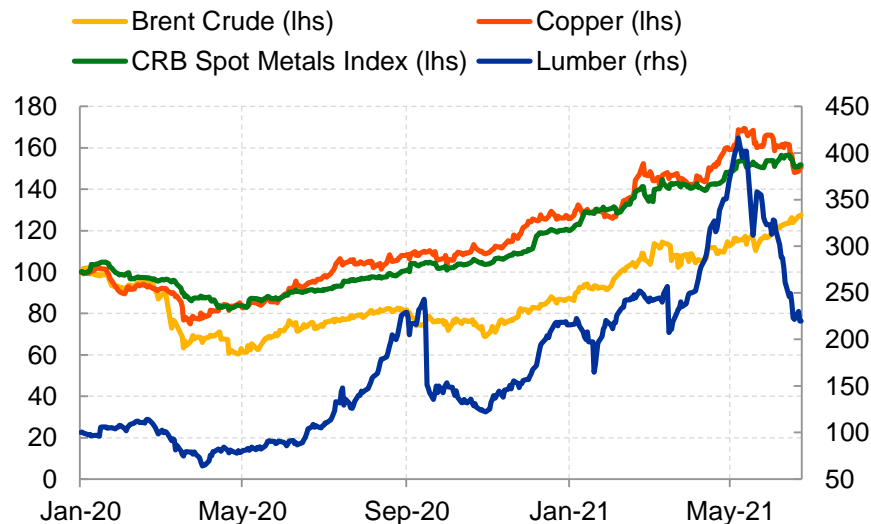


Sources: OECD, Haver Analytics and ECB staff calculations.

Note: The global CPI refers to OECD area. The global PPI is based on a GDP-PPP weights aggregation of 20 systemically important advanced and emerging market economies.

Latest observation: April 2021.

## Commodity prices (index: 1 January 2020 = 100)



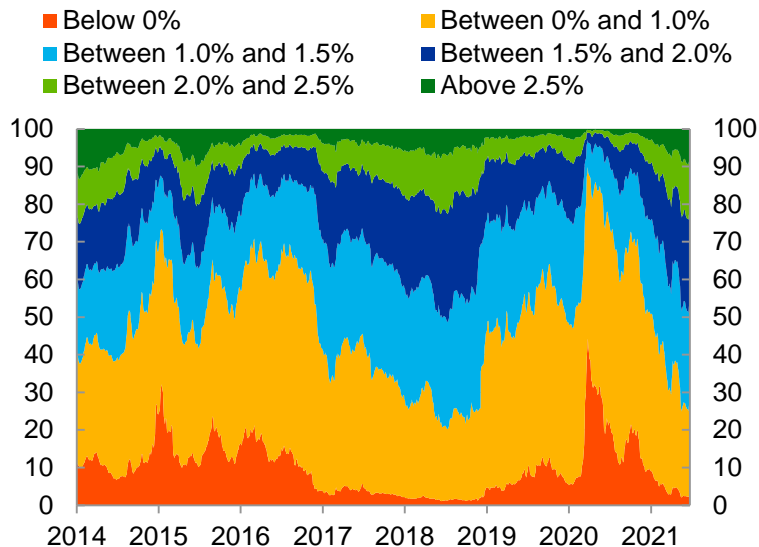
Source: Bloomberg.

Note: Copper price is LME Copper 3-month rolling forward. The CRB Industrial Metals Equity Index is issued by Commodity Research Bureau (Barchart) and is based on the unweighted geometric mean of copper scrap, lead scrap, steel scrap, tin and zinc spot prices.

Latest observation: 22 June 2021.

# Gradual recovery of inflation expectations, uncertainty about spending of accumulated excess savings

## Probability of average inflation over the next five years (%)

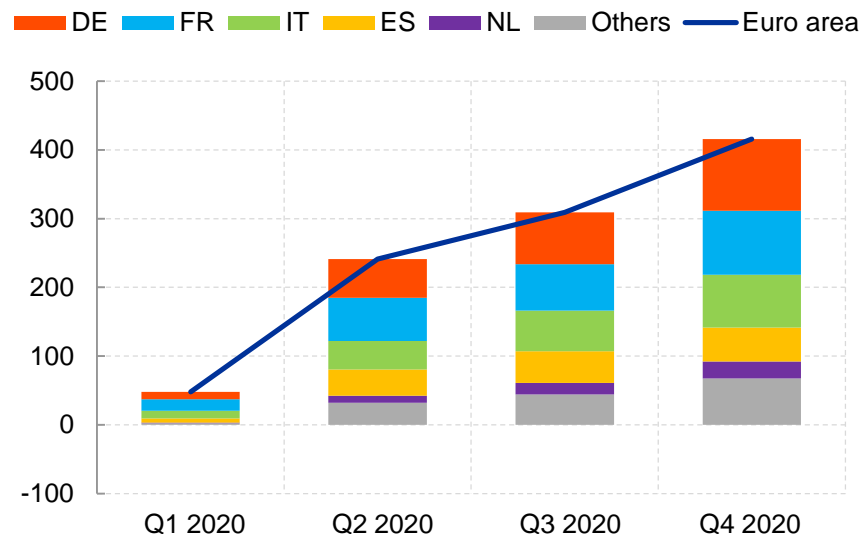


Sources: Bloomberg, Refinitiv, ECB calculations.

Notes: Probabilities implied by five-year zero-coupon inflation options, smoothed over five business days. Risk-neutral probabilities may differ significantly from physical, or true, probabilities.

Latest observation: 22 June 2021.

## Excess accumulated savings in the euro area (€ billions)



Sources: Eurostat, national sources and ECB internal estimates.

Note: Chart shows the stock of excess savings accumulated since Q4 2019. Accumulated savings is defined as the cumulated difference between realised and estimated savings based on a pre-pandemic counterfactual path.

**Thank you for your attention!**