

Monetary policy & economic adjustment in the euro area

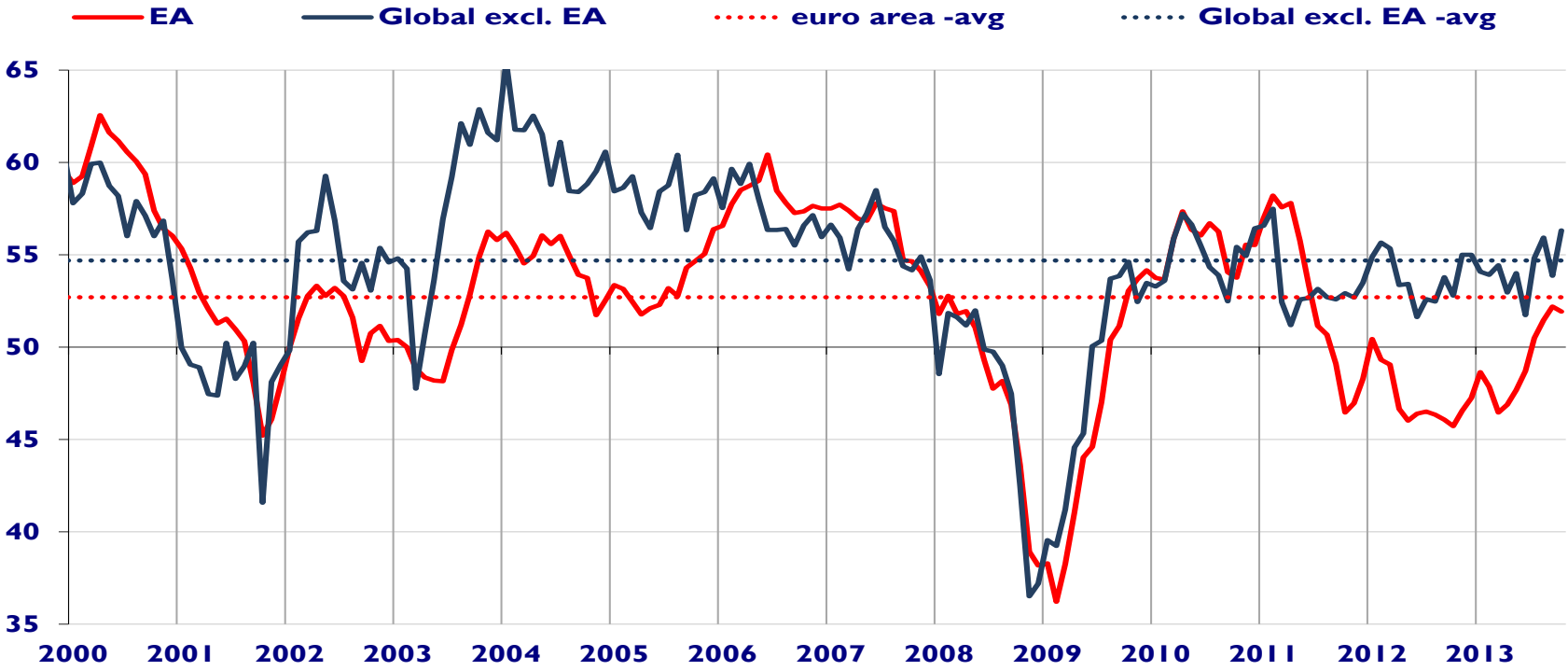
Peter Praet

Euro Finance Week

Frankfurt am Main, 19 November 2013

Global sentiment indicators broad-based improvement

Global PMI composite output (diffusion index)



Sources: Markit.
Note: Latest data refer to October 2013.

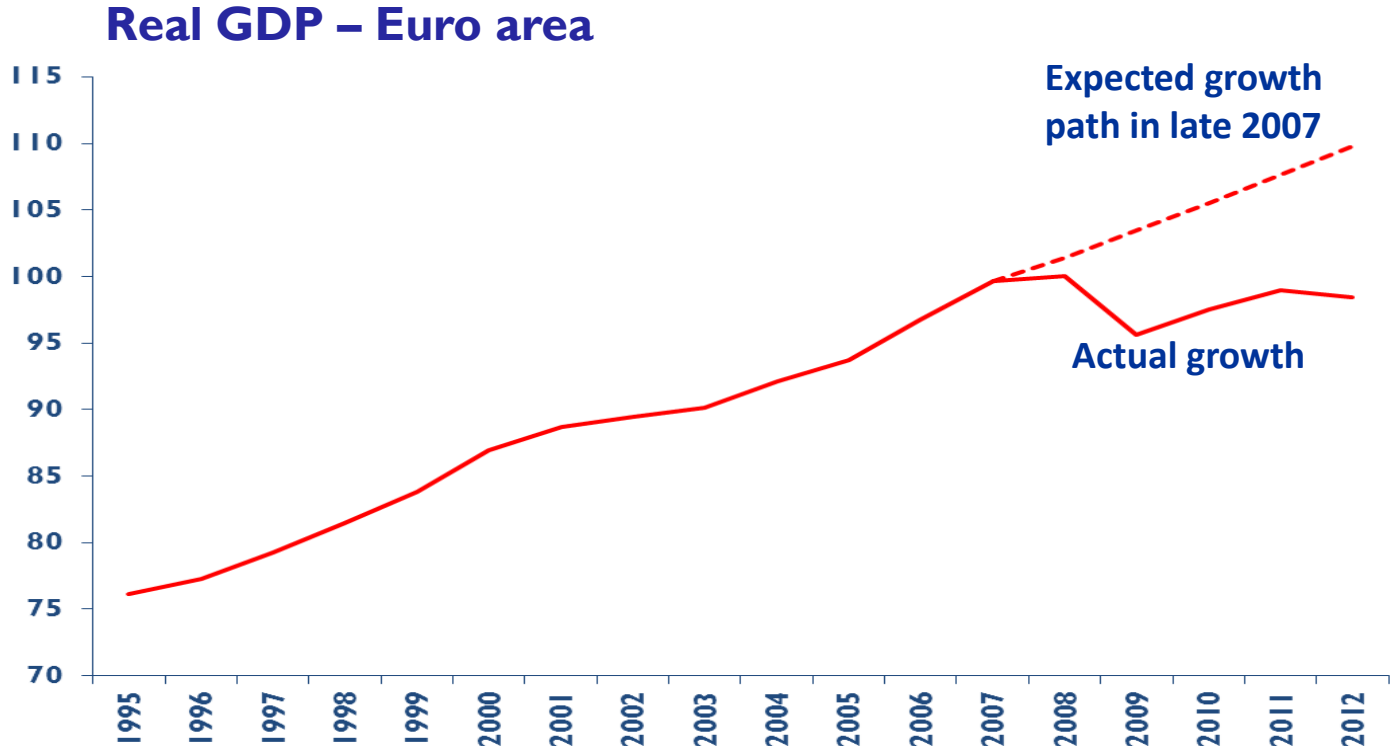
Real GDP and HICP in the euro area

<i>(annual growth in %)</i>		1999-2007	2008-2013
Real GDP	average growth	2.3	-0.3
	variance	1.1	5.3
HICP	average growth	2.1	2.0
	variance	0.1	1.1

Sources: Eurostat and Consensus Economics.

