EUROPEAN CENTRAL BANK
EUROSYSTEM

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The pandemic and ECB monetary policy

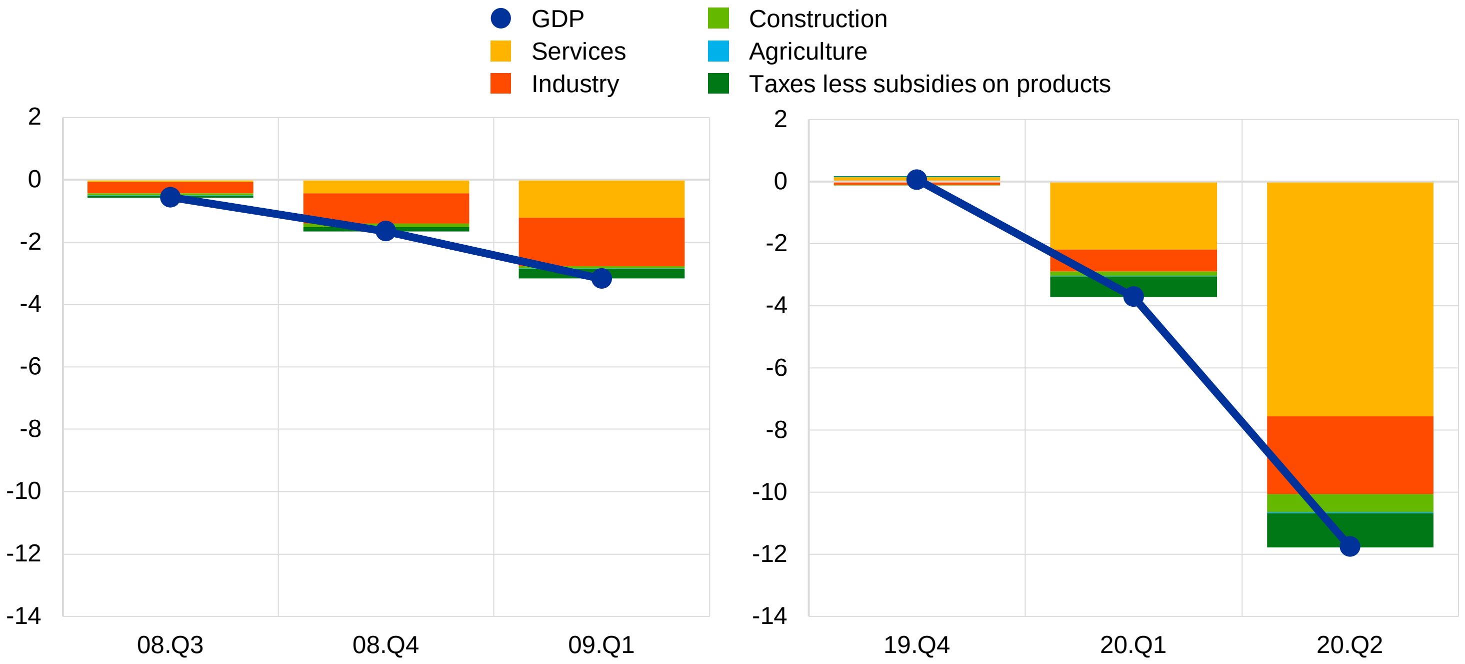
SUERF • CGEG|COLUMBIA|SIPA • EIB • SOCIETE GENERAL conference on
“How to spend it? How to pay it back? EU and US Perspectives”

14 October 2020

Chart 1

Sectoral gross value added

(quarter-on-quarter percentage changes, percentage point contributions)

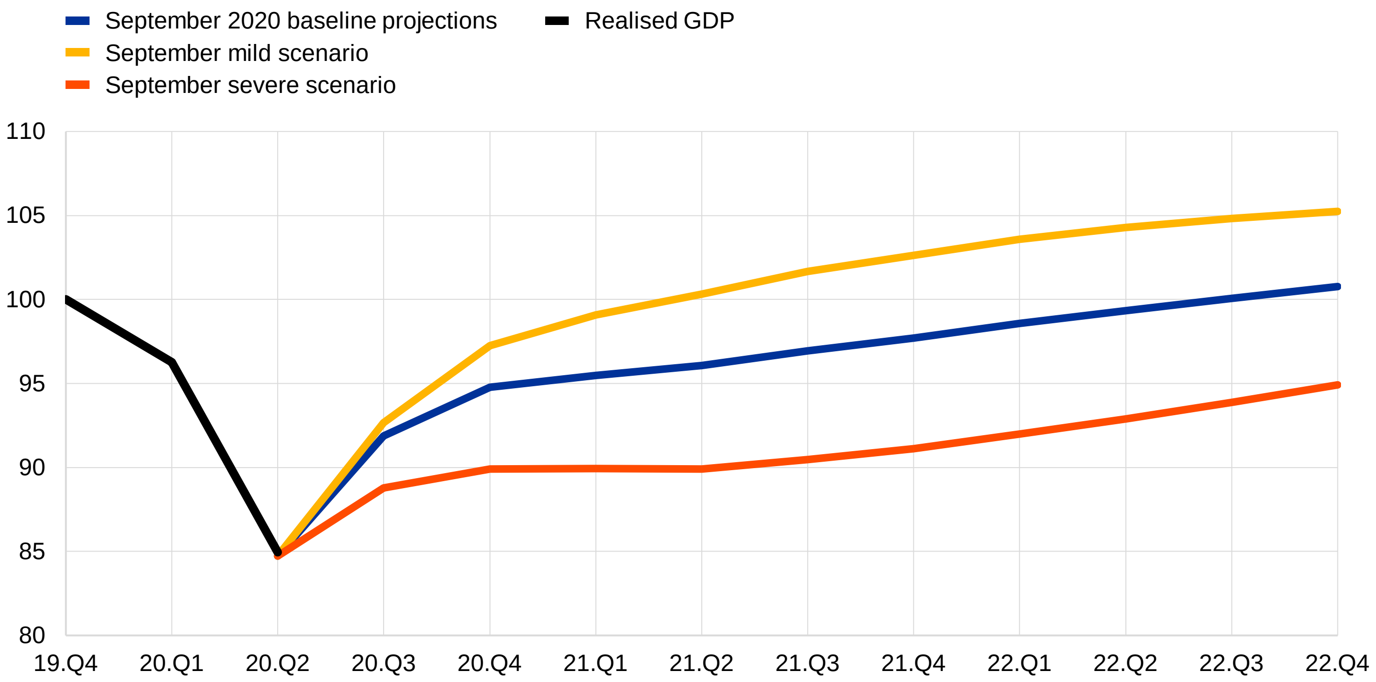


Sources: Haver and ECB staff calculations.
Notes: Aggregation based on data for Germany, Spain, France, Italy and the Netherlands. The latest observations are for the second quarter of 2020.

