



EUROPEAN CENTRAL BANK
EUROSYSTEM

The Monetary Policy of the ECB: Institutional set-up and latest decisions

Presentation to students from Jade Hochschule Wilhelmshaven

The views expressed are those of the presenter and do not necessarily reflect the position of the ECB.

30 November 2023

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Outline

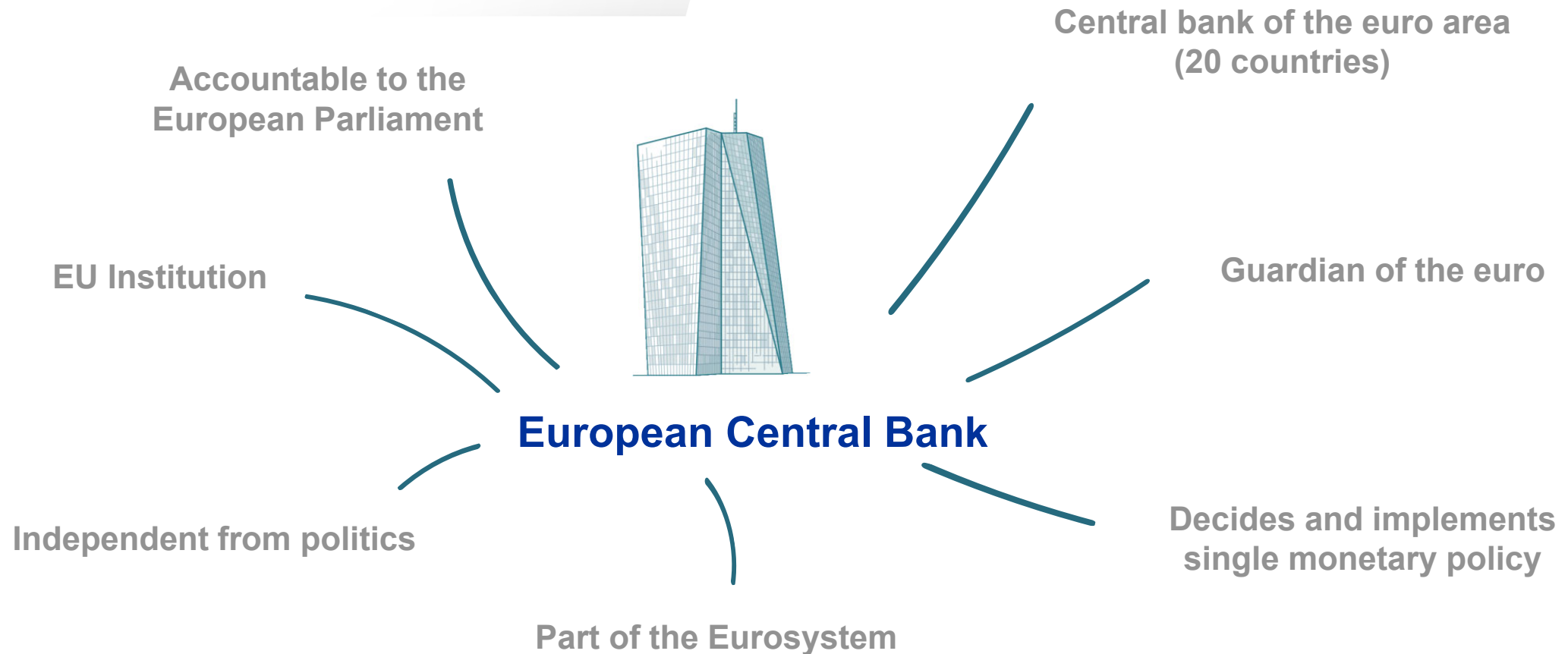
- 1. Background: Institutional setting of the ECB**
- 2. The international role of the euro and the ECB**
- 3. Latest economic developments underlying monetary policy decisions**
- 4. Monetary policy decisions**