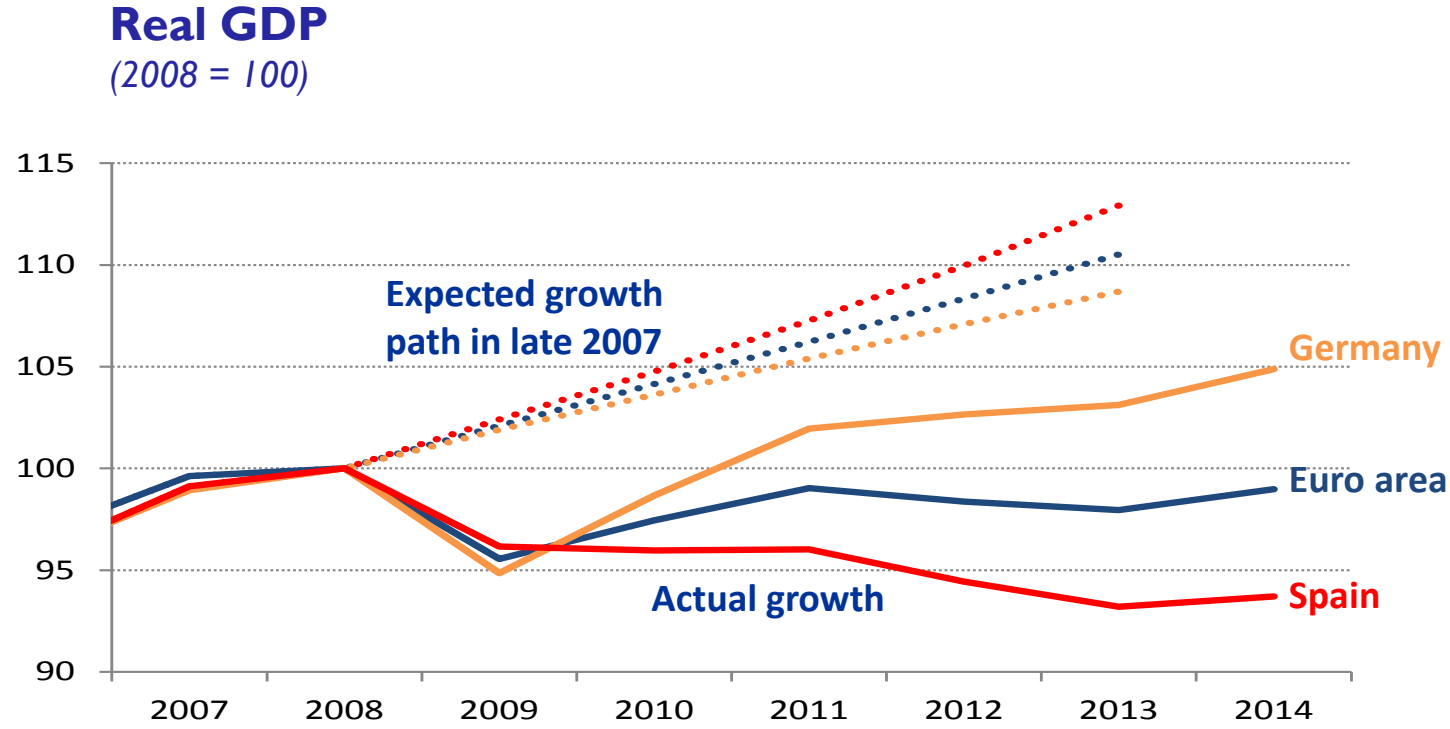
Note: Calculations based on annual data. Average growth refers to the average of growth rates. Data for 2013 refer to Consensus Economics forecast of October 2013.

Real GDP growth in the euro area



Sources: Eurostat, Consensus Economics and ECB calculations.
Latest data: 2012 for GDP forecasts. The dotted line represents the evolution of GDP based on private sector expectations as measured by Consensus Economics in January 2008.

Impact of the crisis on real GDP

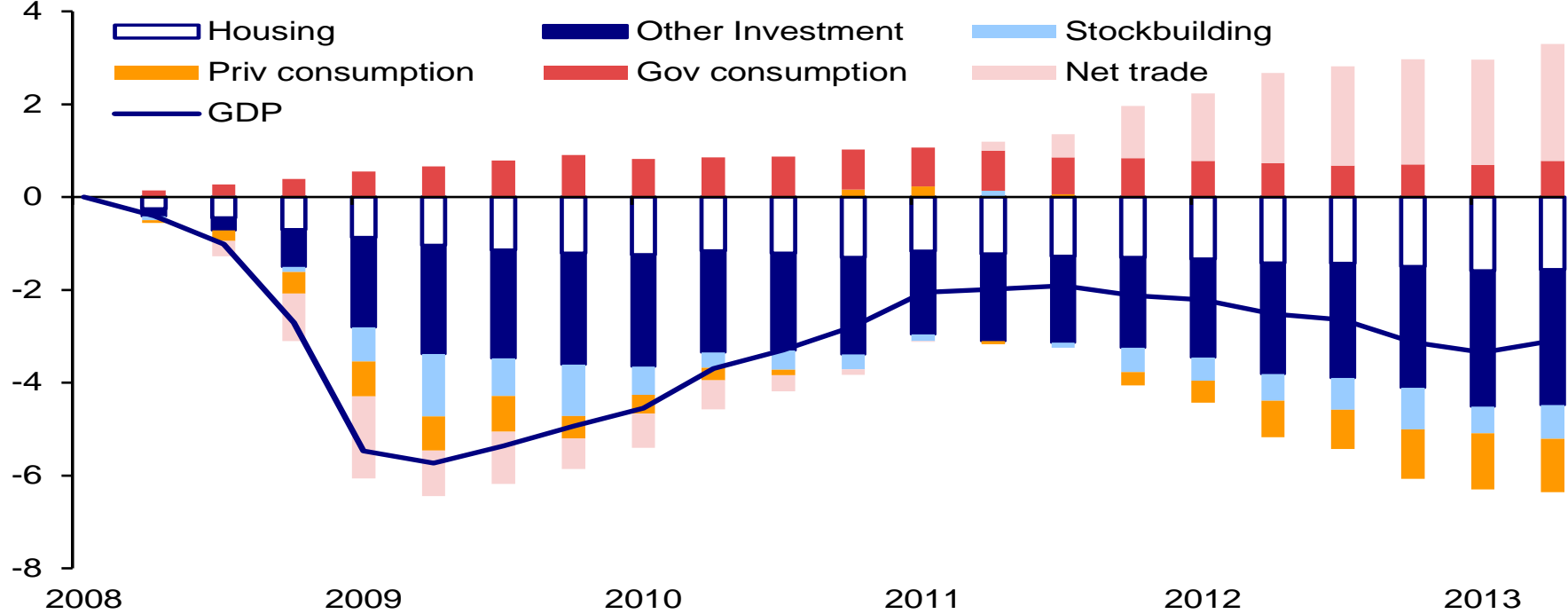


Sources: Eurostat, European Commission, Consensus Economics and ECB calculations.
Latest data: 2012 for GDP outcome. 2013 and 2014 are European Commission projections. The dotted line represents the evolution of GDP based on private sector expectations as measured by Consensus Economics in October 2007.

Weak investment drives weak growth

Contribution to cumulative change in euro area GDP

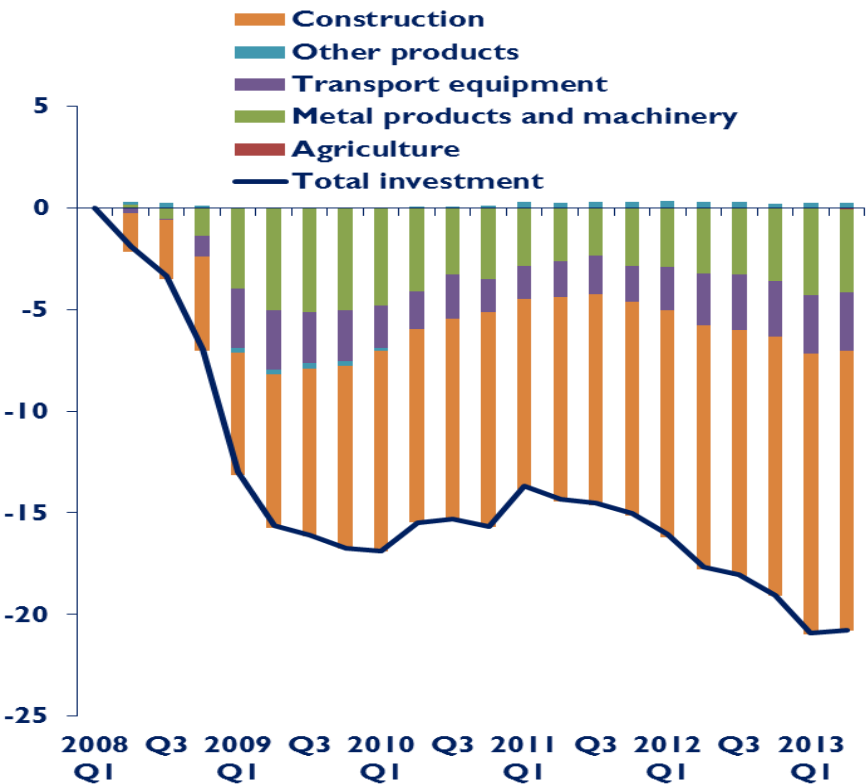
(pp. contribution from 2008Q1)



