



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



Non-standard monetary policy in the euro area

Economics Roundtable discussion (8 September 2017)

Gillian Phelan



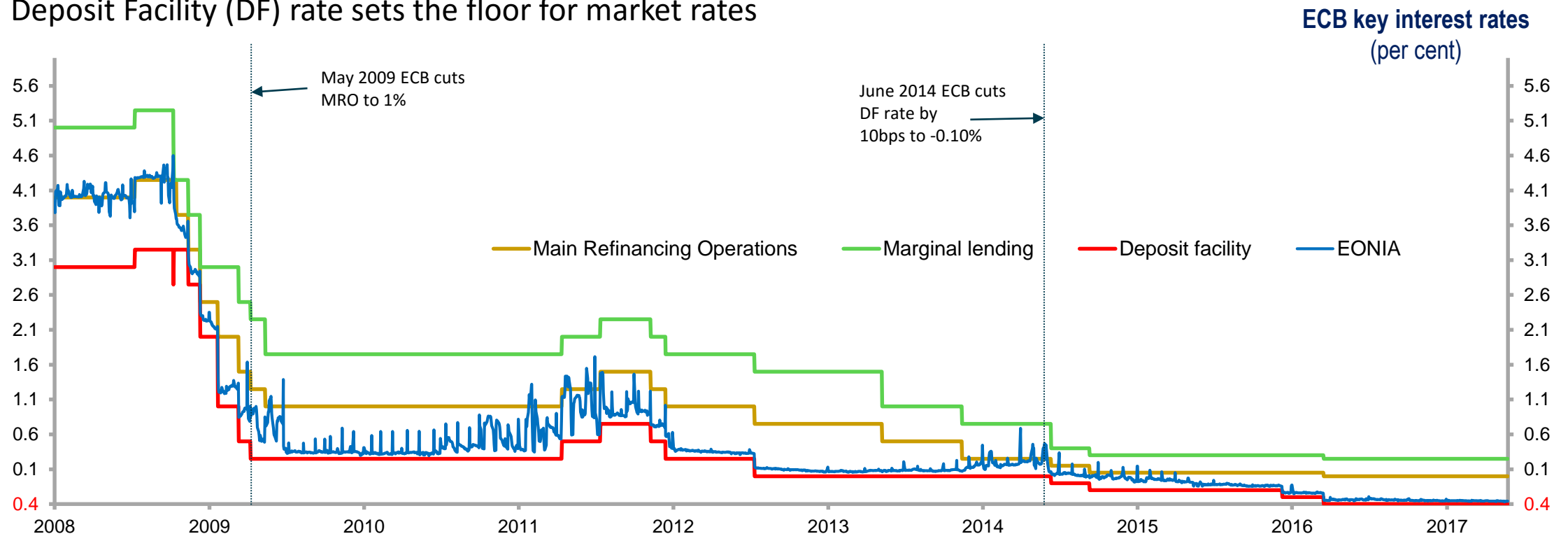
Outline

- Monetary policy action
 - Interest rate policy
 - Non-standard measures
 - Monetary policy transmission
 - Macroeconomic context
- Monetary policy stance
- Discussion: an Irish perspective



Interest rate policy:

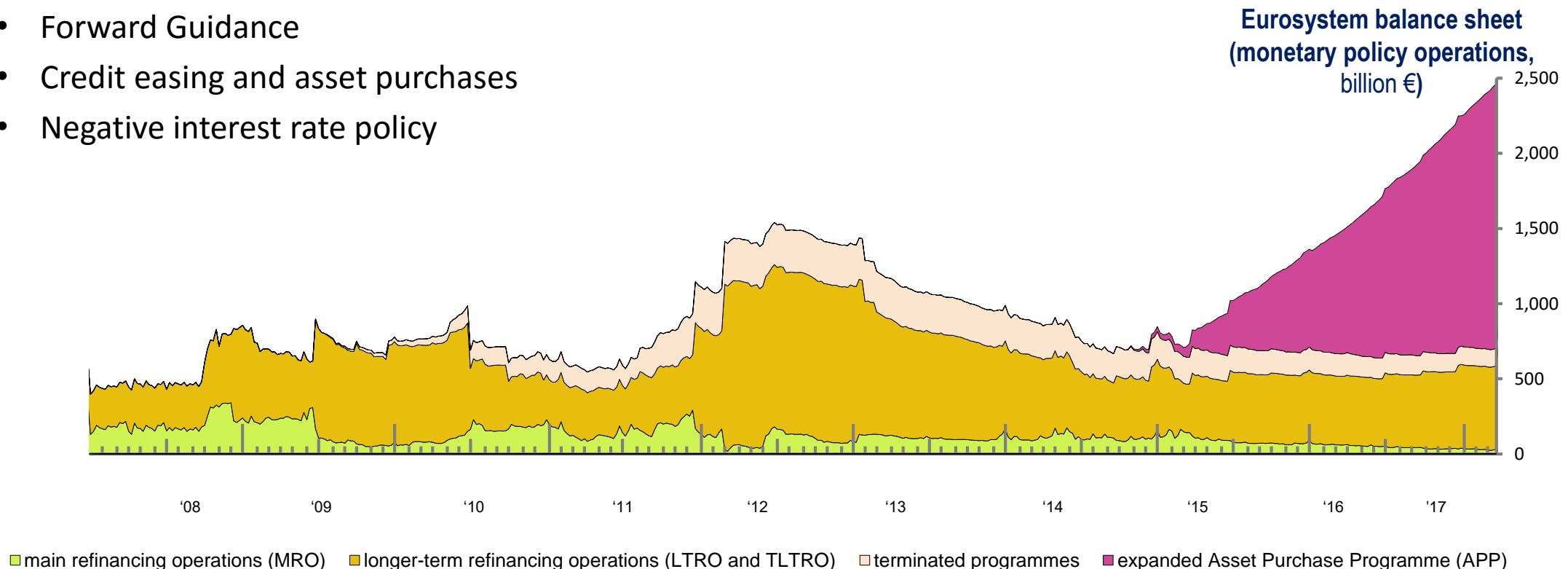
- The Main Refinancing Operation (MRO) rate has traditionally been the main policy rate which money markets tracked
- Deposit Facility (DF) rate sets the floor for market rates