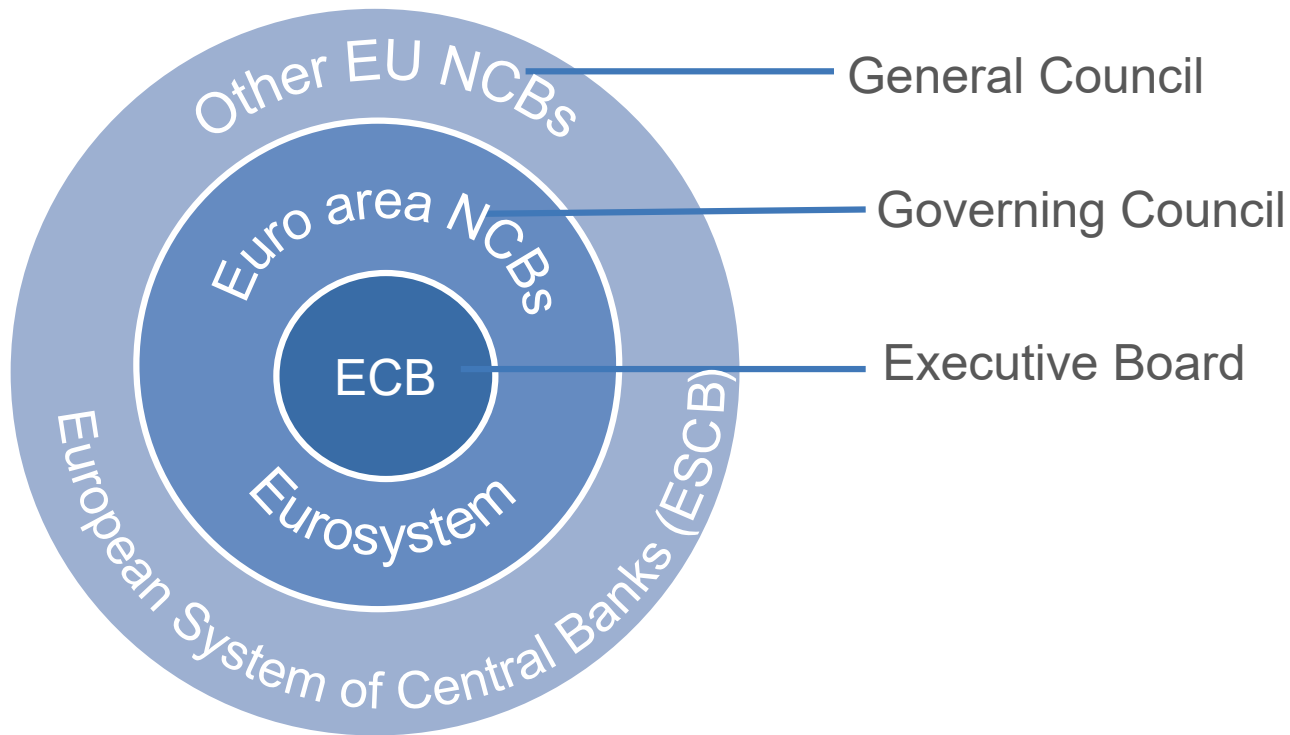
1.

Background: Institutional setting of the ECB

ECB – the bank of banks



The ECB, the Eurosystem and the ESCB



- The ECB is the central bank of the **20 European Union countries** which adopted the euro
- The ECB and the National Central Banks together constitute the **Eurosystem**

The Executive Board of the ECB



Christine Lagarde
President



Luis de Guindos
Vice-President



Frank Elderson



Philip Lane
Chief Economist



Piero Cipollone



Isabel Schnabel

ECB Governing Council

- **6 Executive Board members**
+ 20 national central banks
governors of the euro area
countries
- **Formulates monetary policy**
for the euro area
- Meets every **2 weeks;**
monetary policy
discussions every 6 weeks,
followed by **press**
conference