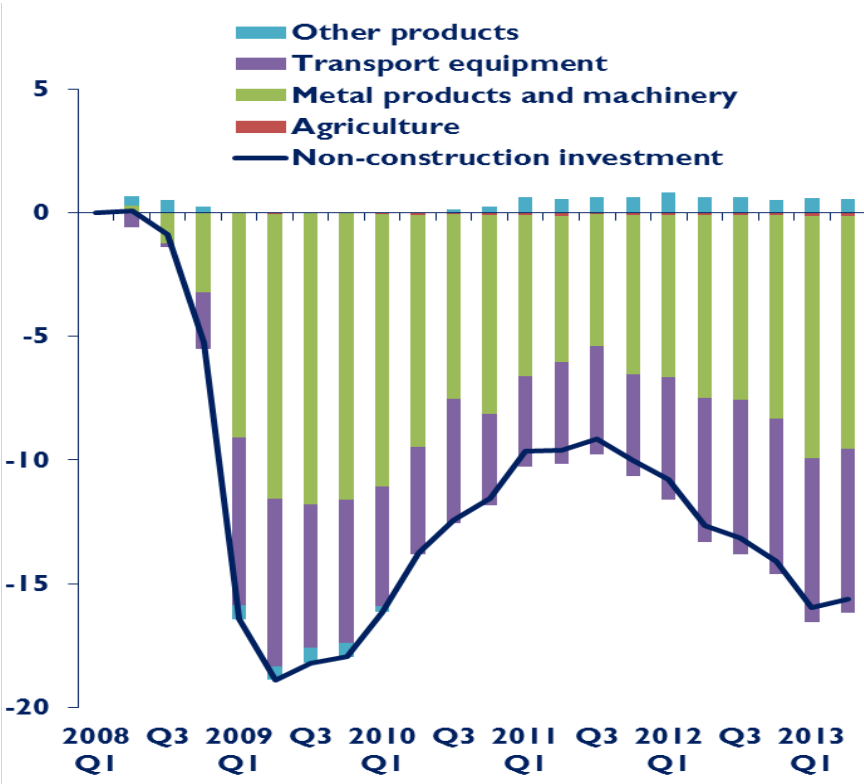
Source: Eurostat.
Latest data: 2013Q2.

Contribution to cumulative change in euro area

...total investment



...non-construction investment



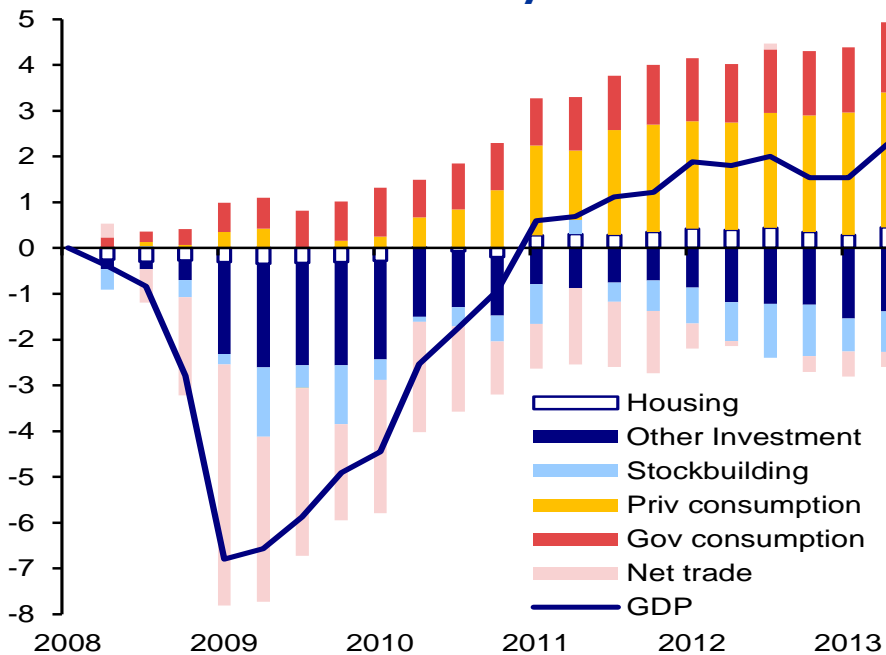
Sources: Eurostat and ECB calculations. Latest data: 2013Q2.

Variations in investment profiles across countries

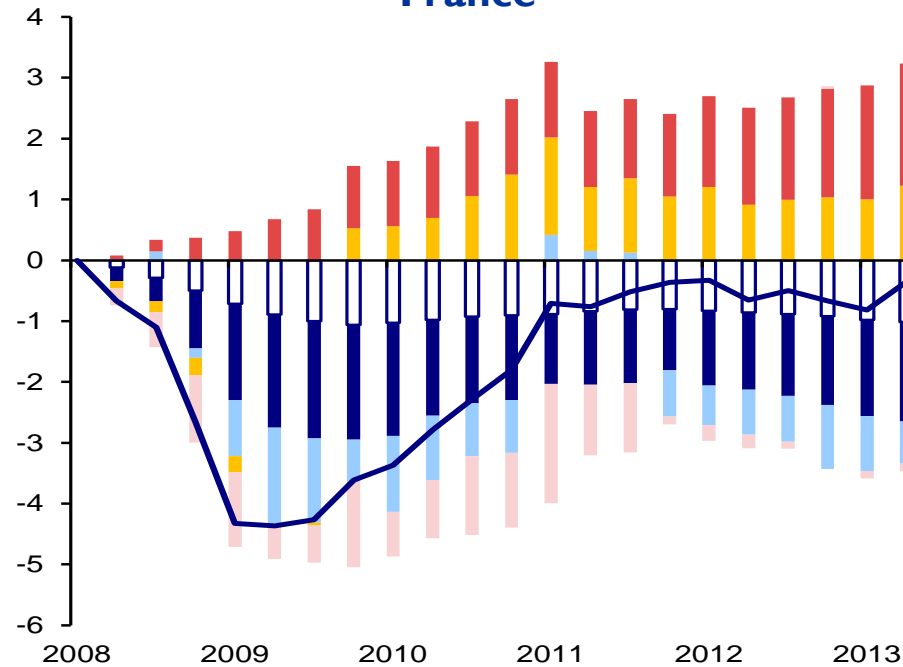
Contribution to cumulative change in national GDP

(pp. contribution from 2008Q1)

Germany



France



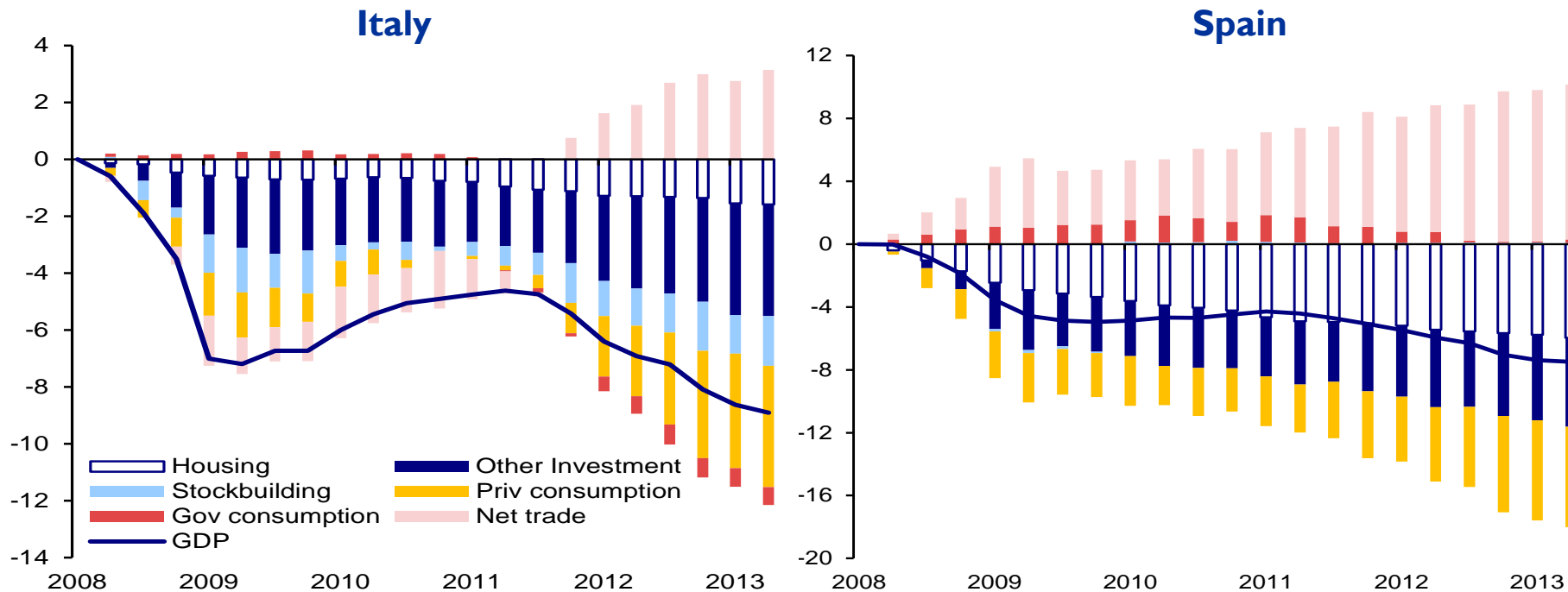
Source: Eurostat.