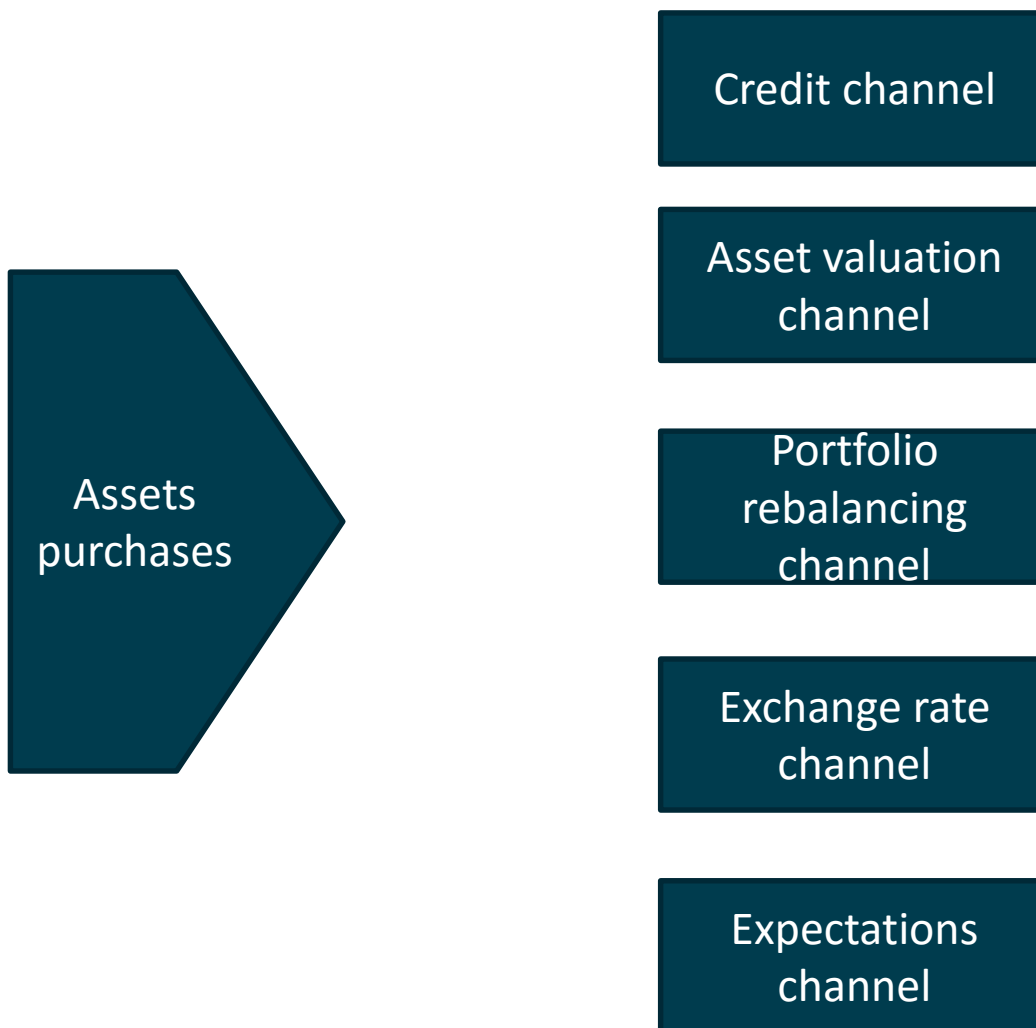




Non-standard measures:

- Liquidity and funding measures
- Outright purchases in malfunctioning market segments (OMT)
- Forward Guidance
- Credit easing and asset purchases
- Negative interest rate policy