Objectives and tasks of the ECB

Objectives *Art. 127 TFEU*



Primary objective:
maintain price stability



Secondary objective:
support the general economic policies of the EU

Tasks

*Art. 127, 128 TFEU
ESCB Statute*



Define and implement
monetary policy



Conduct
foreign exchange operations



Manage the
reserves of Member States



Promote operation of
payment systems



Exclusive right to authorise
issuance of banknotes



Financial stability & supervision



Collect & compile
statistics



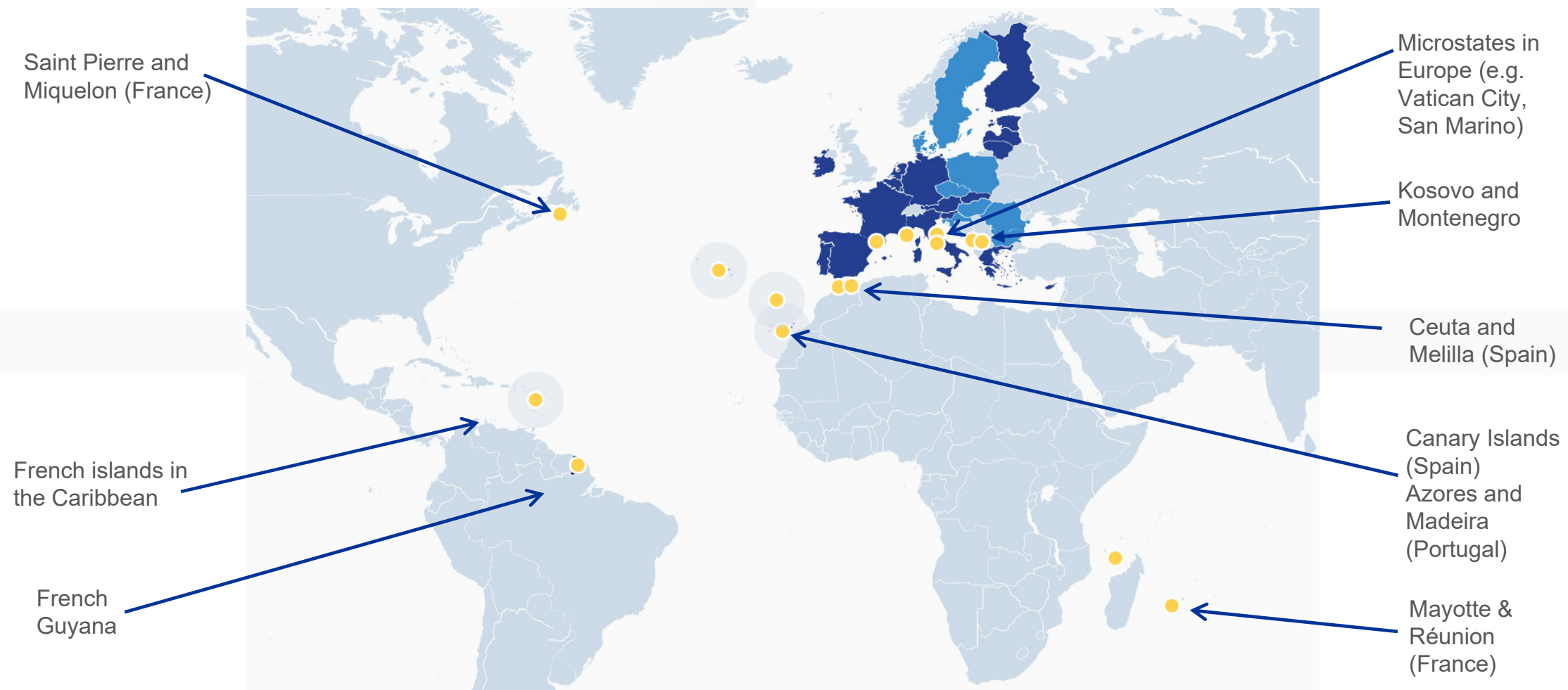
International and European
cooperation



2.

The international role of the Euro and the ECB

€ used by people outside Europe as “their” currency



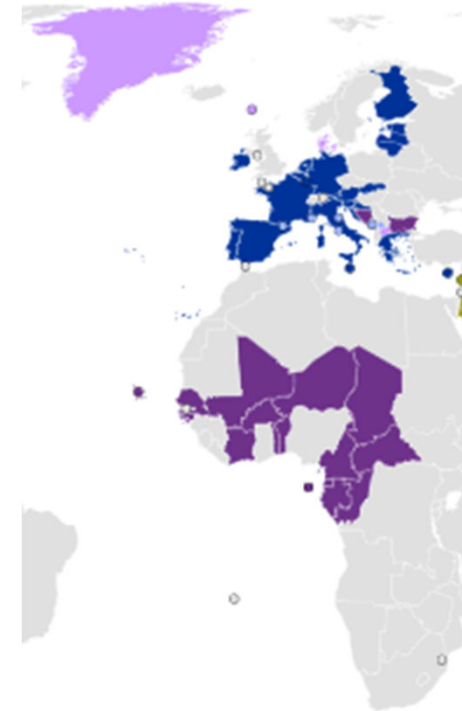
Monetary regimes and the role of the euro