Chart 2

Realised and projected output

(indexed real GDP, Q4 2019 = 100)

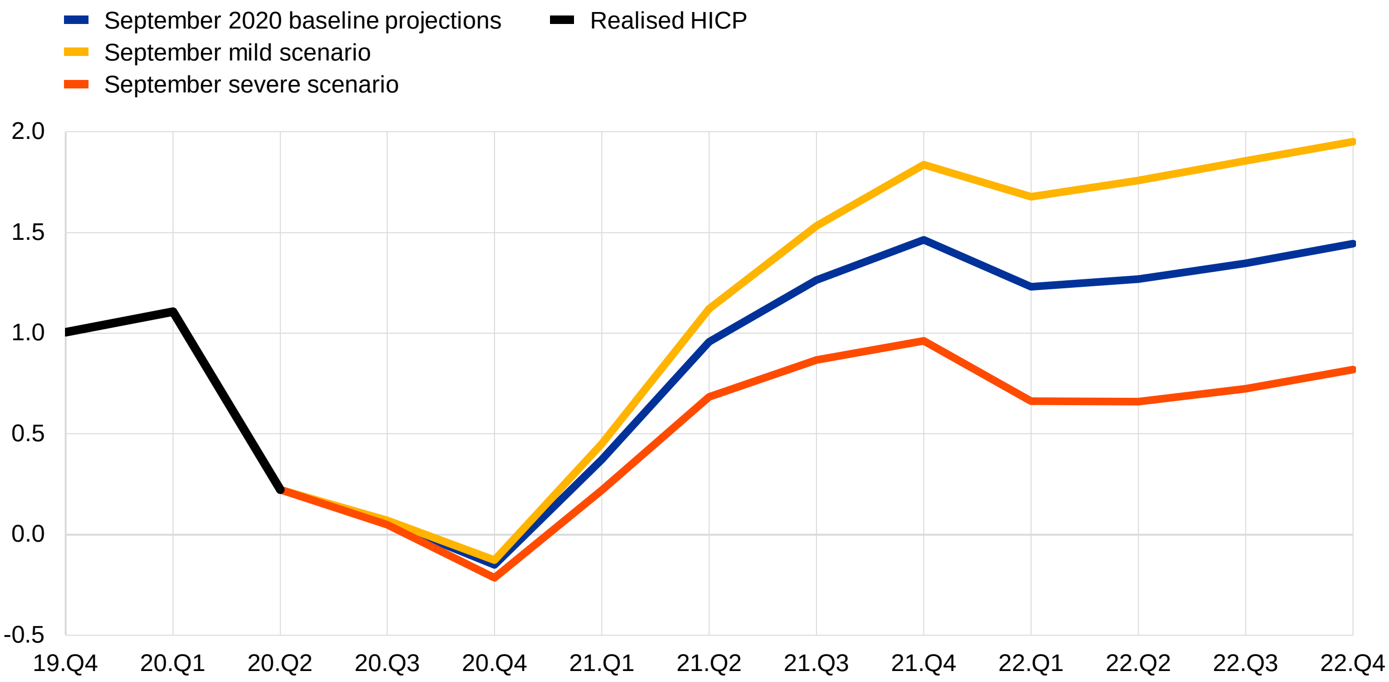


Sources: ECB staff macroeconomic projections and Eurostat.
Notes: The projections refer to the September 2020 ECB staff macroeconomic projections. The latest observations are for the second quarter of 2020 for realised data and the fourth quarter of 2022 for projections.

Chart 3

Realised and projected headline inflation

(annual percentage changes)



Sources: ECB staff macroeconomic projections and Eurostat.
Notes: The projections refer to the September 2020 ECB staff macroeconomic projections. The latest observations are for the second quarter of 2020 for realised data and the fourth quarter of 2022 for projections.

Chart 4

ECB measures since the start of the pandemic

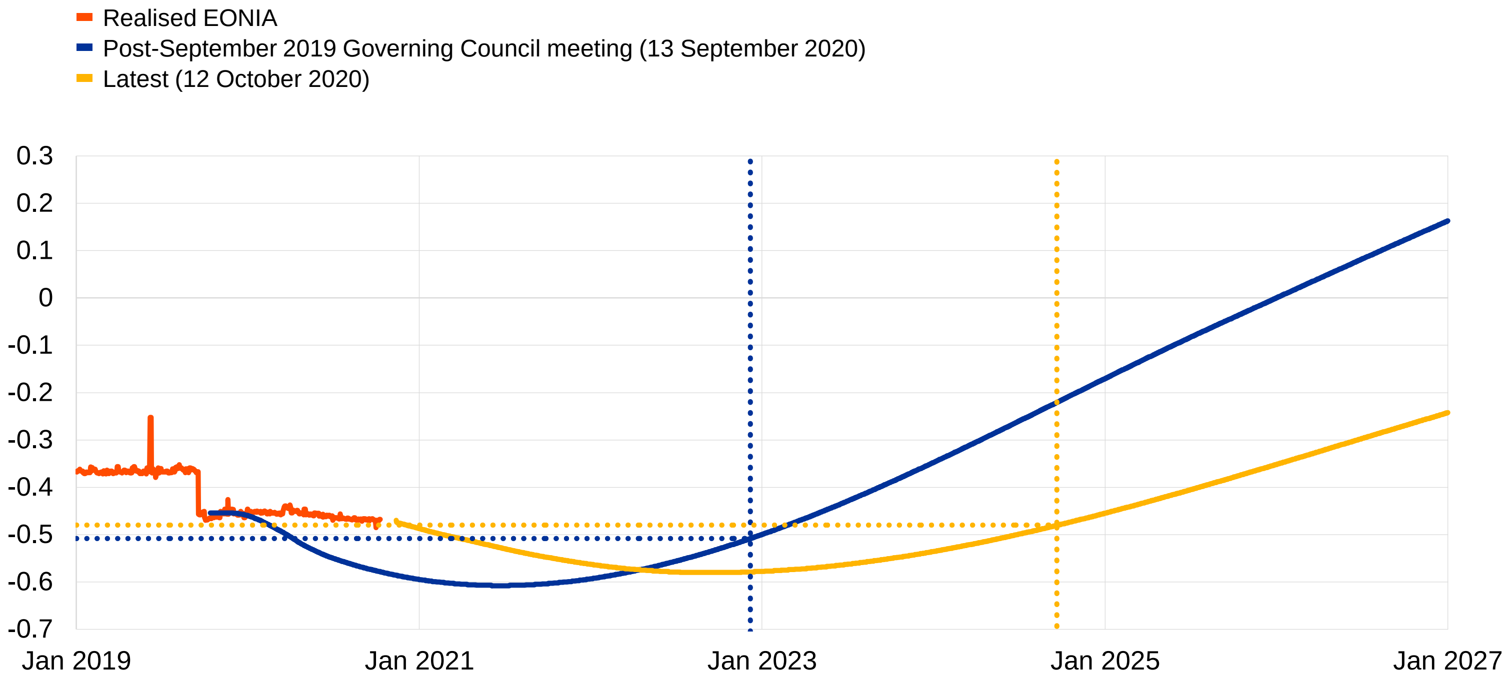
	March 2020	April 2020	June 2020	July and August 2020
Asset purchases	**APP expanded temporarily** • additional €120 billion in 2020, while continuing ongoing monthly purchases of €20 billion and reinvestments • NFC commercial paper made eligible			
	PEPP launched • €750 billion envelope until at least December 2020 • flexible allocation across time, assets, countries • wider eligibility than APP		**PEPP expanded** • increase by €600 billion to €1,350 billion and extension by six months until at least June 2021 • reinvestments at least until end of 2022	
Lending programmes*	**TLTRO III conditions eased** • borrowing rate -25 to -75 bps (June 2020 to June 2021), depending on lending performance • borrowing allowances raised, etc.	**TLTRO III conditions eased further** • borrowing rate -50 to -100 bps (June 2020 to June 2021), depending on lending performance • further easing of terms and conditions		
	Additional LTROs • facilitating switch into TLTRO-III	**PELTROs introduced** • interest rate of -25 bps • seven operations from May 2020, maturing by September 2021		
		Collateral requirements eased temporarily • reduction of collateral valuation haircuts, mitigation of impact of potential rating changes, wider eligibility of credit claims, eligibility of Greek sovereign debt instruments		
Swap/repo lines	**EUR swap lines reactivated** • with the central bank of Denmark	**EUR swap lines set up** • with central banks of Croatia and Bulgaria	**EUREP repo facility and EUR repo line set up** • new Eurosystem repo facility to provide euro liquidity to non-euro area central banks (EUREP) • repo line with central bank of Romania set up	**EUR repo lines set up** • with central banks of Albania, Hungary, Serbia, Republic of North Macedonia and San Marino
	USD swap lines reactivated • with Federal Reserve and other major central banks, USD provision through liquidity swap line • daily seven-day and weekly 84-day operations		**Frequency of seven-day USD operations reduced** • to three per week	**Frequency of seven-day USD operations reduced** • to one per week as of 1 September
Supervisory measures	**Temporary capital, liquidity and operational relief** • facilitating use of capital and liquidity buffers • flexible prudential treatment of loans backed by public support measures and mitigation of procyclicality in accounting • recommendation against dividend payments	**Temporary reduction in capital requirements for market risk**		**Further guidance** • guidance against dividend payments and for moderation in remuneration • clarification on restoration of capital/liquidity buffers and supervisory expectations on addressing debtor stress