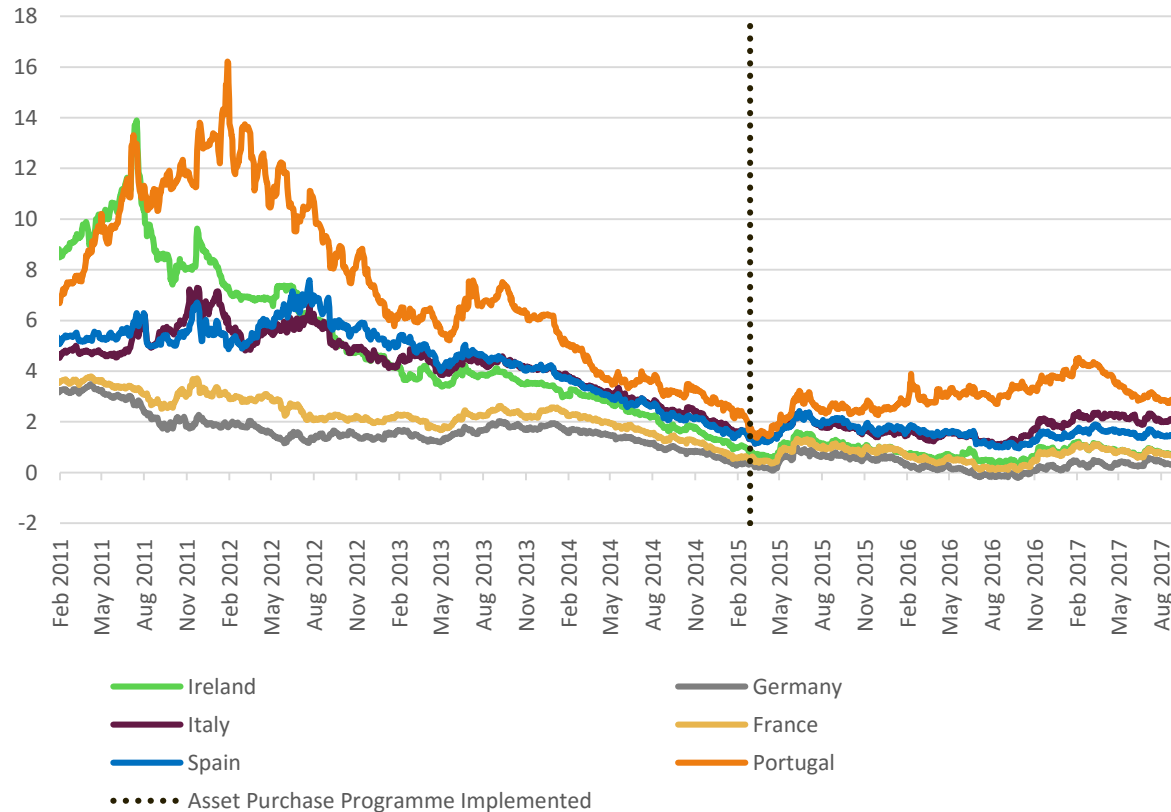






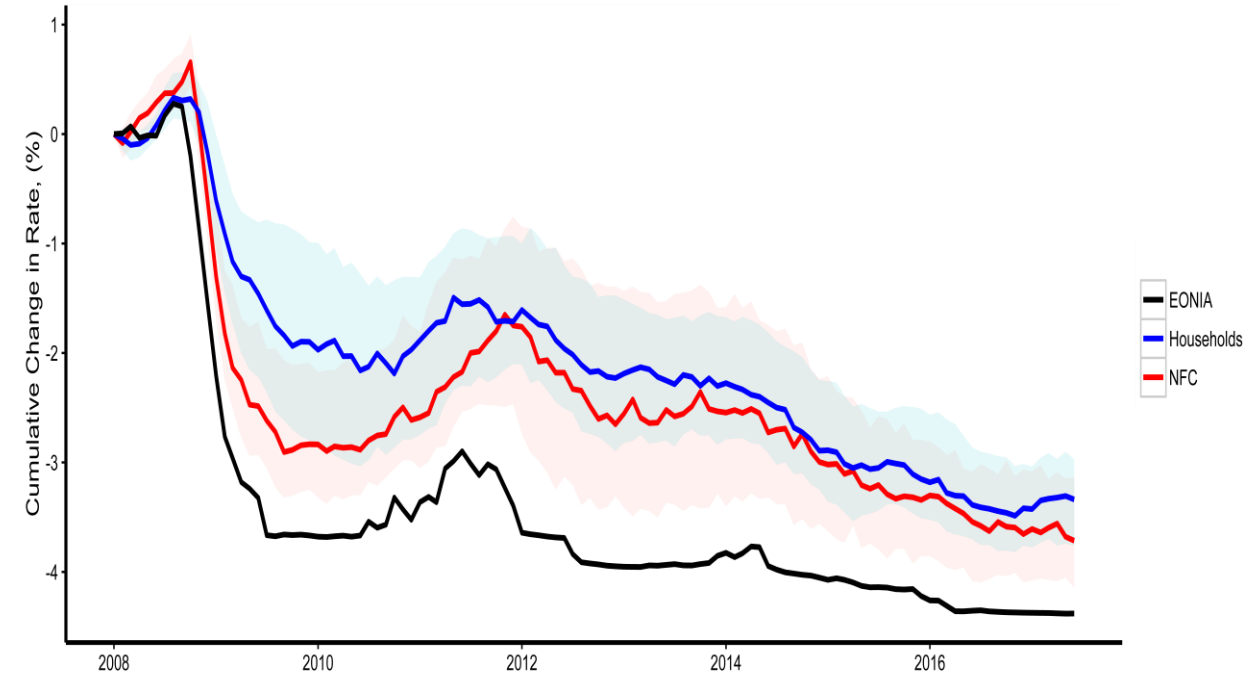
Government bond yields...

10 Year Bond Yields (%)



Source: Bloomberg

Lending rates to the real economy...