Monetary policy frameworks & exchange rate anchors 2022

26 countries use the € as a direct anchor

81 countries use any form of exchange rate anchor
(**32%** use the €)

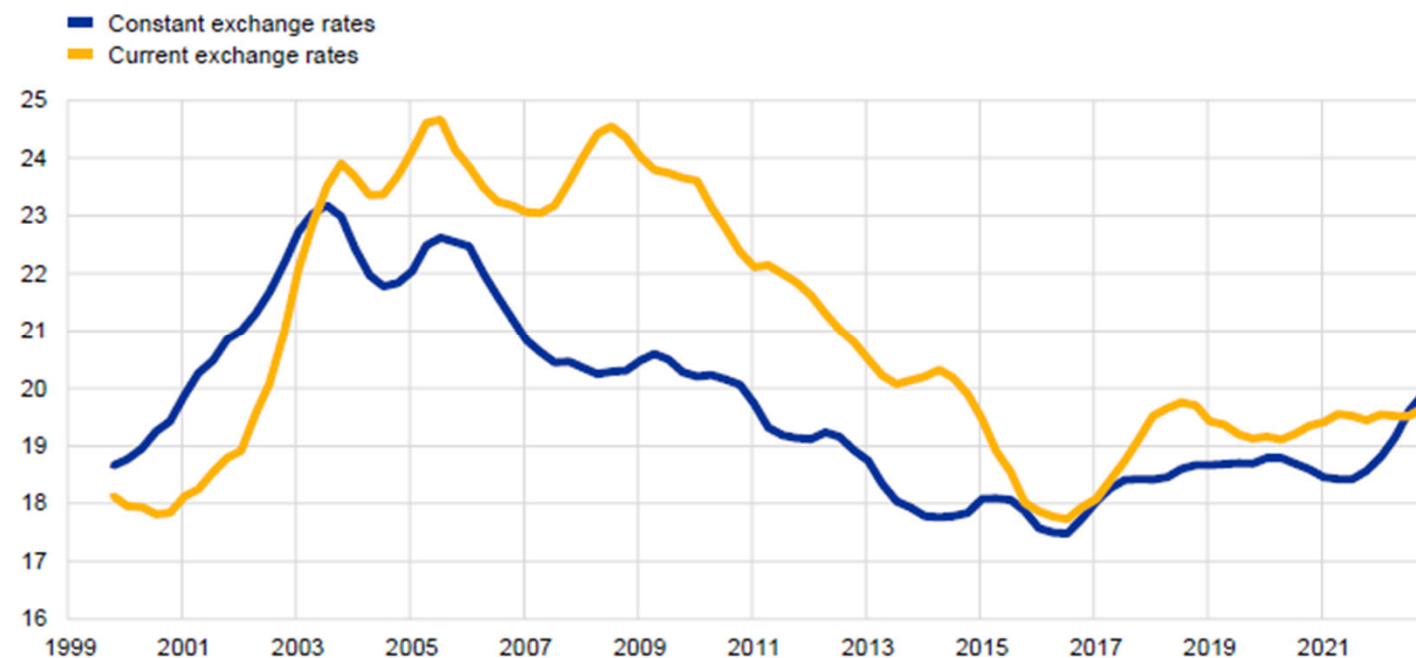
€ anchor mainly in **Europe** and **Africa**
(‘Euro Time Zone’)



Snapshot of the euro's international role

Composite index of the international role of the euro

(percentages; at current and constant Q4 2022 exchange rates; four-quarter moving averages)



The **international role of the euro** remained **resilient in 2022**

Sources: Bank for International Settlements (BIS), International Monetary Fund (IMF), CLS Bank International, Ilzetzki, Reinhart and Rogoff (2019) and ECB calculations.