Latest observations: refers to 2013Q2.

Variations in investment profiles across countries

Contribution to cumulative change in national GDP

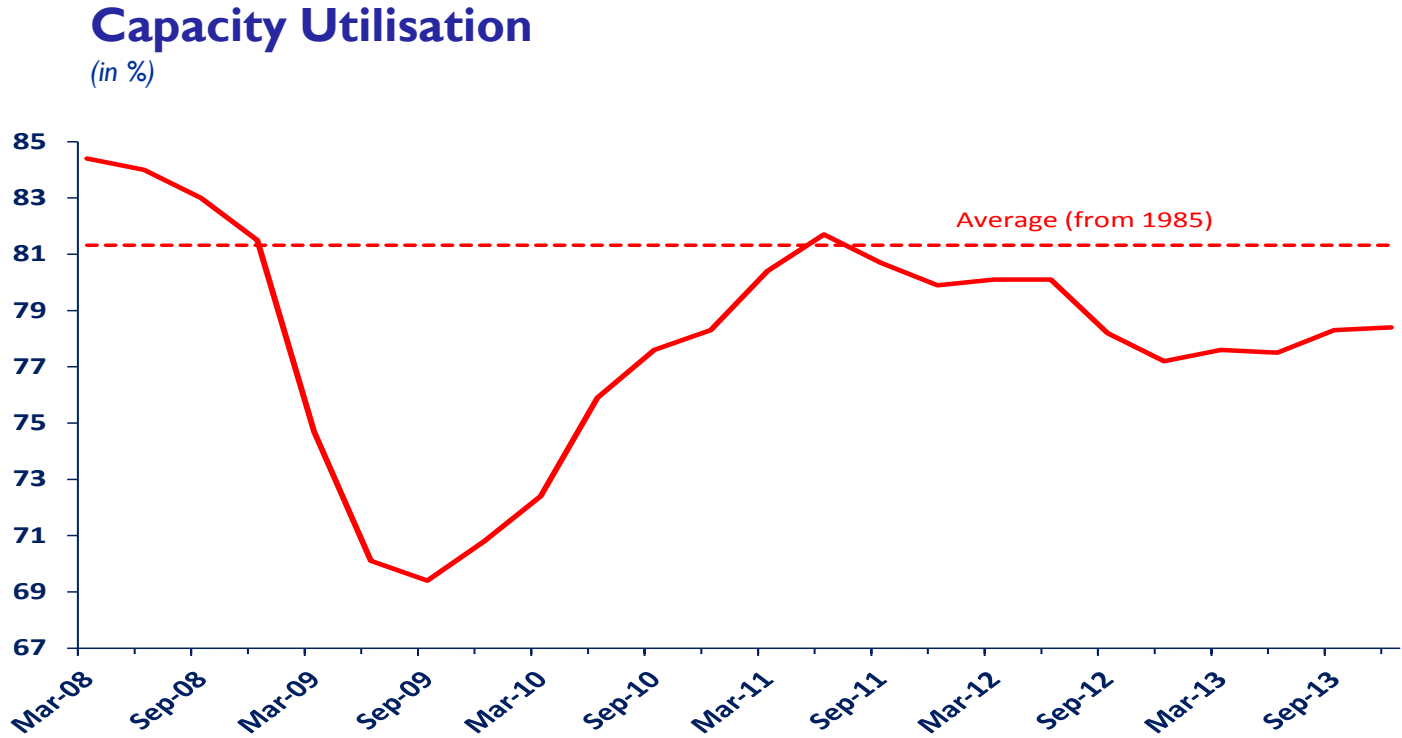
(pp. contribution from 2008Q1)



Source: Eurostat.

Latest observations: refers to 2013Q2.

Capacity utilisation in the euro area

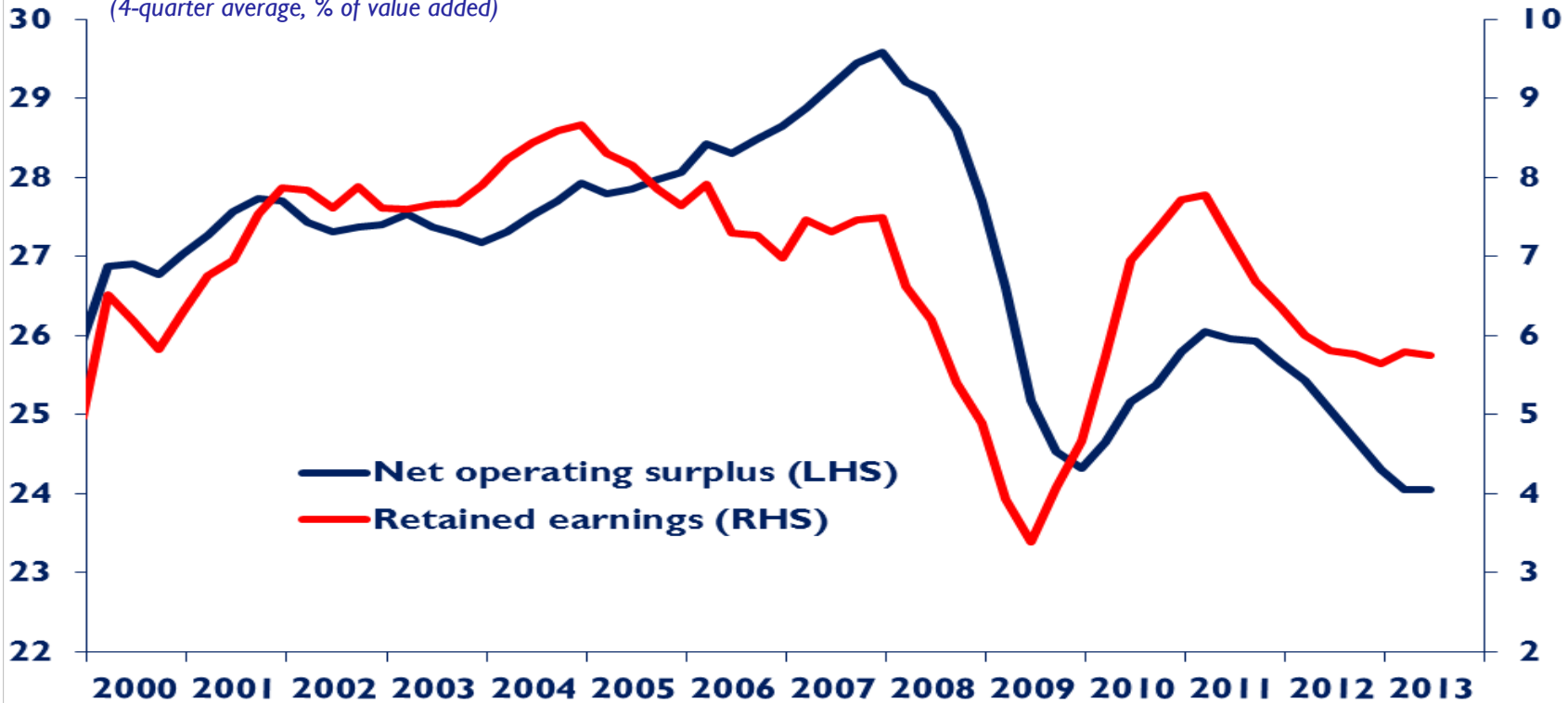


Sources: DG ECFIN and ECB calculations.
Latest data: October 2013 (2013Q4 survey).