Notes: For NFCs the interest rate on loans is up to one year of fixation (the vast majority of loans); For households- the volume-weighted average interest rate on mortgages across fixation maturities (necessary because some countries in Europe do almost all variable rate lending and some do almost all long-term fixed rate lending)

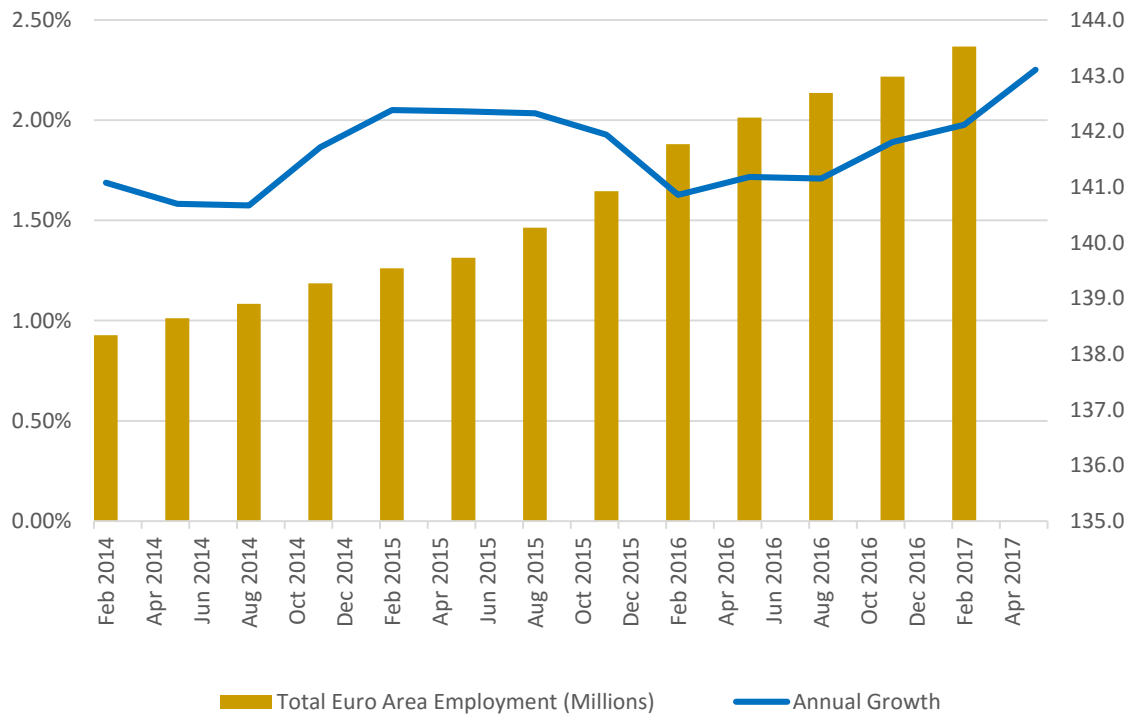
Source: Source: ECB IMIR, CBI calculations



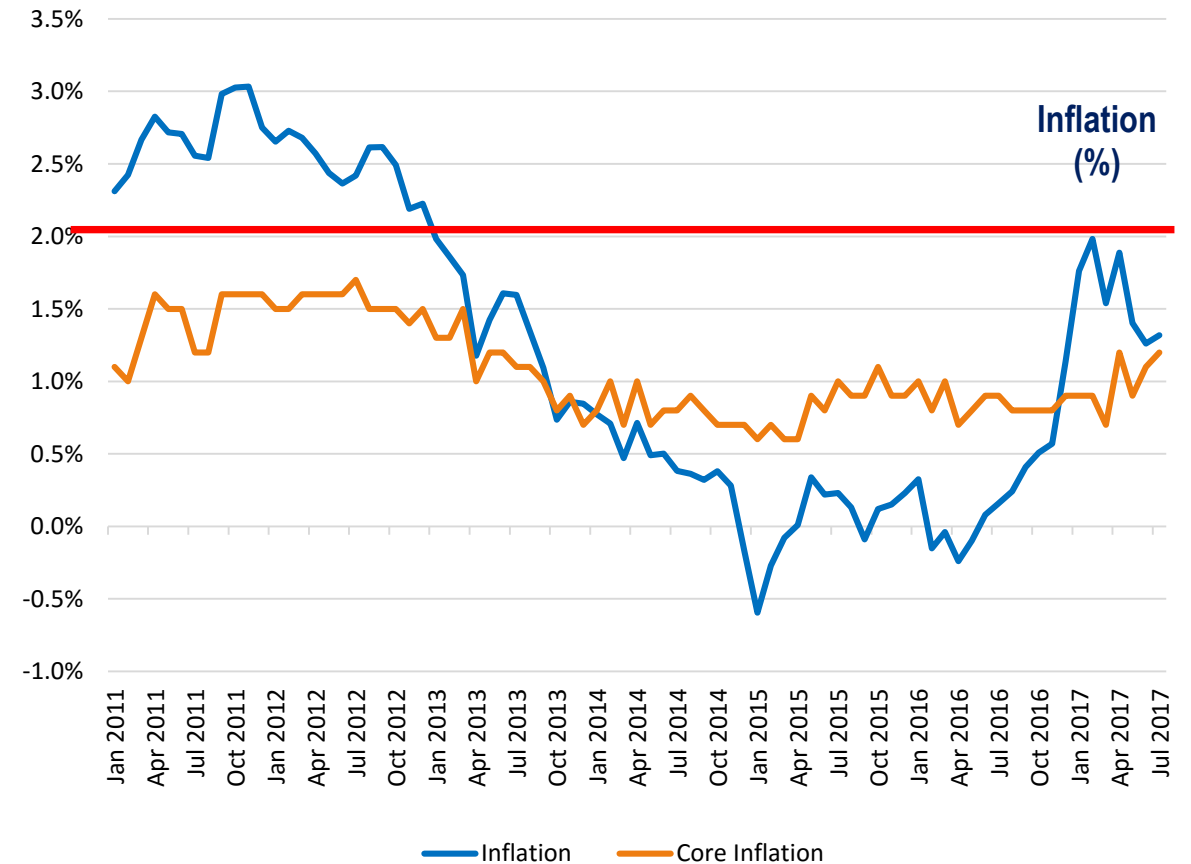
Contribution to growth...