ECB and international relations



International Monetary Fund



G20



G7



Bank for International Settlements



Organisation for Economic Co-operation and Development



Financial Stability Board



3.

Latest economic
developments
underlying monetary
policy decisions

High inflation after a long period of stability

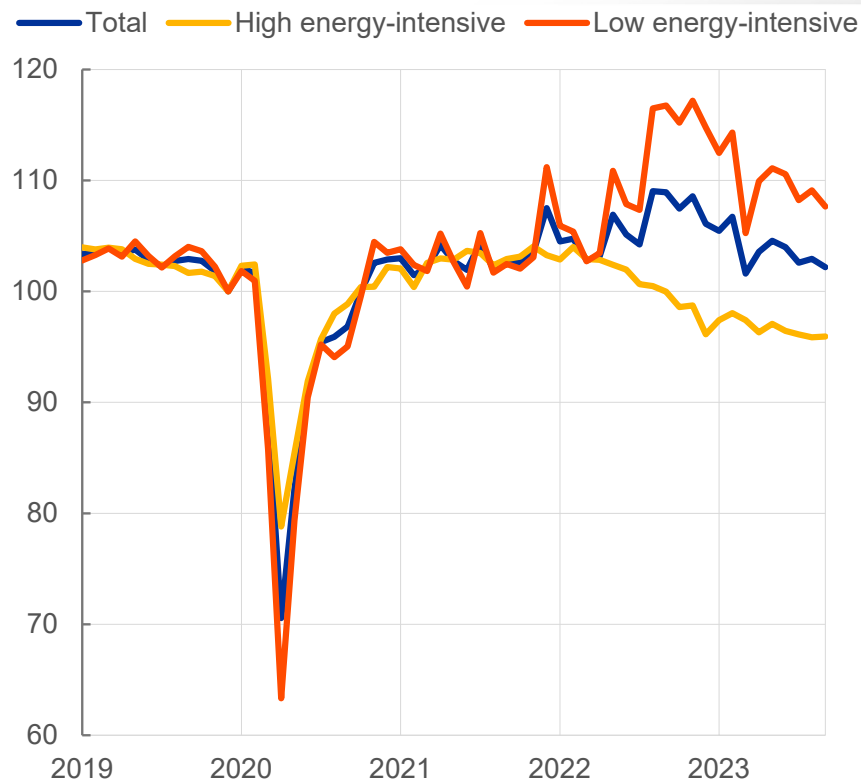


Sources: Eurostat.
Latest observations: October 2023.

Energy shock with possible scarring effects

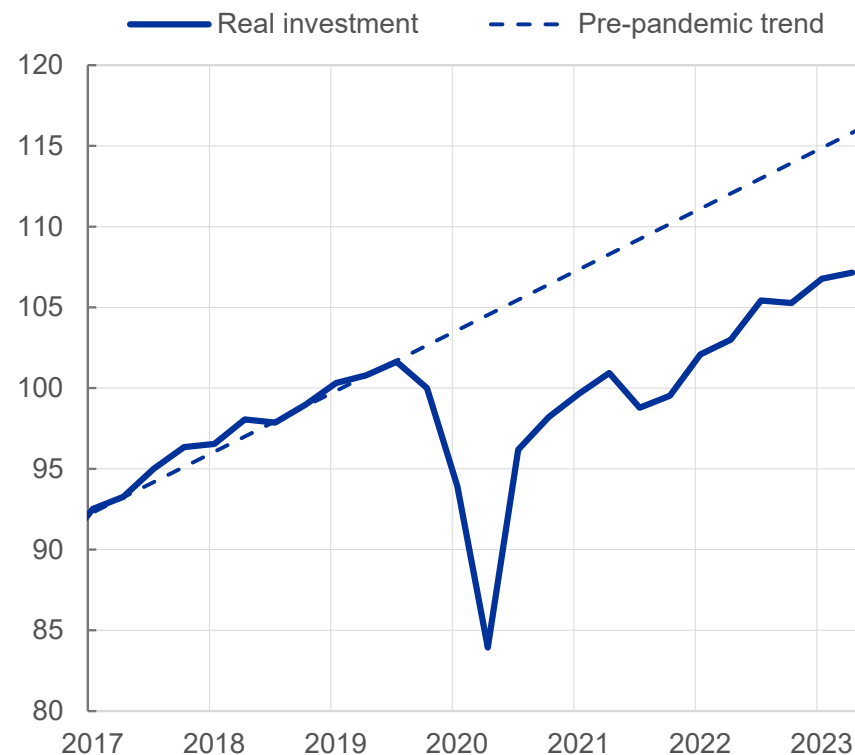
Industrial production: manufacturing sector