Source: ECB staff.
Notes: *The interest rates on the lending programmes are linked to the key ECB interest rates. The lending performance for the temporary rate reduction of TLTROs is targeted towards the pandemic period. The ECB reconfirmed its forward guidance on the path of policy interest rates and the APP throughout this period.

Chart 5

EONIA forward curve and lift-off dates

(percentages per annum)

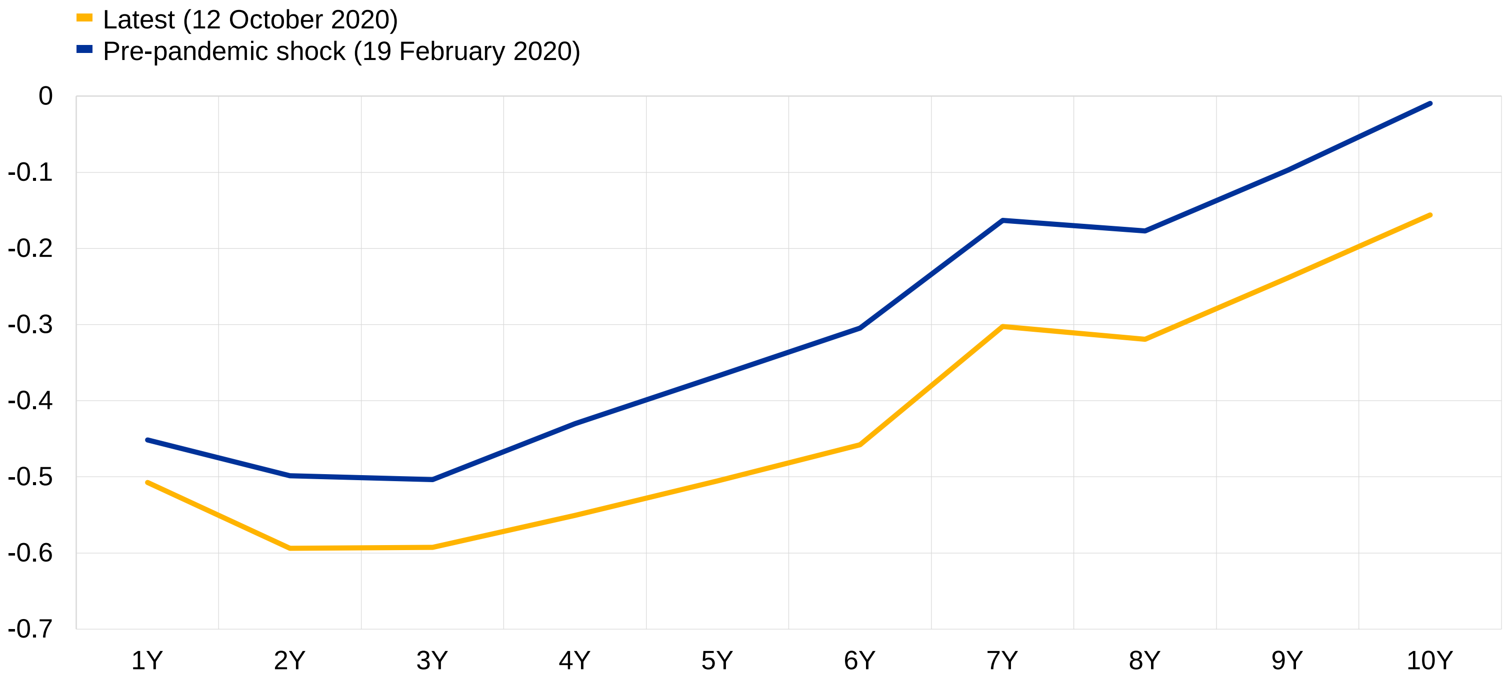


Sources: Bloomberg and ECB calculations.
Notes: Dotted lines indicated lift-off dates based on the trough of the curve plus 10 basis points. The latest observations are for 12 October 2020.

Chart 6

Euro area GDP-weighted yield curve

(percentages)

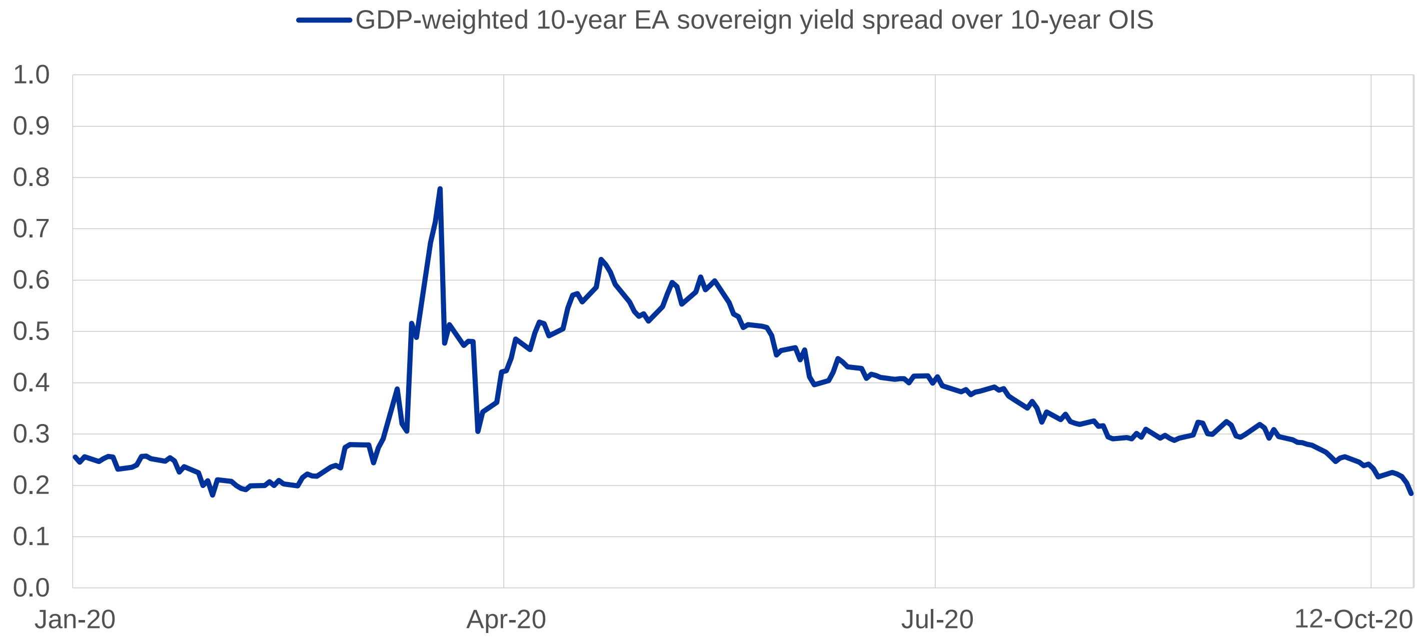


Sources: Bloomberg and ECB calculations.
The latest observations are for 12 October 2020.

