A new strategy for a changing world

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Structural forces putting downward pressure on real equilibrium interest rates

Estimates of US equilibrium rate (percentage per annum)


Estimates of euro area equilibrium rate (percentages per annum)

Sources: WGEM Report “The natural rate of interest: estimates, drivers, and challenges to monetary policy”, OP, No 217; Ajevskis (2018); Brand, Goy, Lemke (2020); Brand, Mazelis (2019); Fiorentini, Galesi, Pérez-Quirós, Sentana (2018); Geiger and Schupp (2018); Holston, Laubach, Williams (2017); Jarocinski (2017); Johannsen and Mertens (forthcoming). Notes: Ranges span point estimates across models to reflect model uncertainty and no other source of r* uncertainty. The dark shaded area highlights smoother r* estimates that are statistically less affected by cyclical movements in the real rate of interest. Latest observation: 2019Q4.
Secular decline in euro area inflation

Headline HICP  
(annual percentage changes)

HICP excluding energy and food  
(annual percentage changes)

Sources: Eurostat and ECB calculations.  
Latest observation: June 2021 (flash).
House prices rising more quickly than consumer prices

HICP and residential property prices
(annual percentage changes)

Source: ECB, Eurostat.
Latest observations: June 2021 for HICP (flash) and 2021 Q1 for ECB residential property price index.
Perceptions of asymmetric reaction function affecting inflation expectations

Macroeconomic outcomes over the longer-run:
symmetry around 1.9% versus asymmetry
(annual % changes and % deviation)

Sources: Cecioni, Grasso and Pisani (2020).
Note: Results based on stochastic simulations imposing the lower bound on nominal interest rates. Absent the lower bound, average inflation would be equal to the target and the output gap would be zero. The long-run level of the real rate is assumed to be 0.5%. It is assumed that the central bank abstains from using non-standard measures.

Survey- and market-based measures of inflation expectations
(annual percentage changes)

Sources: Bloomberg, Refinitiv, and ECB calculations.
The 1y4y ILS refers to the inflation-linked swap curve. Survey expectations from the Survey of Professional Forecasters (SPF) refer to the mean of the reported probability distributions for year-on-year expectations 5 years ahead. Latest observation: 2021 Q2 (SPF), June 2021 (market data).
Diminishing and state-contingent effectiveness of monetary policy

Effect of monetary policy-induced FCI easing on industrial production growth during different policy regimes

(annualised percentage, cumulated after 6 months)

Full sample  Tight FCI  Loose FCI

Effect of monetary policy-induced FCI easing on industrial production growth during different business cycle phases

(annualised percentage, cumulated after 6 months)

Full sample  Recessions  Slowdown  Upturns  Booms

Source: ECB staff calculations.
Notes: The dot represents the mean response of industrial production growth in a panel of advanced economies (USA, EA, GBR, JPN) following a 0.1 change in the FCI as caused by monetary policy shocks. The monetary-policy induced FCI is generated using country-specific BVAR models and the effect on industrial production is estimated using panel threshold local projections. "Full sample" refers to the estimates over the complete sample period, "tight (loose) FCI" to when the FCI is in an endogenously estimated tight (loose) FCI regime.
“Unconventional” monetary policy tools effective in easing financing conditions

EA GDP-weighted yield curve
(percentage)

Source: ECB Statistics Data Warehouse
Latest observation: 13 July 2021

Euro area financial conditions
(standardized index)

Sources: Refinitiv Datastream, Bloomberg and ECB staff calculations.
Notes: The FCI is aggregated using GDP PPP shares and includes DE, ES, IT and FR. National FCIs are computed as a weighted average of five financial variables, i.e. 10-year government bond yields, short-term interest rates, NEER, PE ratio and corporate spread. Variables are standardized.
Phillips curve models pointing to structural factors explaining low inflation

**Euro area Phillips curves:**

- **Coefficient on slack across range of models**

Sources: ECB staff calculation.

**Euro area Phillips curves:**

- **Decomposition of HICP excluding energy and food**
  - (annual percentage changes and percentage points contributions)

Sources: Eurostat and ECB staff calculations. The HICPX series is seasonally adjusted and displays a kink in 2015 due to a methodological change.
Notes: Same models used as for left-hand chart. All values are in terms of deviations from their averages since 1999 or later, depending on the specification. The bars show average contributions across specifications. The sample covers 1999Q1 to 2019Q4 to avoid the effect on estimation of the Covid-19 shock.
Pre-pandemic fiscal policy largely unresponsive to lower interest rates

**Euro area primary balance**
(% of GDP)

**Euro area public investment**
(% of GDP)

Source: AMECO
Greater prominence for financial stability risks in new analytical framework

Analysis over short, medium and longer-term horizons, covering central scenarios and risks
Rising physical risks of climate change

Global insured catastrophe losses
(left-hand scale: USD billions in 2020; right-hand scale: percentages)

Number of relevant natural loss events globally
(left-hand scale: number of events; right-hand scale: percentages)

Source: Swiss Re institute and ECB calculations.
Latest observation: June 2020.

Source: Munich Re NatCatService and ECB calculations.
Latest observations: December 2019.
Emission bias in the ECB’s corporate bond portfolio

Thank you for your attention