(index: December 2019 = 100)



Real business investment

(index: 2019 Q4 = 100)

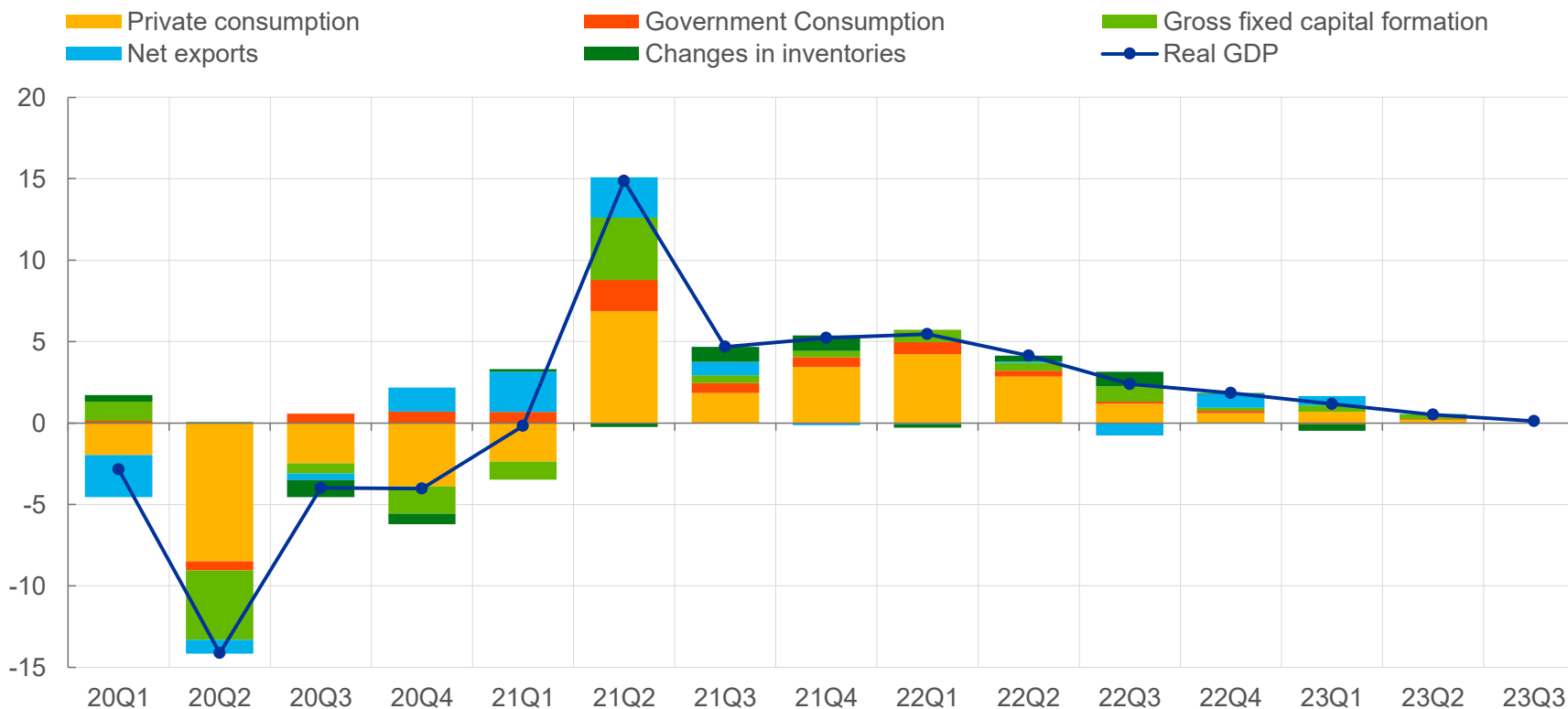


Sources: Eurostat, Trade Data Monitor and ECB staff calculations. Notes: Data are seasonally-adjusted. Industrial production indices for individual sectors are aggregated with value-added weights. Low (high) energy-intensity sectors are defined as those with an energy intensity lower (higher) than that of the median sector. For more details, see [Chiacchio, De Santis, Gunnella and Lebastard \(2023\)](#). Latest observation: September 2023.