Chart 7

GDP-weighted 10-year euro area sovereign yield spread over 10-year OIS rate

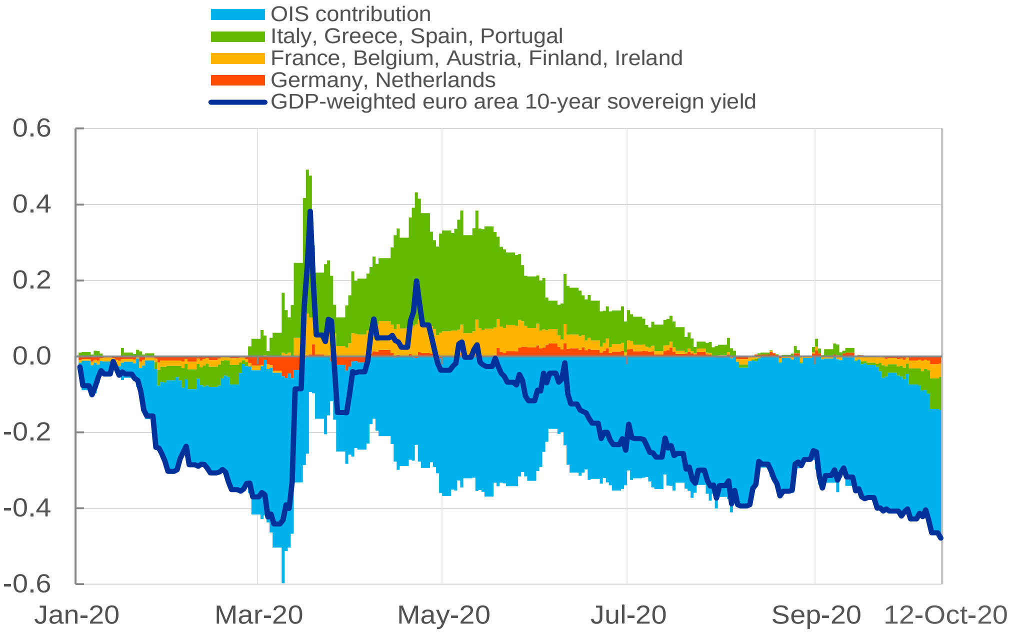
(percentages)



Sources: Refinitiv and ECB calculations.
Notes: The spread is the difference between the euro area GDP-weighted 10-year sovereign yield and the 10-year OIS rate. The latest observations are for 12 October 2020.

Euro area sovereign yields

(cumulative changes since 1 January 2020, percentage points)

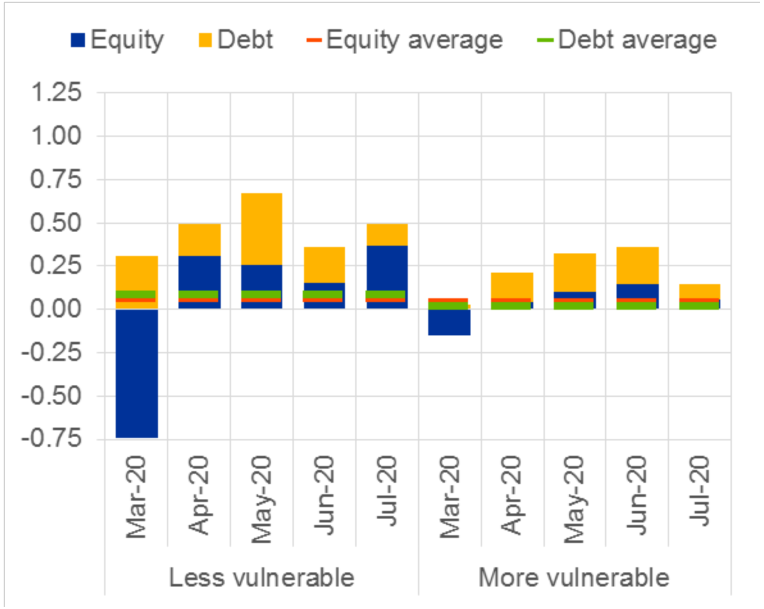


Sources: Bloomberg and ECB calculations.
The latest observations are for 12 October 2020.

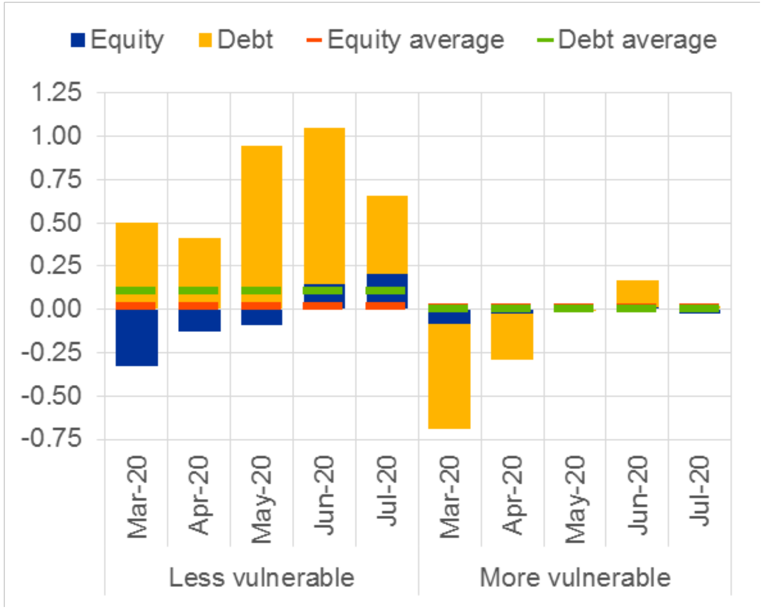
Chart 9

Portfolio investment flows by country group

Assets
(monthly flows as a percentage of euro area GDP)



Liabilities
(monthly flows as a percentage of euro area GDP)

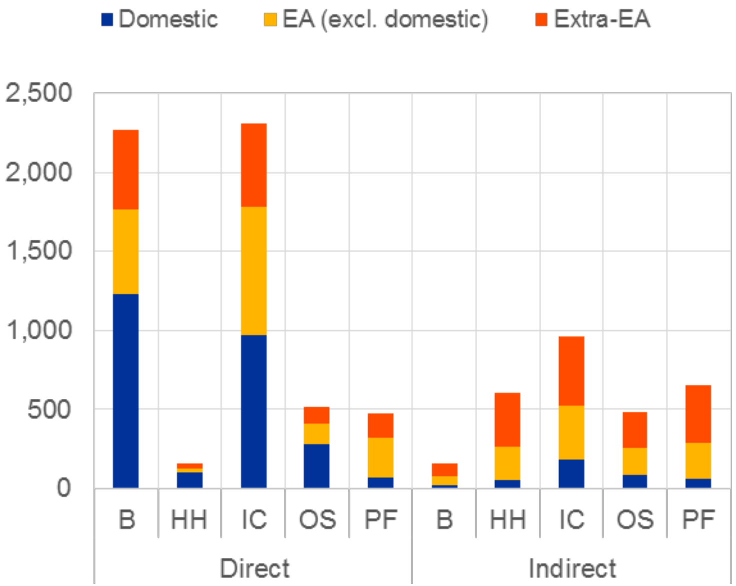


Sources: ECB and Eurostat.
Notes: "Less vulnerable" countries are Austria, Belgium, Finland, France, Germany and the Netherlands; "more vulnerable" countries are Italy, Greece, Portugal and Spain.
The latest observations are for July 2020.