Business profit margins and savings

NFC margins and retained earnings

(4-quarter average, % of value added)

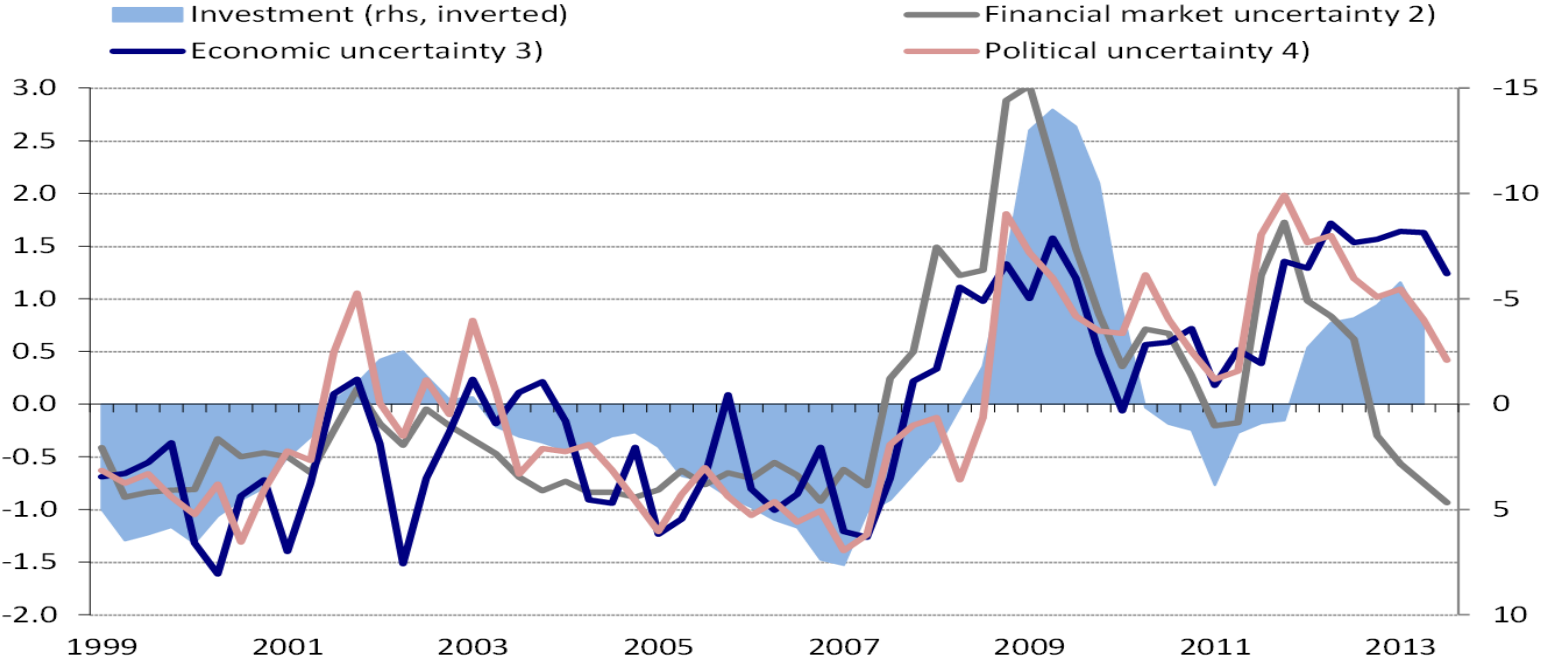


Sources: Euro area accounts (EAA), ECB and Eurostat. Latest observation: 2013Q2

Uncertainty partly explains weak investment

Change in investment and uncertainty

(lhs: standard deviations from the mean¹⁾, rhs: annual percentage change, inverted; quarterly)

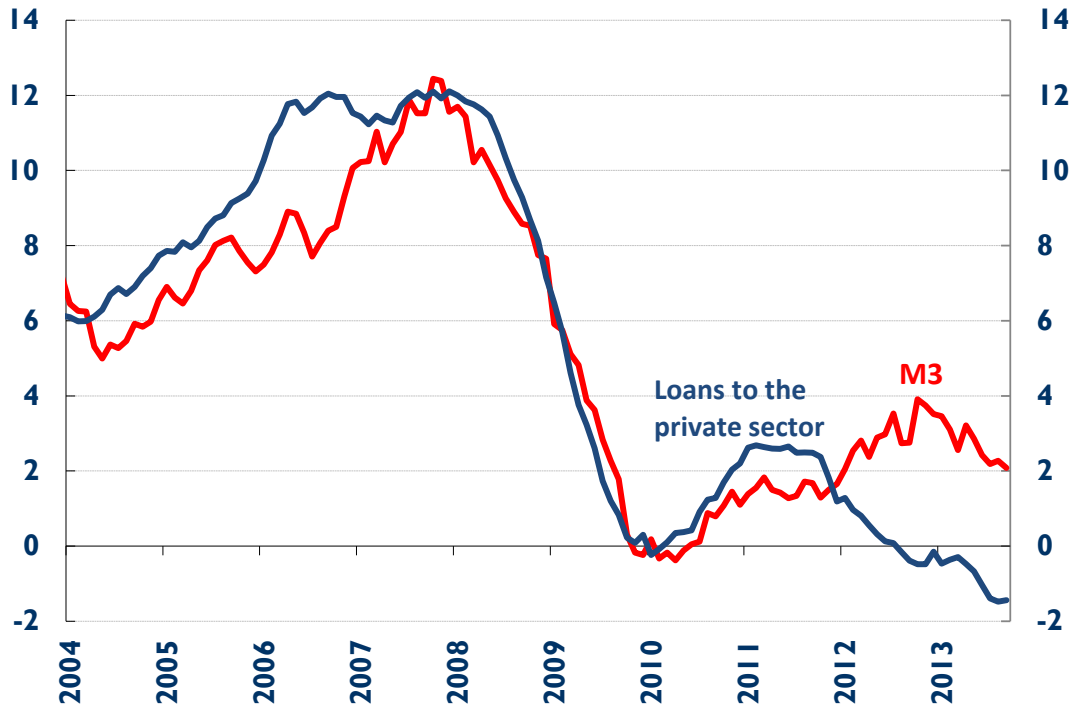


Sources: ECB financial market database, European Commission and Baker, Bloom and Davis (2012), Eurostat. Notes: 1) Mean over the period 1999Q1 to 2012Q4. 2) Based on the composite systemic stress indicator. 3) Uncertainty among private households and firms based on EC Consumer and Business Surveys. 4) Indicator based on newspaper coverage of policy related economic uncertainty and disagreement among forecasters on inflation and budget balances. Latest data: 2013Q2 for investment and 2013Q3 for uncertainty.

Subdued underlying money and credit growth

M3 and MFI lending to the private sector

(annual percentage changes, sa)

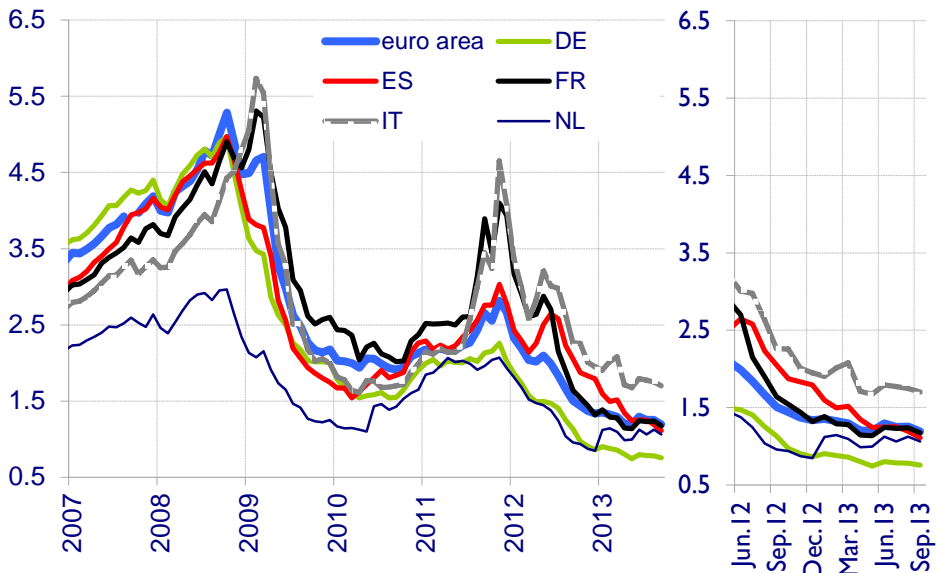


Source: ECB.
Latest observation: September 2013.

Bank funding pressures are stabilising

Banks' composite cost of deposit and non-secured market debt funding

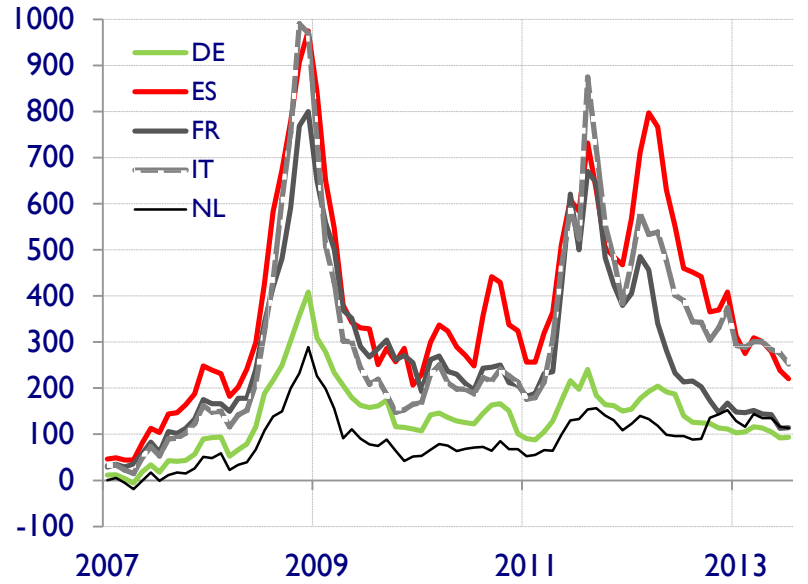
(percentages per annum)



Sources: ECB, Merrill Lynch Global index, ECB calculations.
 Note: Weighted average of deposit rates on new business and cost of market debt funding. Outlier (2008/09) smoothed out. Latest observation: September 2013.