Source: ECB calculation based on Eurostat data. Notes: Pre-pandemic trend estimated on the basis of quarterly data between 2013 Q1 and 2019 Q4. Real investment adjusted for the statistical volatility of intangible investment in Ireland. Latest observation: 2023 Q2.

The economy is gradually slowing

Decomposition of real GDP growth (year-on-year percentage change and percentage point contributions)

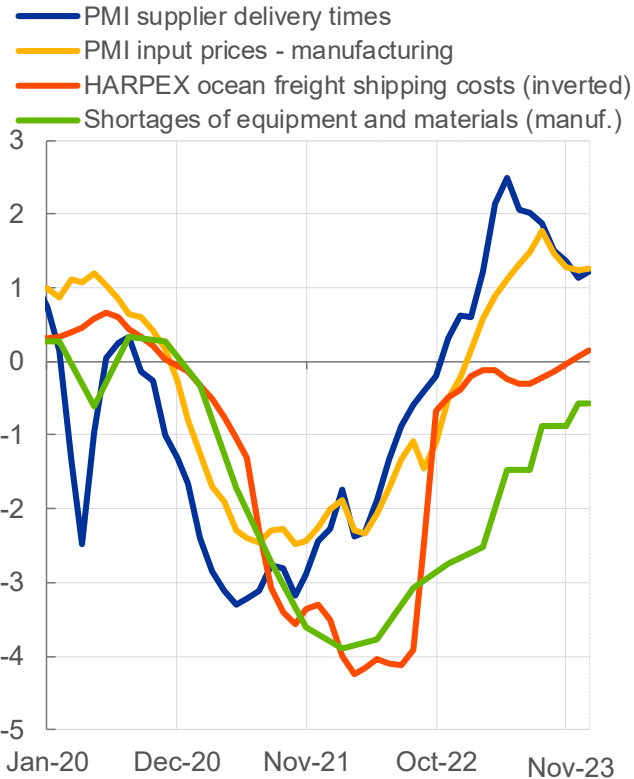


Sources: Eurostat and ECB staff calculations.
Latest observations: Q3 2023 for GDP and Q2 2023 for GDP components.

Topical issue: Supply constraints

Supply bottlenecks indicators

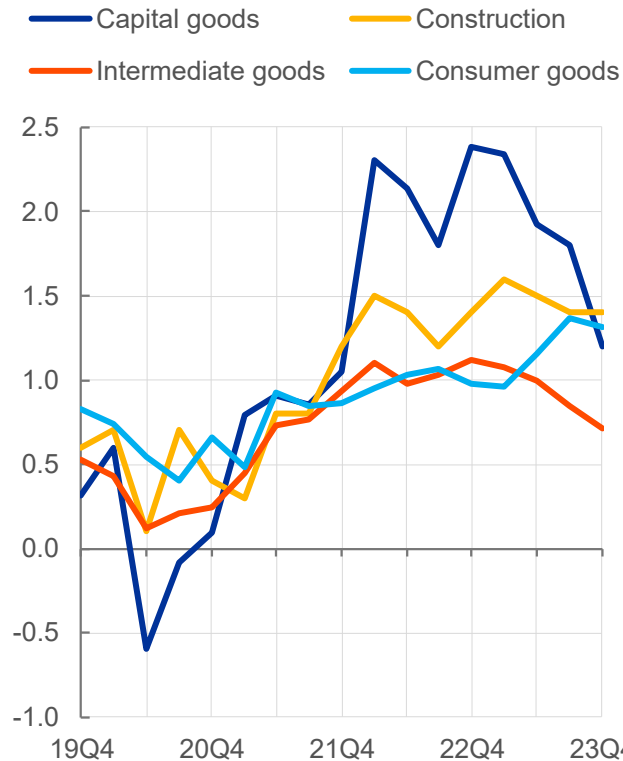
(standardised)



Sources: Eurostat, S&P global, DG-ECFIN and ECB calculations. Latest observations: Q4 2023 for shortages of equipment; November 2023 for the rest.

