The ECB’s monetary policy during the coronavirus crisis – necessary, suitable and proportionate

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Severe economic downturn with medium-term consequences

Current Eurosystem projections

Real gross domestic product (index: 2019Q4=100)

Unemployment rate in the euro area (%)

Source: ECB.
Note: (B)MPE = (Broad) Macroeconomic Projection Exercise.
The area shaded in grey shows the range of estimates covering a mild to a severe evolution of the crisis.
Monetary policy crisis measures may have prevented a severe financial crisis

Indicator of systemic stress in financial markets (CISS)

Last observation: 22/06/2020.
Marked weakening of inflation over the medium term

Inflation rate
(annual rate of increase HICP, in %)

- June 2020 BMPE range
- March 2020 MPE
- June 2020 BMPE

Core inflation rate
(annual rate of increase HICP excl. energy and food, in %)

- Realised HICP excl. energy and food
- June 2020 BMPE
- March 2020 MPE

Source: ECB. Notes: (B)MPE = (Broad) Macroeconomic Projection Exercise.
The area shaded in grey shows the range of estimates covering a mild to a severe evolution of the crisis.
Declining real equilibrium rate in the euro area makes unconventional monetary policy a suitable instrument

Model-based estimates of the real equilibrium rate in the euro area


Note: The area of the estimates includes point estimates from several models and therefore reflects model uncertainty, but no other source of uncertainty.
Markedly positive estimated effects of monetary policy measures on financing conditions, inflation and economic growth

Financing conditions in the euro area (index)

Estimated impact of the monetary policy measures taken since March 2020

Sources: Refinitiv and ECB calculations. Notes: Weighted average of the 1-year OIS, 10-year OIS, effective exchange rate of the euro versus 38 other currencies and the Euro STOXX. The weightings were determined based on an impulse response in inflation as part of a VAR. Last observation: 23 June 2020.

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.
More negative policy rates would have significantly increased the distributional effects on savers and borrowers

Asset purchases vs. lowering key rates: required estimated rate change

Estimated change in annual interest income and payments (euro per household)

- Actual change 2014-2019 (no further policy support)
- Additional impact March & June APP/PEPP
- Additional impact w/ additional DFR cuts instead of March & June APP/PEPP

Source: Dossche, Hartwig and Pierluigi (2020), mimeo. Note: Net borrowers = households with negative financial wealth; net savers = households with positive net financial wealth. Percentages on the horizontal axis refer to the share of these households in the total number of households.

Source: ECB. Notes: The graph shows the reduction in the key interest rate on banks’ overnight deposits that would have been necessary to have the same effect on inflation as bond purchases under the APP/PEPP of €1.47 trillion. The blue area shows the range of estimates from various models. The yellow diamond shows the median.
No indication of reduced budgetary discipline due to bond purchases

Primary budget balances

Economic growth and fiscal stimulus in 2020

Source: European Commission AMECO database.
Notes: Budget surpluses and deficits before taking into account interest payments. The grey lines show Germany, France, Italy and Spain.
Last observation: AMECO May 2020.

Sources: ESCB calculation June 2020 BMPE and European Commission AMECO database.
Notes: Real growth refers to the June Eurosystem projections. Fiscal stimulus is calculated from the change in the primary budget balance, adjusted for the growth cycle. AMECO figures do not take into account the latest announcements on fiscal policy programmes.
Thank you for your attention