Spread between non-secured bank bond yields and swap rates

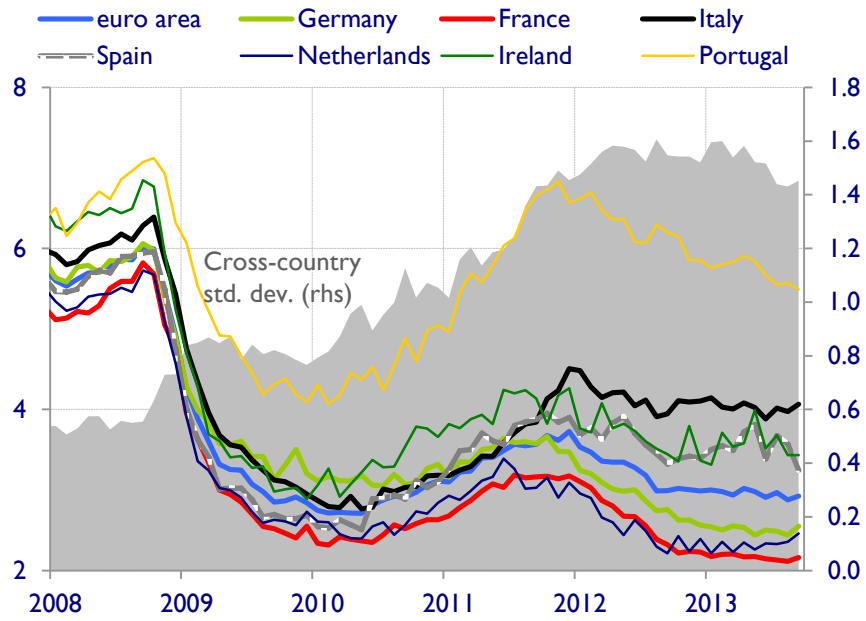
(basis points)



Sources: Merrill Lynch Global Index and ECB calculations.
 Notes: Aggregated investment grade yields by countries computed as simple averages of yields of individual bonds. The spread is computed on a monthly basis with respect to swap rates for the euro area of the closest maturity. Latest observation: October 2013.

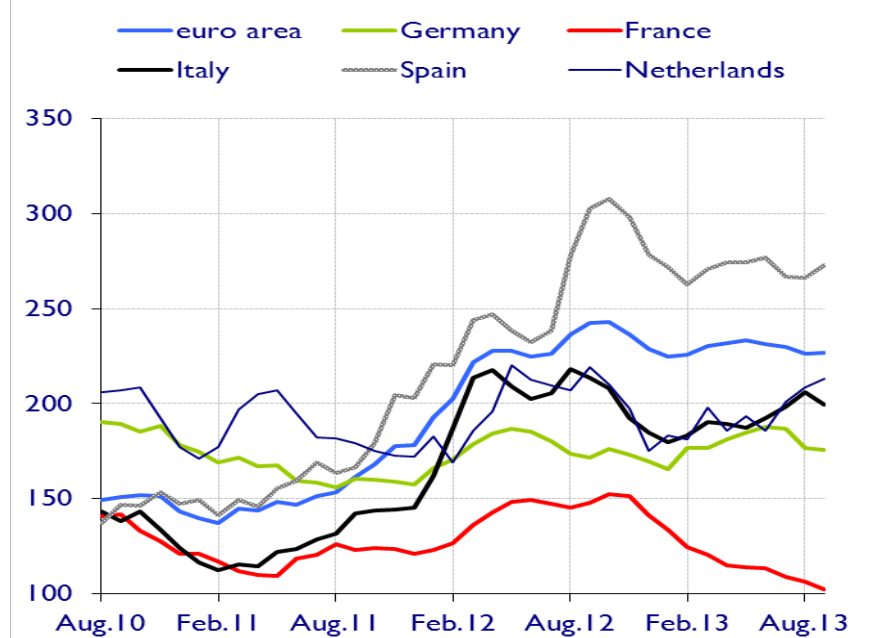
Heterogeneity in bank lending rates confirmed by recent data

Composite nominal MFI bank lending rates to NFCs (percentages per annum)



Source: ECB. Notes: The indicator for the total cost of lending is calculated by aggregating short and long-term rates using a 24-month moving average of new business volumes. The cross-country standard deviation is calculated over a fixed sample of 12 euro area countries. Latest observation: September 2013.

Spread between very small sized and large sized loans (b.p, 3 MMA)

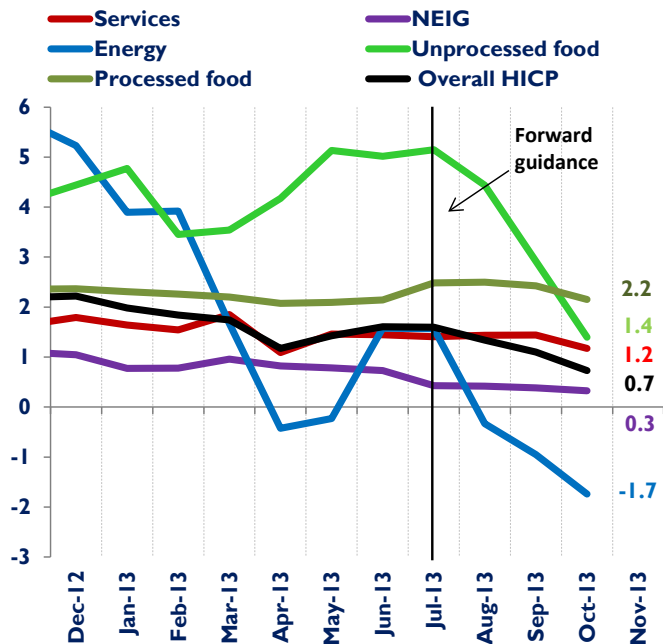


Source: ECB, MIR Statistics, ECB calculations. Note: very small sized loans are loans of less than 250.000 euros, small loans are loans of less than 1 million euros and large loans are loans of more than 1 million euros. Latest observation: September 2013.

Downward revisions to short-term outlook for HICP inflation

Euro area HICP and components

(annual percentage changes)



	weight	HICP Aug 13	HICP Sep 13	HICP Oct 13
HICP	100.0	1.3	1.1	0.7
Energy	11.0	-0.3	-0.9	-1.7
Total Food	19.4	3.2	2.6	1.9
Unprocessed food	7.3	4.4	2.9	1.4
Processed food	12.0	2.5	2.4	2.2
Services	42.3	1.4	1.4	1.2
Non-energy industrial goods	27.4	0.4	0.4	0.3
HICPX¹⁾	69.7	1.1	1.0	0.8

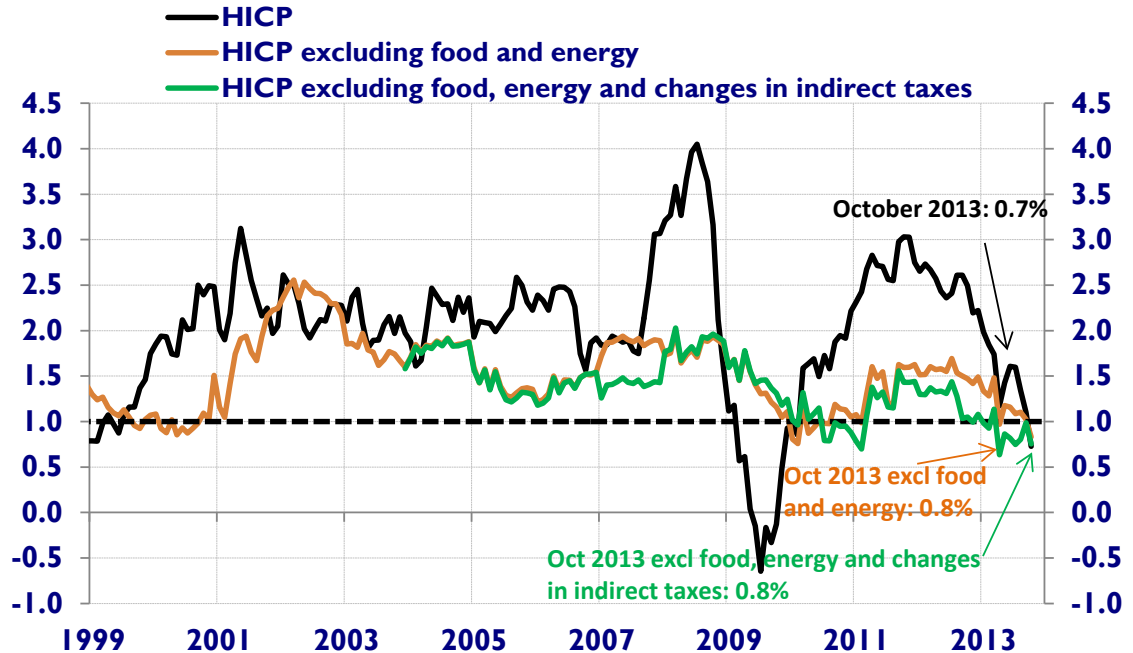
Sources: Eurostat and ECB calculations. Latest observation: October 2013.