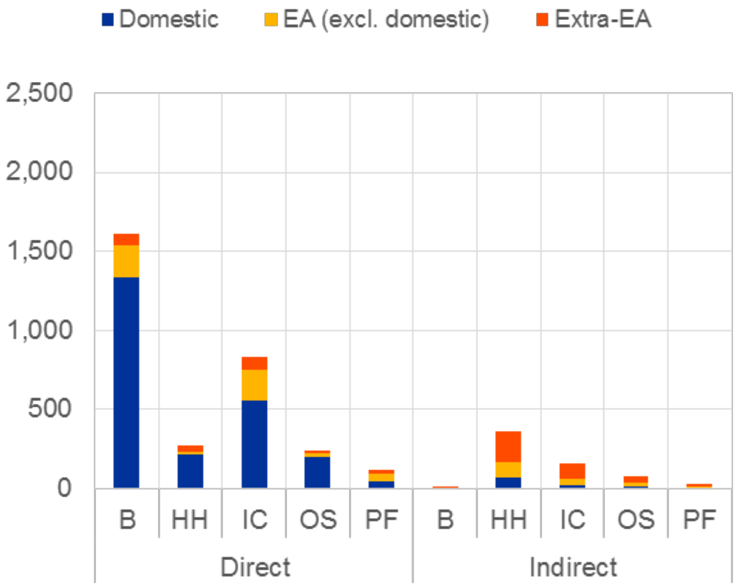
Chart 10

Direct and indirect exposures of euro area investors to debt securities at end-2019

Less vulnerable countries
(EUR billions)



More vulnerable countries
(EUR billions)



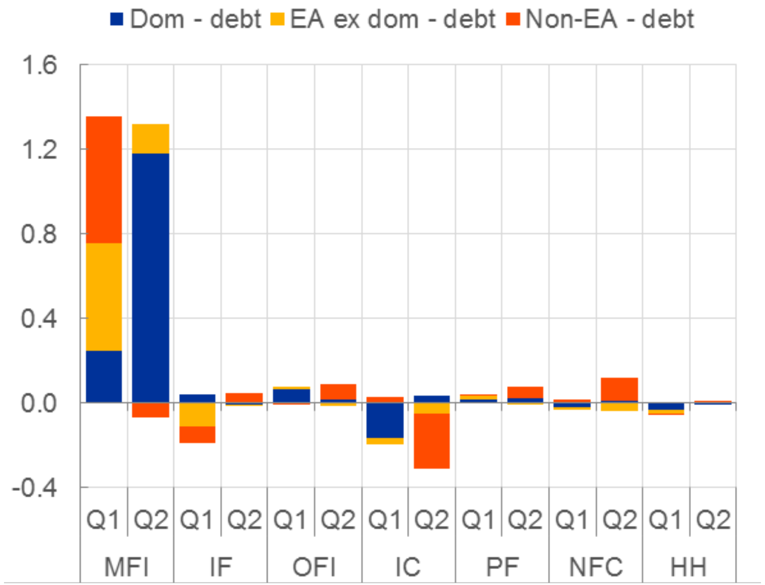
Sources: SHS and author's calculations, based on Carvalho (2020), "The portfolio holdings of euro area investors: looking through investment funds", and Carvalho and Schmitz (2020), "Shifts in the portfolio holdings of euro area investors in the midst of COVID-19: looking through investment funds".
Notes: "Less vulnerable" countries are Austria, Belgium, Finland, France, Germany and the Netherlands; "more vulnerable" countries are Italy, Greece, Portugal and Spain. "Domestic" refers to cases where the holder country is the same as the issuer country; "EA (excl. domestic)" refers to cases where the euro area holder country is not the same as the issuer country; "Extra-EA" are all other countries. "B" are deposit-taking corporations; "HH" are households; "IC" are insurance companies; "OS" are other financial intermediaries, general government and non-financial corporations; "PF" are pension funds.

Chart 11

Portfolio investment asset flows by sector and country group in Q1 2020 and Q2 2020

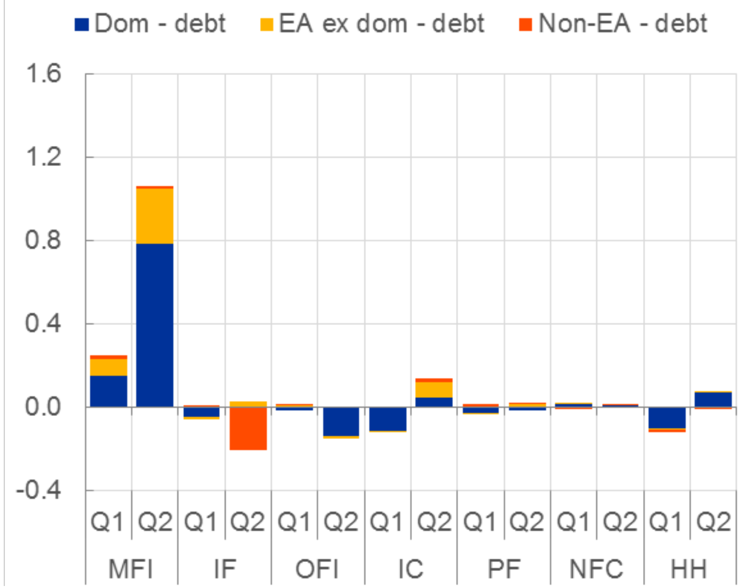
Less vulnerable countries

(quarterly flows as a percentage of euro area GDP)



More vulnerable countries

(quarterly flows as a percentage of euro area GDP)



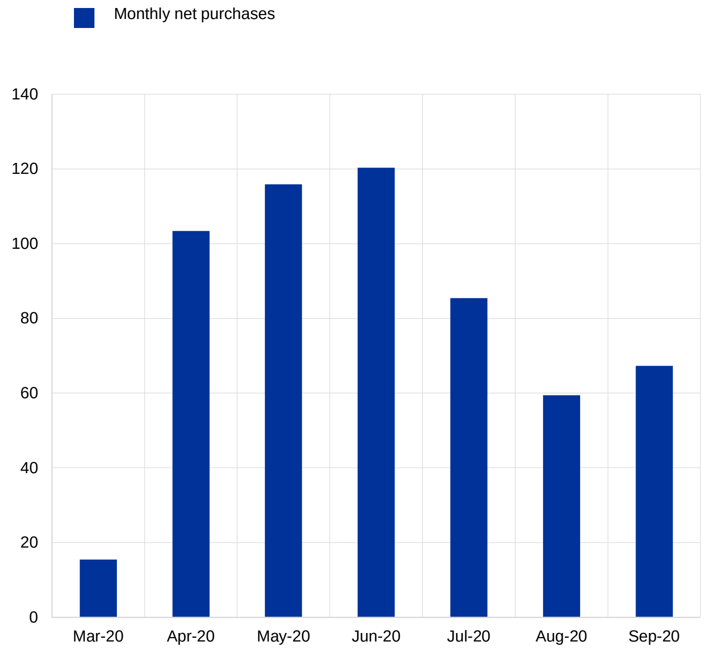
Sources: SHS and Eurostat.