Annual Euro Area GDP Growth Rate (%)

Euro area employment (€m)



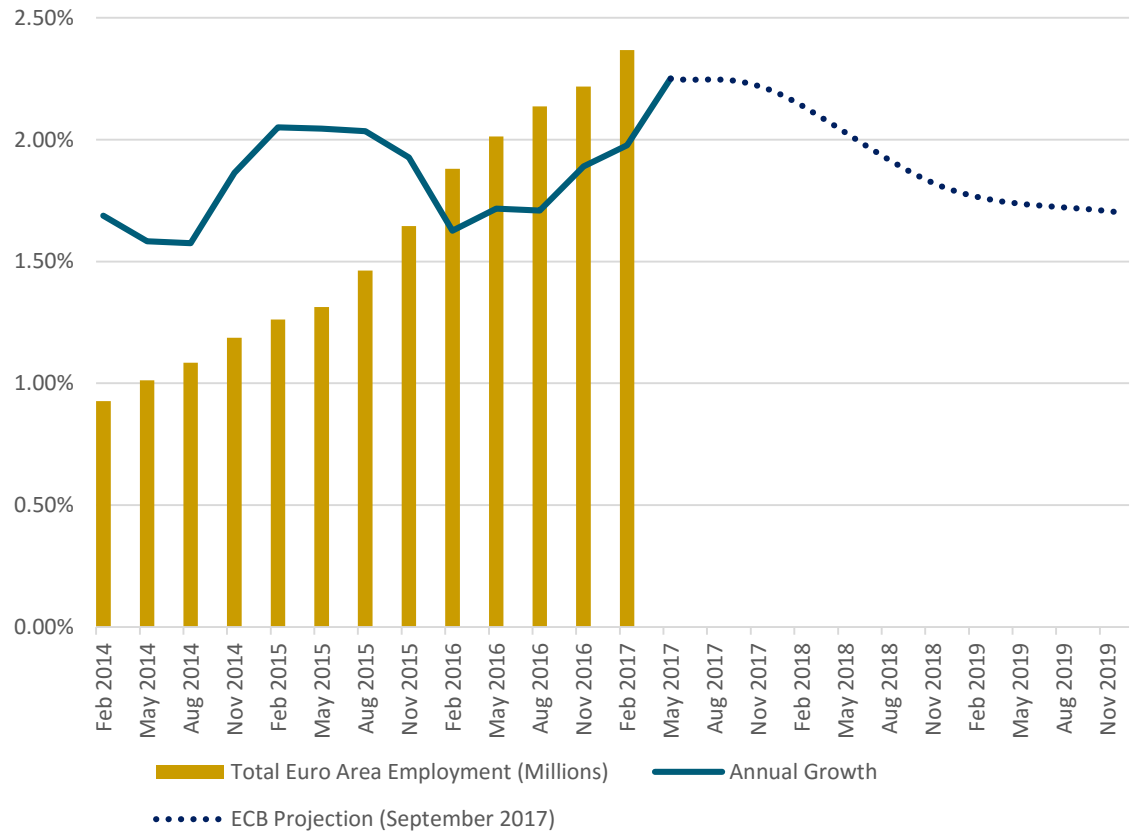
...and Inflation



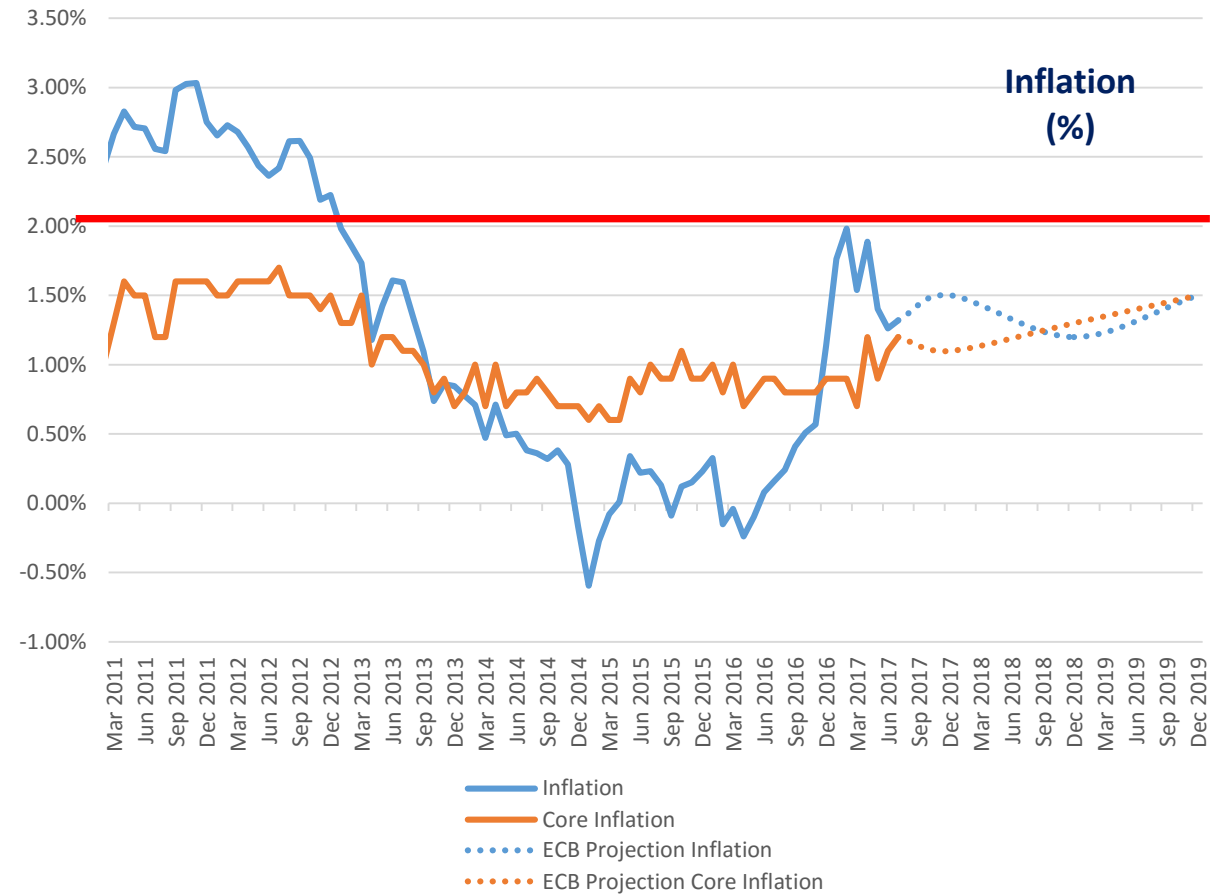


ECB projections for growth...

Annual Euro Area GDP Growth Rate (%)



...and Inflation





*"We decided to keep the key ECB **interest rates** unchanged. We expect them to remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases.*