Weights are 2013 consumer spending weights. Owing to rounding, weights may not add up to 100.

Headline inflation converges to underlying inflation

HICP inflation: overall and exclusion-based measures

(annual percentage changes)



Sources: Eurostat and ECB calculations.

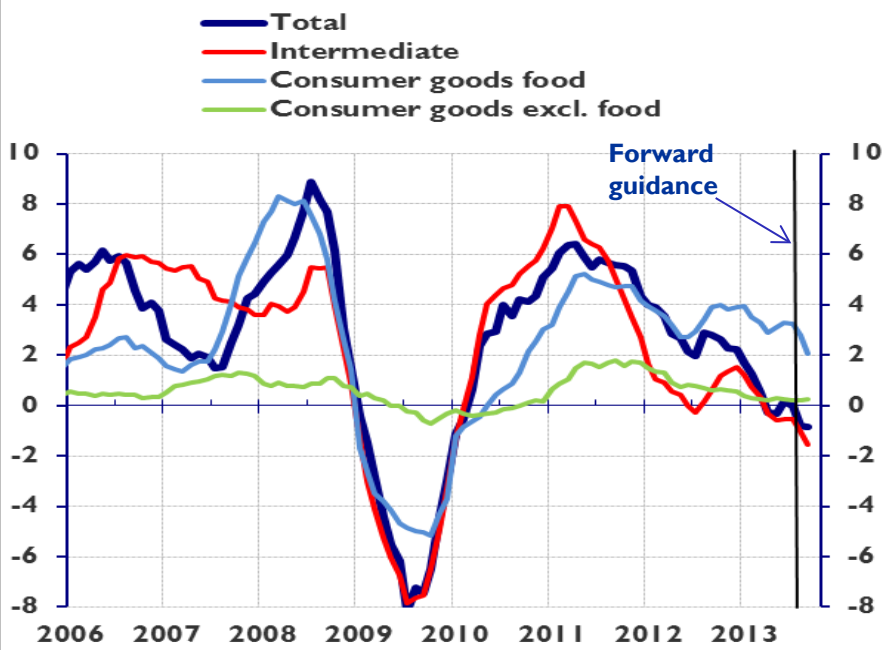
Latest observations: October 2013 for HICP and HICPX, and HICP at constant taxes.

Note: The data assume a full and immediate pass-through of indirect tax changes to consumer prices.

Producer prices suggest unchanged modest price pressures

Producer prices (excluding construction)

(annual growth rates)

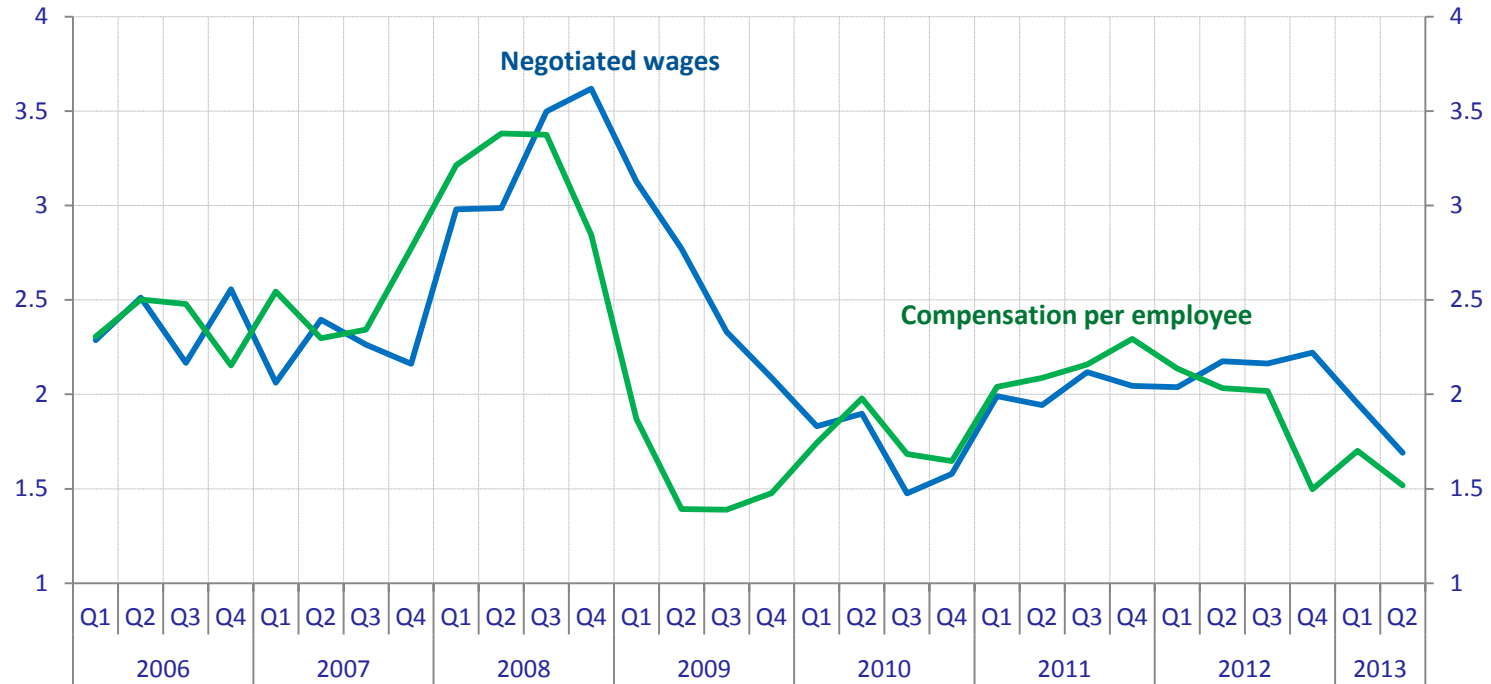


Sources: European Commission, Eurostat and ECB calculations.
Latest observation refers to September 2013.