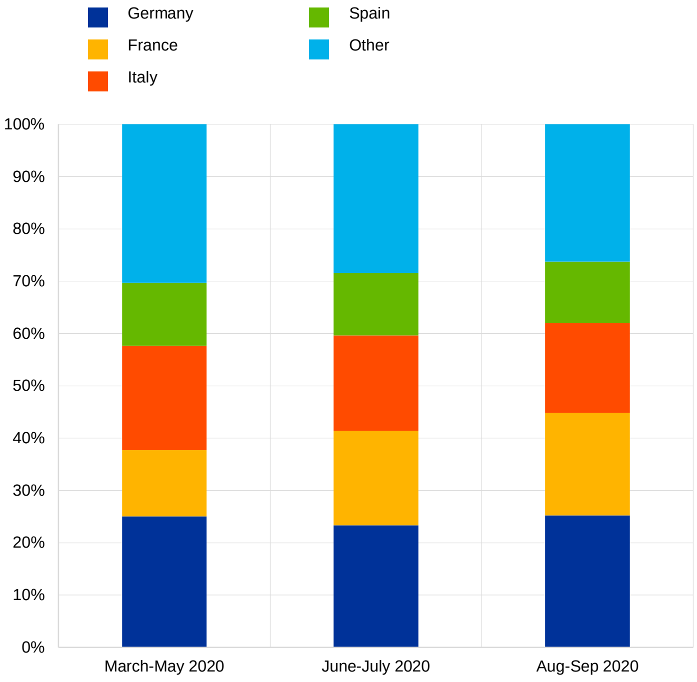
Notes: Data for Q2 2020 are preliminary. “Dom” refers to cases where the holder country is the same as the issuer country; “EA ex dom” refers to cases where the euro area holder country is not the same as the issuer country; “Non-EA” refers to all other countries; “MFI” are monetary financial institutions; “IF” are investment funds; “OFI” are other financial intermediaries; “IC” are insurance companies; “PF” are pension funds; “NFC” are non-financial corporations; “HH” are households. Conceptually, SHS and BoP data are compatible, but the latter also include domestic flows. “Less vulnerable” countries are Austria, Belgium, Finland, France, Germany and the Netherlands; “more vulnerable” countries are Italy, Greece, Portugal and Spain.

Chart 12

Eurosystem purchases under the PEPP

(left panel: total monthly net purchases, EUR billions; right panel: geographical distribution of public sector securities purchases, percentages of total public sector securities purchases during respective period)



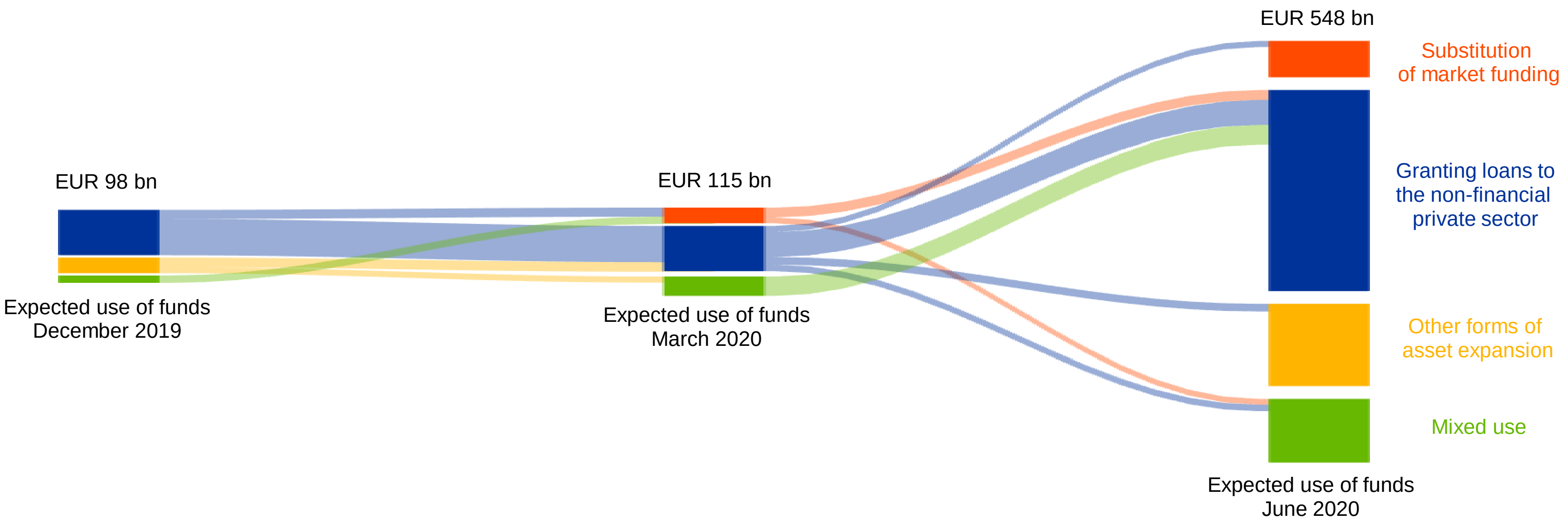


Source: ECB.
Notes: End-of-period book values. Figures are preliminary and may be subject to revision. The monthly purchase volumes are reported on a settlement basis and net of redemptions.

Chart 13

Evolution of expected use of TLTRO III funds from the June 2020 operation

(left and central columns: share of respondents weighted by change in TLTRO III uptake;
right column: share of respondents weighted by net liquidity injection)

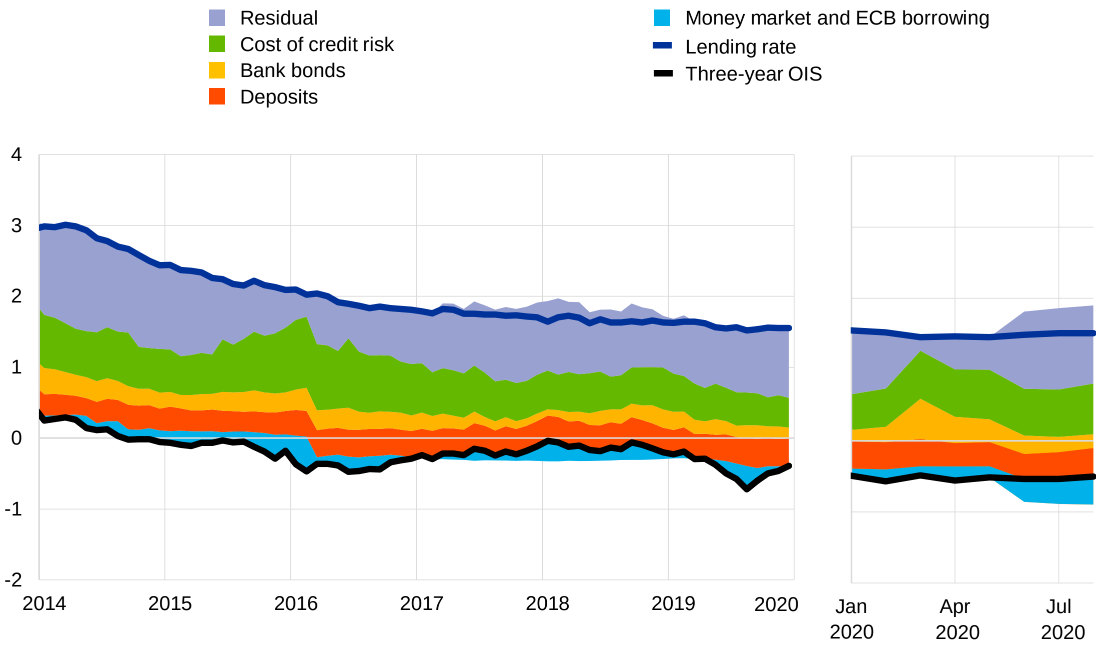


Sources: ECB, euro area bank lending survey and ECB Banking Supervision survey on TLTRO III.4 use.
Notes: The four bars on the right column measure the net liquidity injection in the June 2020 operation (change in TLTRO III take-up net of TLTRO II repayments and maturing bridge longer-term refinancing operations). The red bar measures the take-up of banks that, in the ECB Banking Supervision survey on TLTRO III.4 use, conducted in July 2020, reported that more than 50% of the funds will be allocated as a substitute for market funding sources. The blue bar measures the same take-up by banks that intend to allocate the majority of funds for granting loans. The yellow bar represents the take-up by banks that intend to allocate the majority of funds to uses other than substituting market funding or granting loans (e.g. government securities, holding as cash, financing other financial entities, etc.). The green bar reports the take-up by banks that do not plan to allocate the majority of funds in any of the three categories. The bars in the left and central columns measure the distribution across expected uses of the TLTRO III take-up in the December 2019 and March 2020 operations, respectively, based on responses to the January and April 2020 bank lending surveys, respectively. Shaded areas represent the take-up of banks that change their expected use of funds between survey waves.