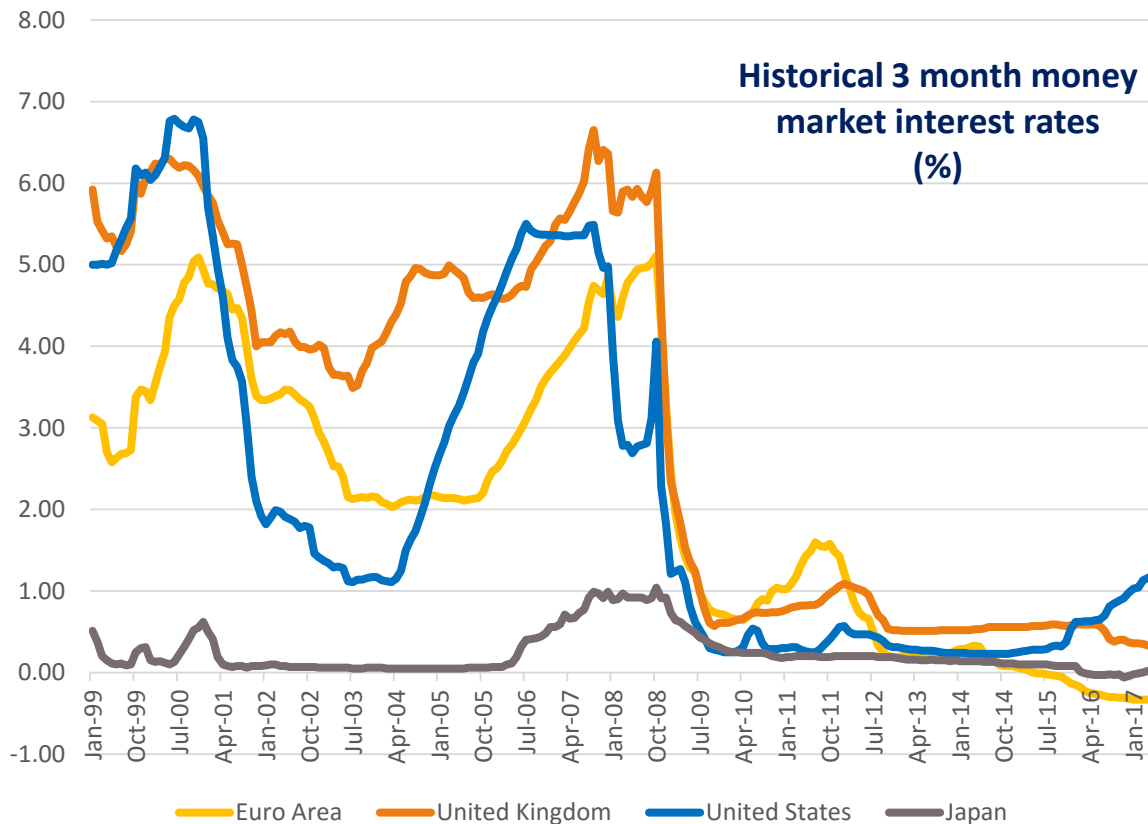
*Regarding non-standard monetary policy measures, we confirm that our net **asset purchases**, at the current monthly pace of €60 billion, are intended to run until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the **path of inflation** consistent with its inflation aim."*

