



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



Monetary policy normalisation

Economics Roundtable discussion (5 September 2018)

Current situation – Governing Council statement, July.

- “Based on our regular economic and monetary analyses, we decided to keep the key ECB interest rates unchanged. **We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.**”
- “Regarding non-standard monetary policy measures, we will continue to make net purchases under the asset purchase programme (APP) at the current monthly pace of €30 billion until the end of September 2018. **We anticipate that, after September 2018, subject to incoming data confirming our medium-term inflation outlook, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and then end net purchases.** We intend to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.”



Crisis-related measures – brief review

■ Standard measures:

- Interest rate to ZLB.

■ Non-standard measures:

- Liquidity and funding measures.
- Outright purchases in malfunctioning market segments (OMT).
- Forward Guidance.
- Credit easing and asset purchases.

Cumulative Eurosystem APP holdings

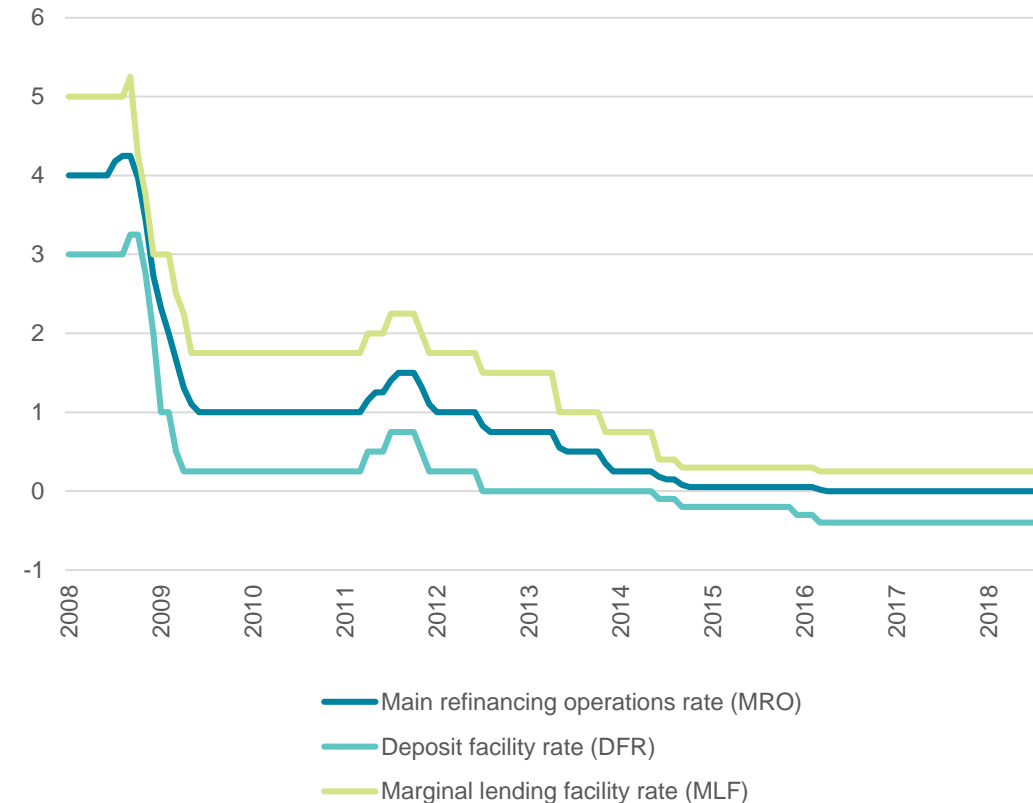


Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Pre-crisis operational framework

- Keep EONIA in line with the MRO rate.
 - Structural liquidity deficit.
 - Demand-driven liquidity provision via credit operations (mainly MROs).
 - Variable rate tenders with limited allotment in MROs.
- Balanced liquidity conditions, EONIA close to MRO rate (i.e. in middle of corridor).