Wages suggest unchanged modest price pressures

Negotiated and actual wages

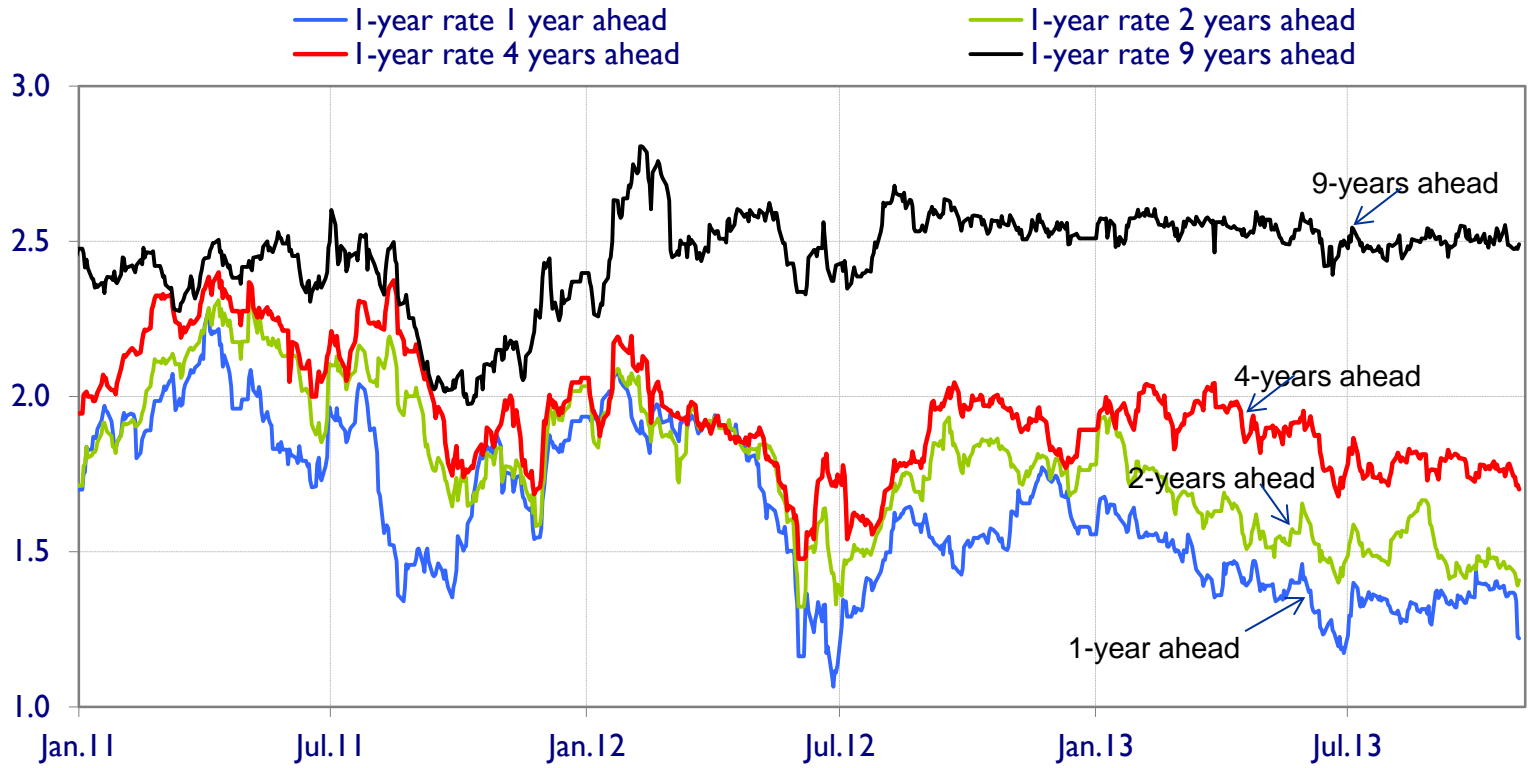
(annual percentage changes)



Sources: Eurostat and ECB calculations.
Latest observation is 2013Q2.

Short-term inflation expectations have declined

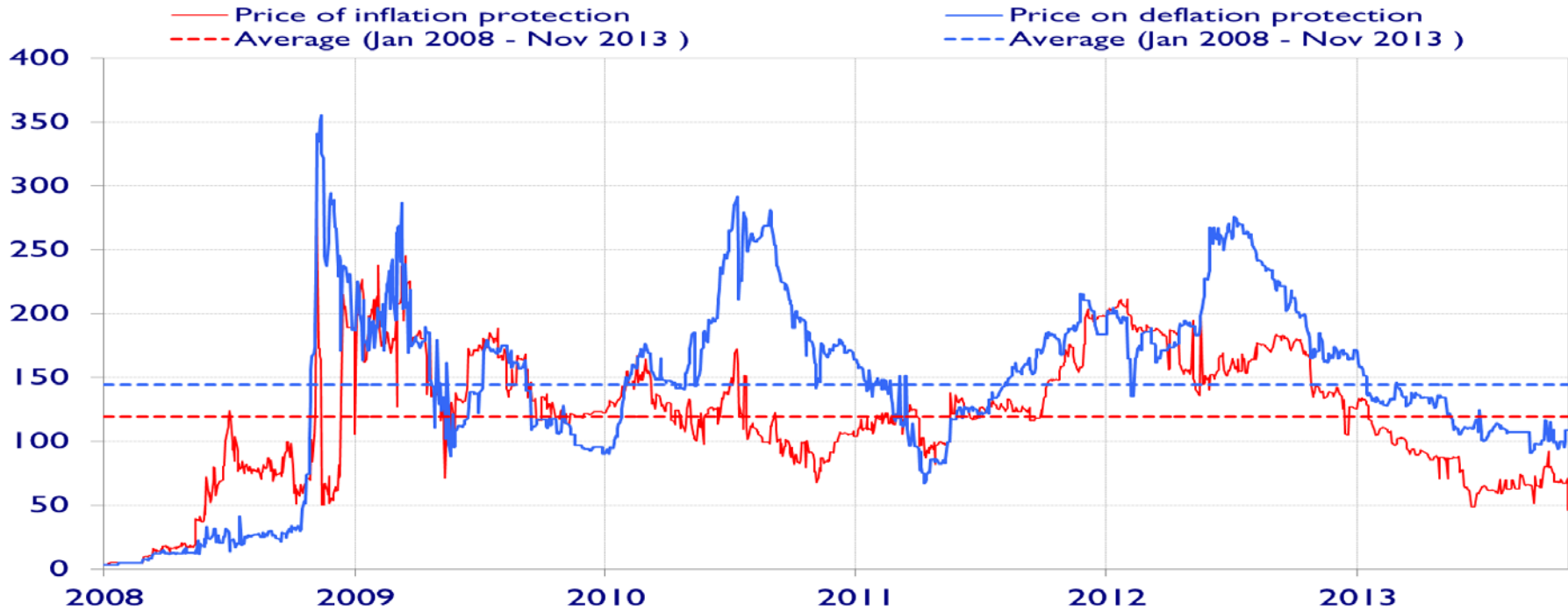
Implied forward inflation-linked swap rates



Source: Reuters and ECB calculations. Latest observation: 1 November 2013

Low prices of protecting against high and low inflation

The price of inflation and deflation protection in the euro area *(basis points)*



Source: Bloomberg. Latest observation: 31 October 2013. Note: The market for inflation-linked options is relatively illiquid and often heavily influenced by specific demand and supply patterns. Developments should therefore be interpreted with caution. The underlying instruments are for the inflation protection: year-on-year cap of 4% with 5 year maturity (latest obs. 46); for deflation protection: year-on-year floor of 0% with 5 year maturity (latest obs. 109).



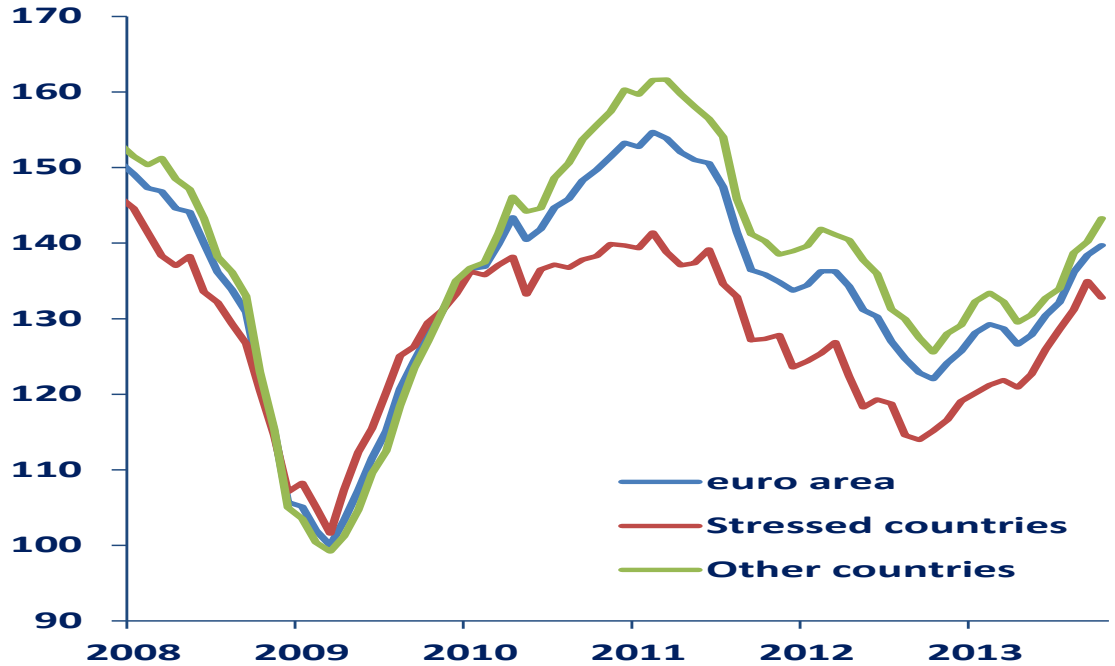
Summing up

- Cyclical upswing in the euro area confirmed but recovery remains weak, fragile and uneven.
- Stronger than expected decline in inflation across most components.
- Money and credit dynamics remain subdued.
- Inflation expectations well anchored over the longer term.

Concluding remarks

Economic Sentiment Index

(March 2009 = 100)



Sources: DG ECFIN

Latest data: October 2013

Note: "Stressed countries" refer to GR, ES, IE, IT, PT, CY & SI.