(Mario Draghi, September 2017)



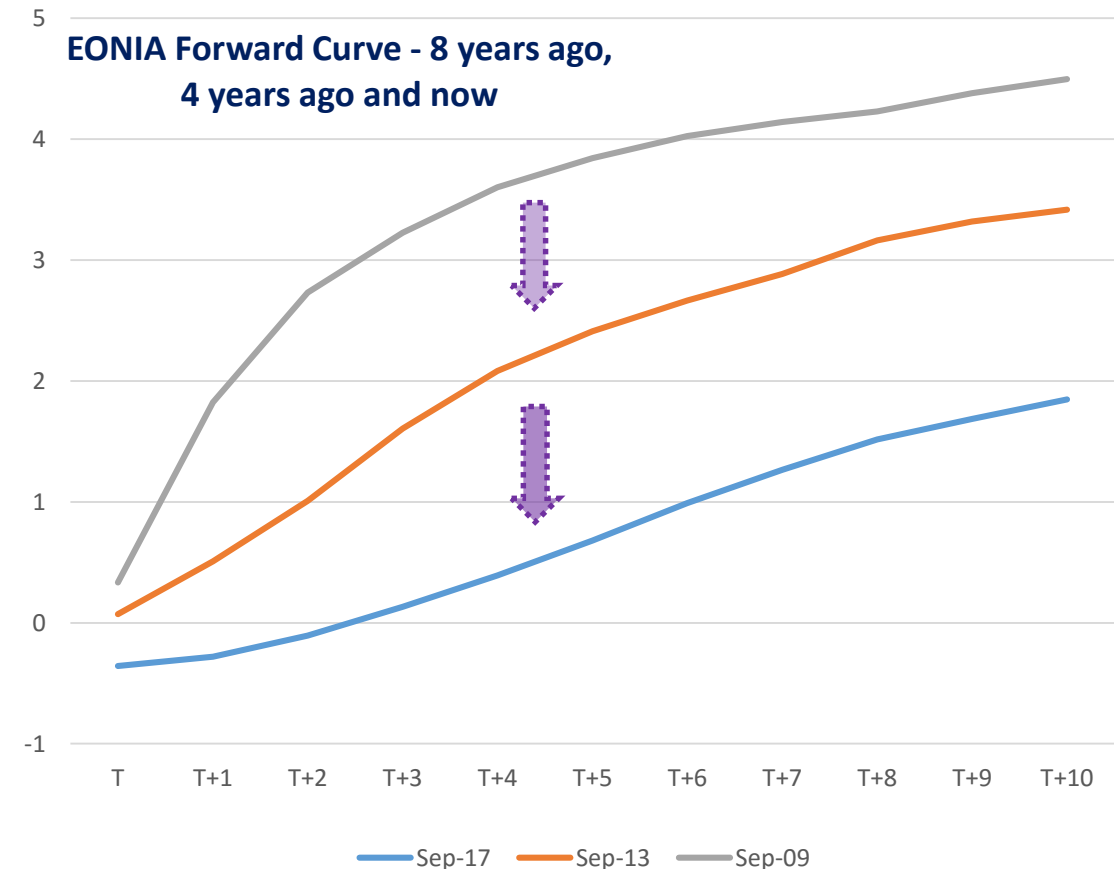


Rates are at historic lows globally...