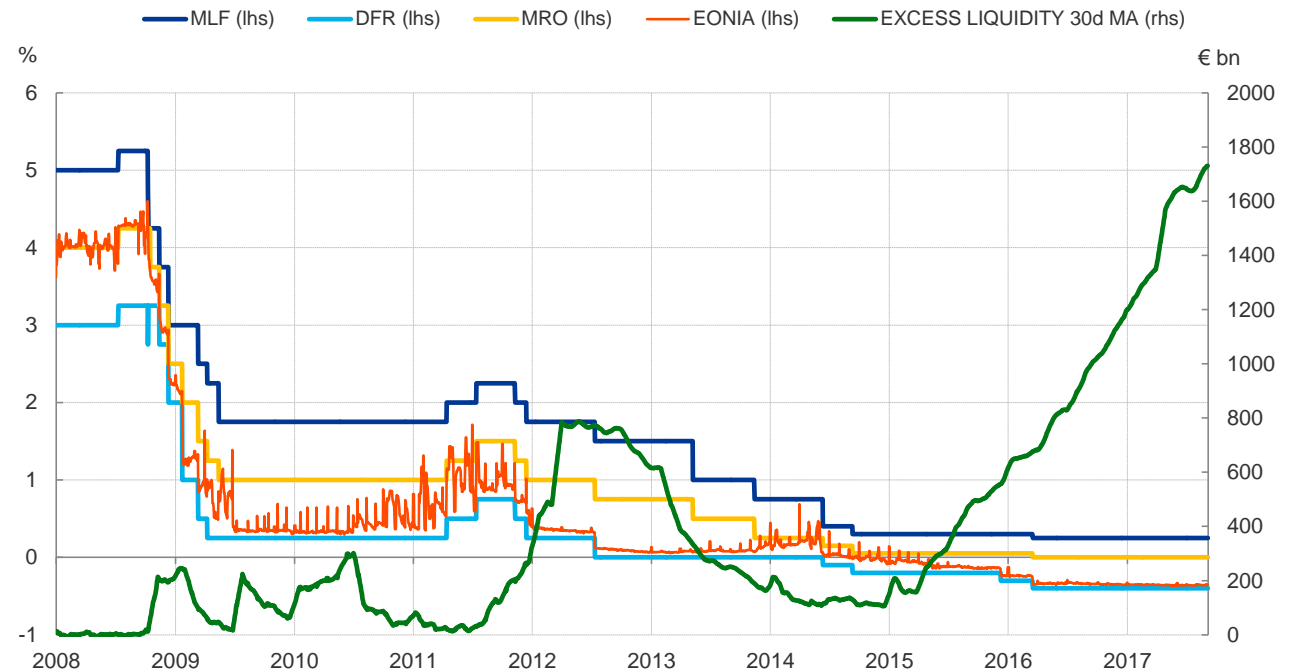


Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Current operational framework

- Mainly supply-driven liquidity provision via APP.
 - Fixed rate tenders with full allotment in MROs and LTROs.
 - Expansion of collateral framework.
 - Narrowing of corridor.
- Excess liquidity, EONIA close to DFR (floor system).



Policy normalisation – operational framework discussion topics

- Return to balanced liquidity conditions – corridor vs. floor?
 - Regulatory demand for reserves.
- Is EONIA still a suitable operational target?
 - Controllability in context of excess liquidity.
 - Relevance of unsecured vs. secured rates.
 - Role of new ECB short-term rate (ESTER)?
- Should central banks maintain a monetary policy asset portfolio?

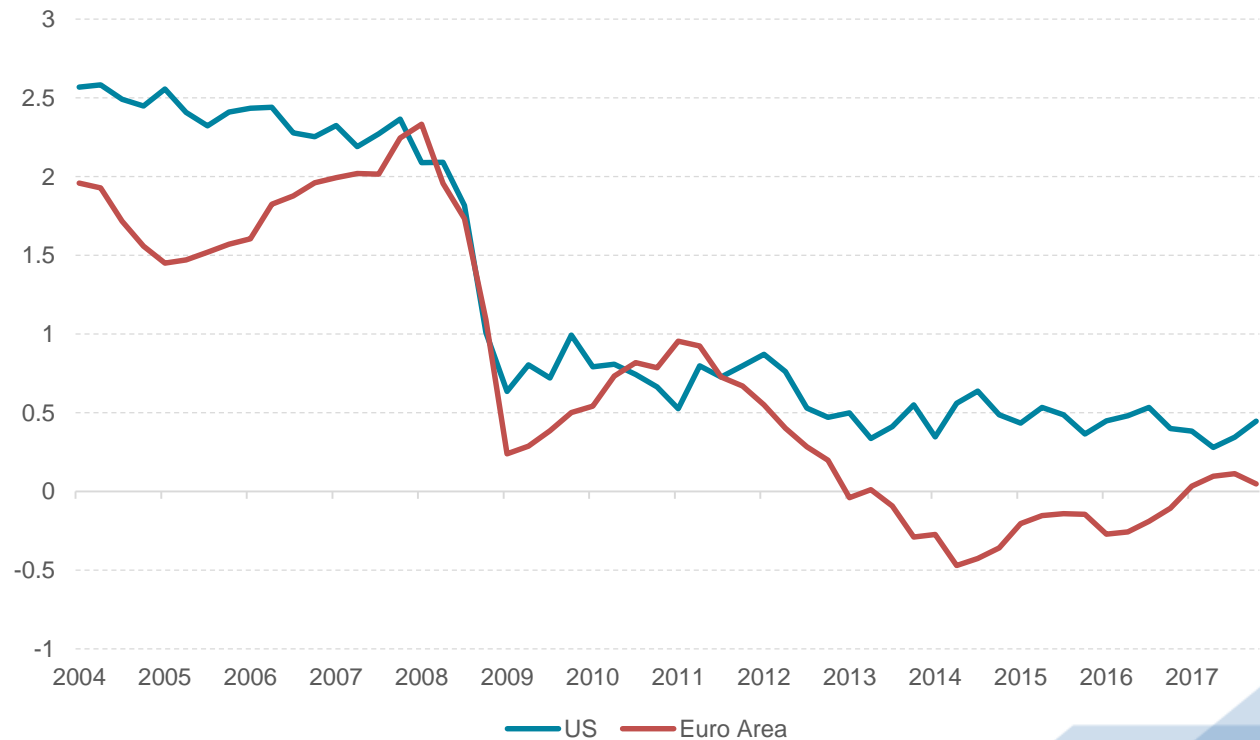


Policy normalisation – broad discussion topics

- The natural rate of interest has declined.
 - Implications for framework/inflation targets?

- Are Non-Standard Measures here to stay?
 - Toolkit has expanded with the crisis.
 - Communication changed markedly.
 - Should it be maintained? Or should it shrink to pre-crisis toolkit?

Natural real rates of interest, US and EA



Estimates calculated using methodology of Holsten et al. (2017)