Chart 14

Lending rate to non-financial corporations and its components

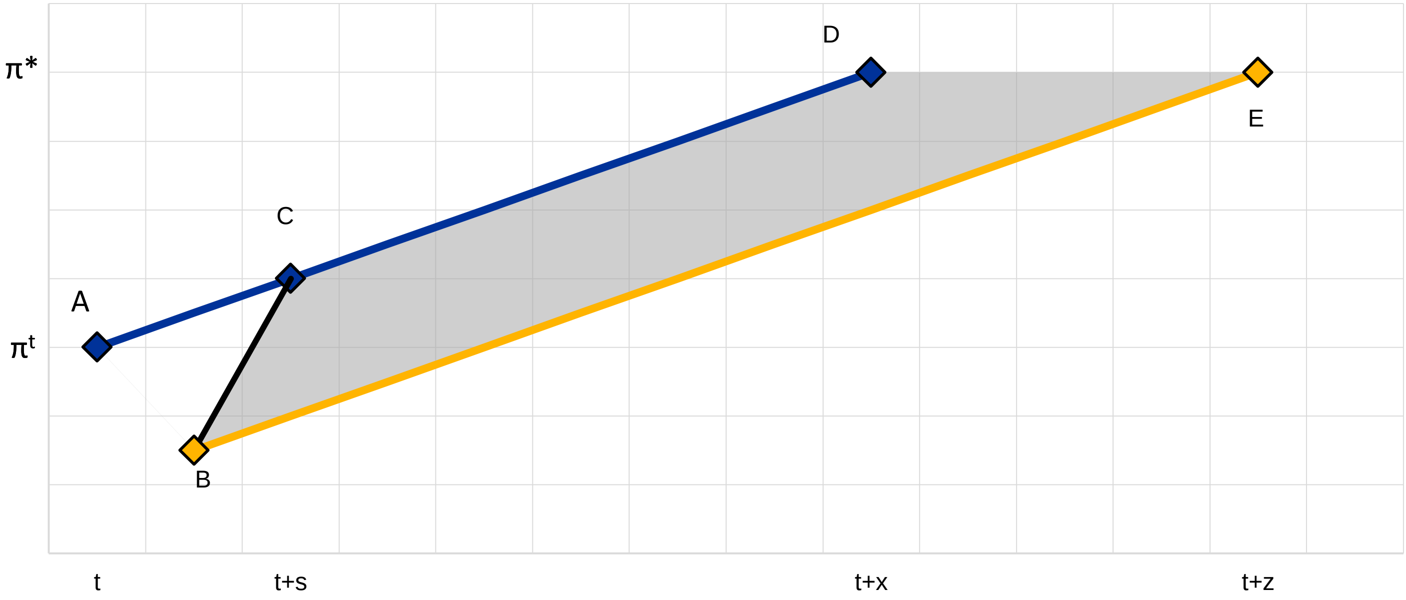
(percentages per annum)



Sources: ECB, Moody's and ECB calculations.
Notes: The intermediation wedge is the distance from the base rate (three-year overnight index swap (OIS), black solid line) to the realised lending rate, as measured by the observed lending rate for non-financial corporations. The margin is the residual between observed lending rates and all other components, including the floor given by the three-year OIS rate. The latest observations are for August 2020.

Chart 15

The future inflation path

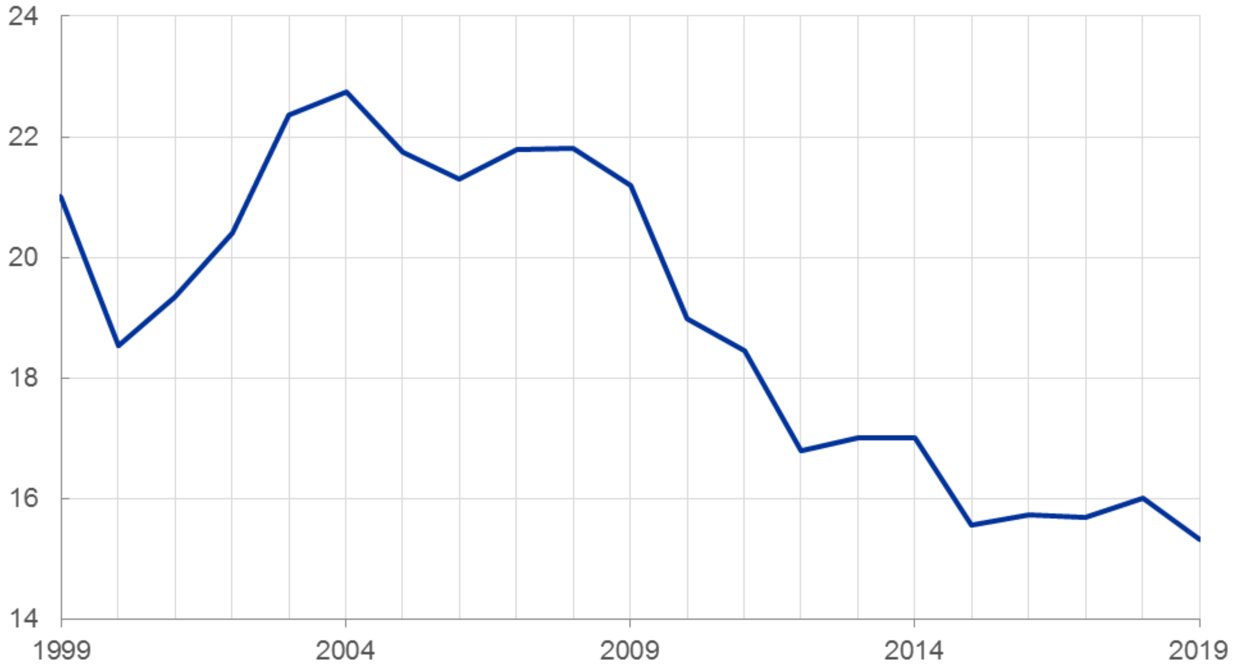


Source: ECB.
Notes: “AD” (the blue line) represents the expected inflation path before the pandemic shock. The initial negative impact of the pandemic shock – in the absence of additional monetary policy accommodation – is captured by the downward shift in the expected path from “A” to “B”. The “BE” path (the yellow line) illustrates a transition path of inflation that is even lower than originally envisaged. By providing additional monetary policy accommodation, the central bank can aim towards the upper region of the “BCDE” zone, so that the adjustment is closer to the “BCD” path.