Source: Eurostat

...and expected to rise but not to return to previous norm



Source: Bloomberg, CBI calculations



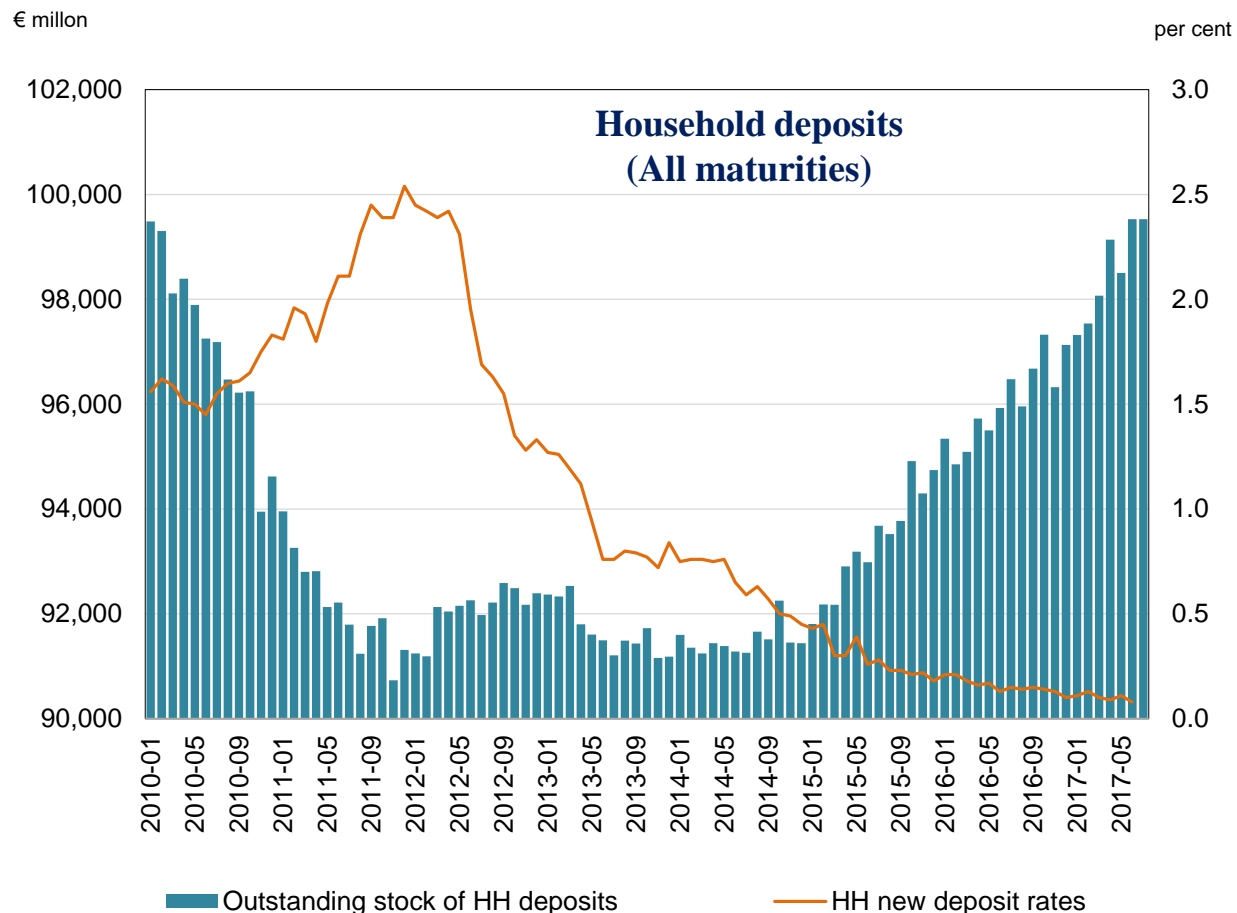
Sustained adjustment in the path of inflation (SAPI) => **Inflation...**

1. ... that is on a path to levels below, but close to, 2% within a meaningful **medium-term** horizon
2. ... will be **durable** and stabilise around those levels with sufficient confidence
3. ... and is **self-sustained**, meaning it will maintain its trajectory even with less support from monetary policy

And; the relevant metric should be **euro area** inflation.

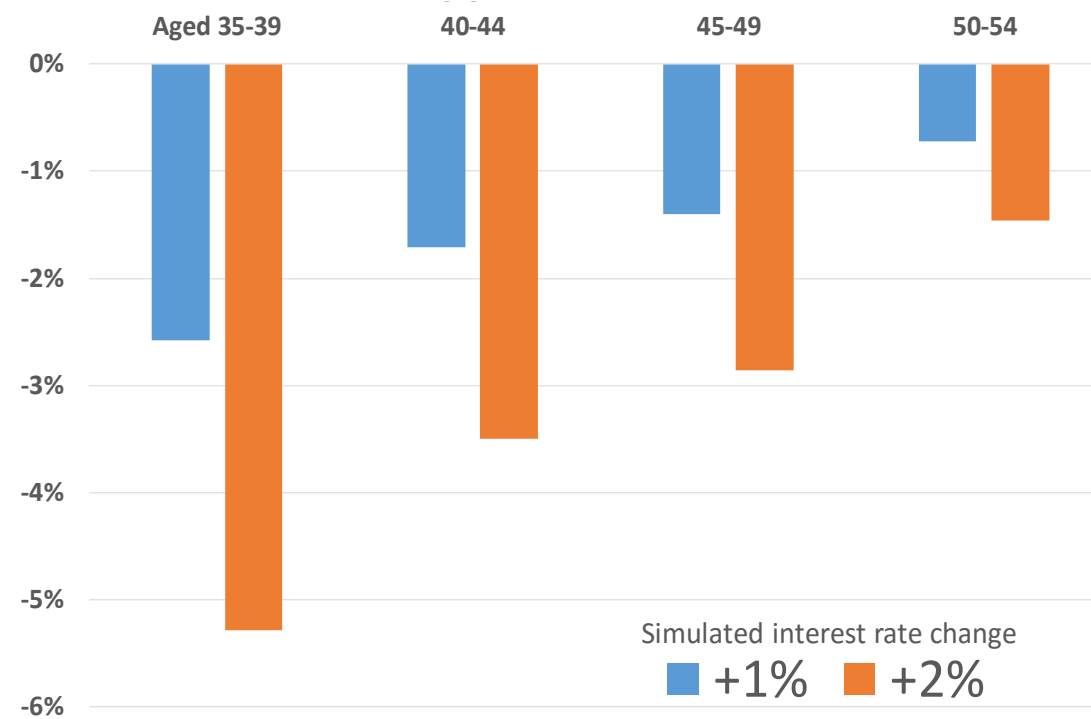


Households



Source: Money and Banking Statistics, Central Bank of Ireland calculations

Change in disposable income after mortgage repayments for a given change in the mortgage rate in Ireland (medians)



Source: Fasianos et al., Central Bank of Ireland



Issues for discussion...

- Unintended side effects of accommodative monetary policy...
 - ... on Inequality?
 - ... on financial stability?

- Looking ahead at impact of less accommodative monetary policy...
 - ...on sovereign yields?
 - ...on deposits and lending?
 - ... on exchange rates?
 - Symmetric impact?