Chart 16

Euro area share of global GDP

(percentage of world nominal GDP)

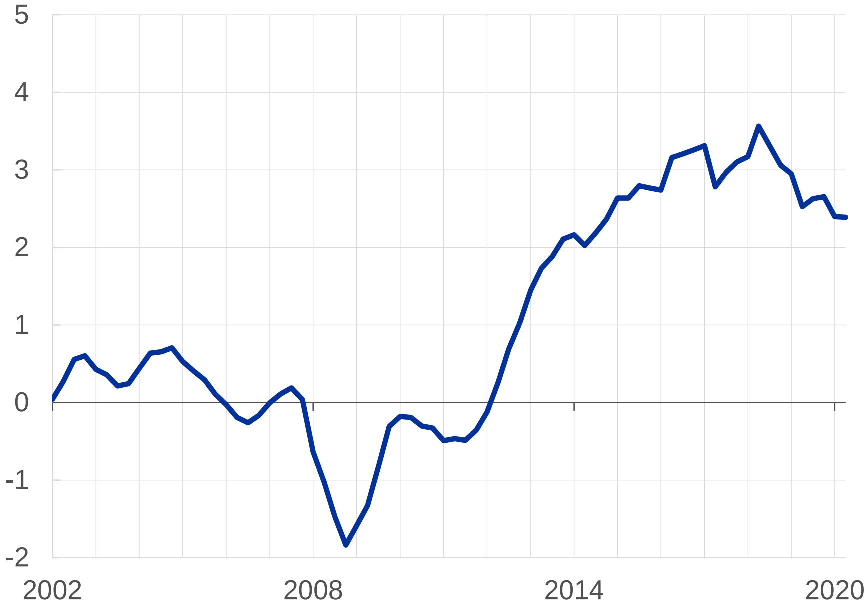


Source: IMF WEO.
The latest observations are for 2019.

Chart 17

Euro area current account balance

(four-quarter moving sums as a percentage of GDP)

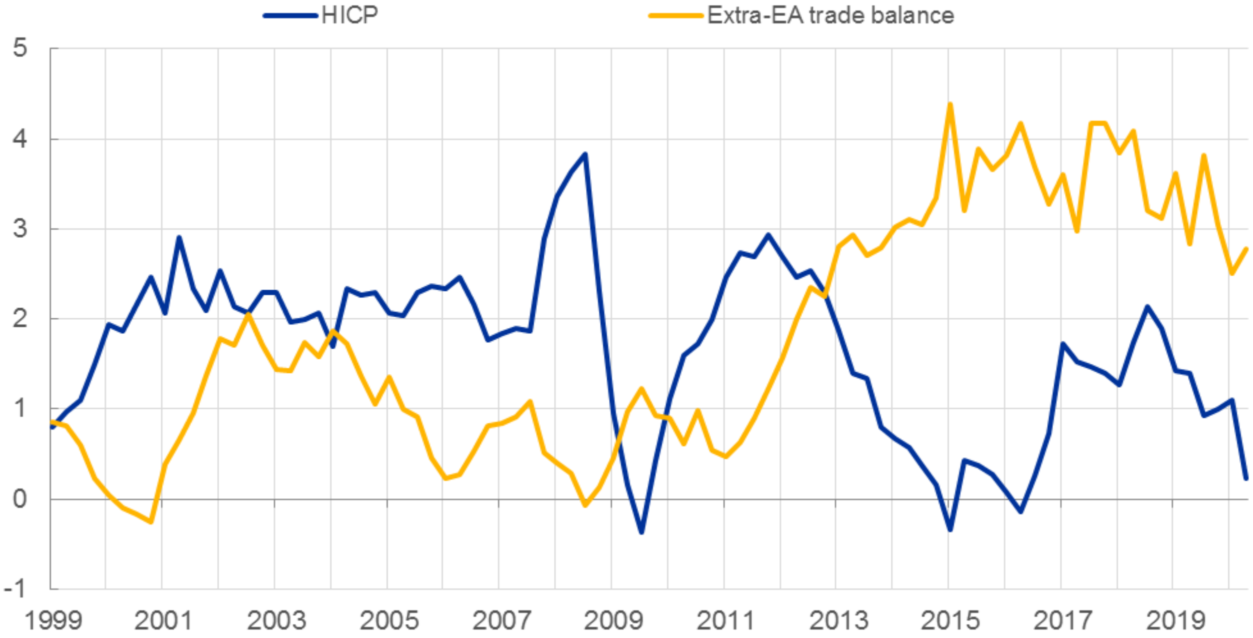


Sources: ECB and Eurostat.
The latest observations are for the second quarter of 2020.

Chart 18

Inflation and trade balance in the euro area

(annual percentage changes; percentage of GDP)

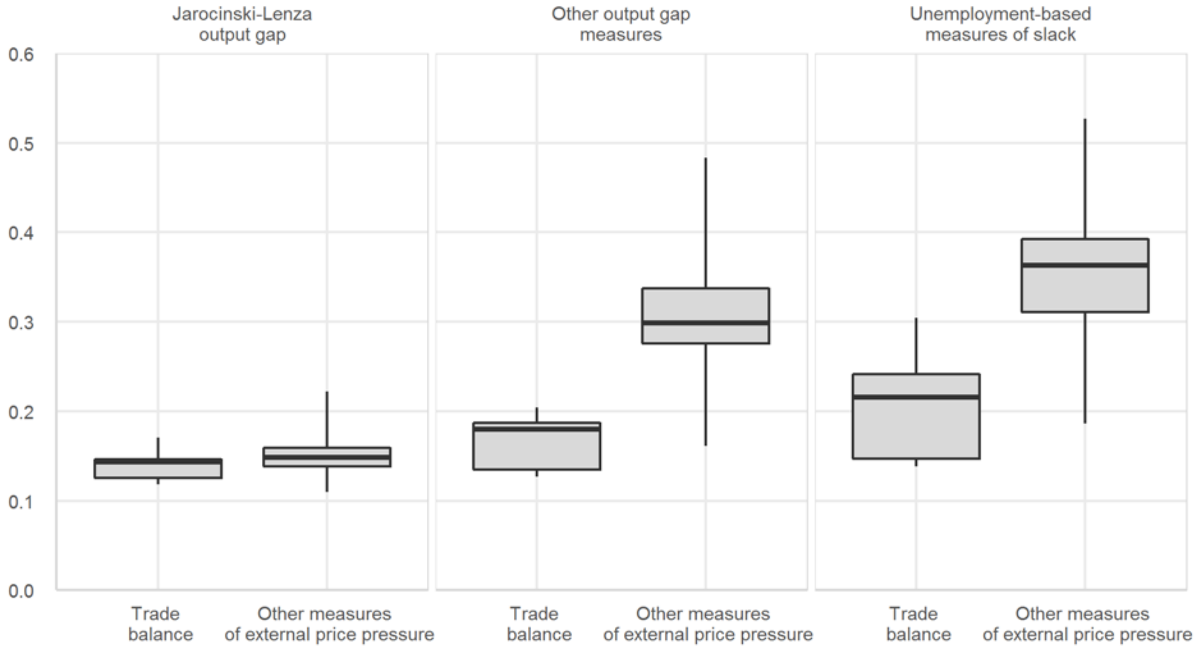


Sources: ECB and Eurostat.
The latest observations are for the second quarter of 2020 for Extra-EA trade balance and third quarter of 2020 for HICP.
Note: Third quarter of 2020 for HICP is calculated as the average between July and August 2020.

Chart 19

Thick modelling: root mean squared forecast error over 2018-19

(percentage points)



Sources: European Commission, Eurostat, IMF, OECD and ECB staff calculations.
Notes: The figure shows the root mean squared forecast errors for a representative subset of the models discussed in Eser, F., Karadi, P., Lane, P.R., Moretti, L. and Osbat, C. (2020), “The Phillips Curve at the ECB”, *Working Paper Series*, No 2400, ECB, Frankfurt am Main, May.
Estimation sample: First quarter of 1999 to fourth quarter of 2017 for specifications that include survey measures of expectations, Second quarter of 2005 to fourth quarter of 2017 for specifications that include market-based measures.