Order backlogs

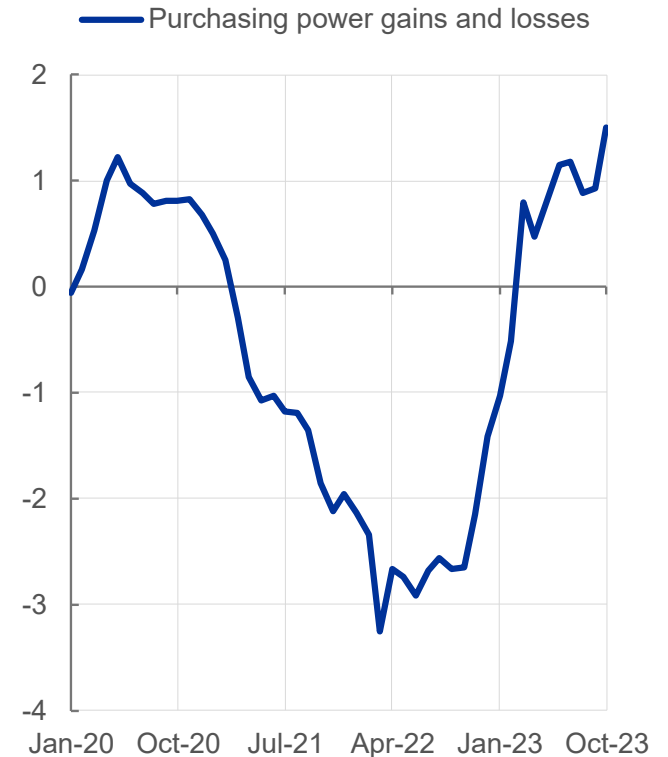
(operating time ensured by current backlogs in months)



Sources: DG-ECFIN and ECB calculations. Note: data shown in deviation from their long-term average. Latest observation: Q4 2023.

Purchasing power gains/losses from energy inflation

(percentages)

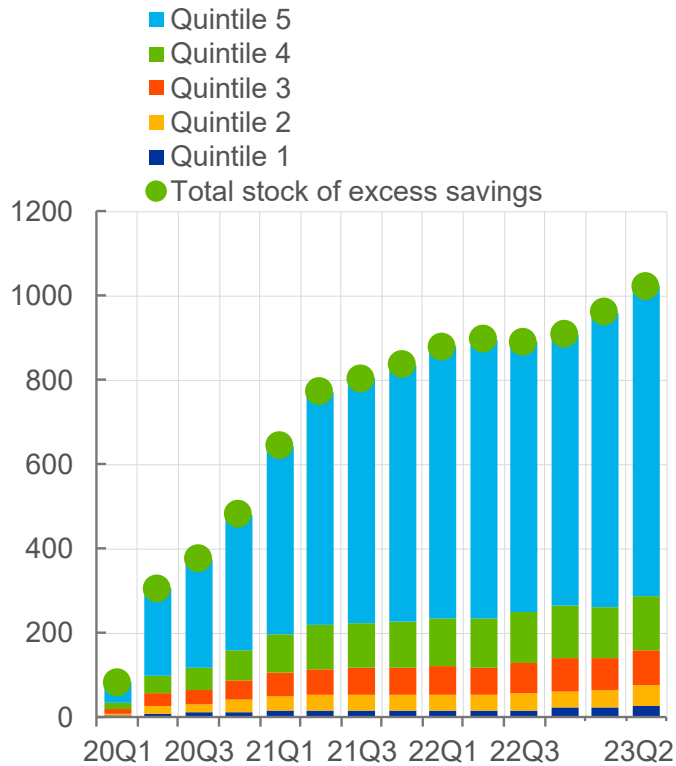


Sources: Eurostat and ECB calculations. Notes: Purchasing power gains/losses computed as the y-o-y% change in the real price of energy weighted by the nominal energy expenditure share (Edelstein and Kilian, 2009). A negative value indicates a loss in purchasing power. Latest observation: October 2023.

Topical issue: Accumulated savings

Cumulated savings across the household net wealth distribution

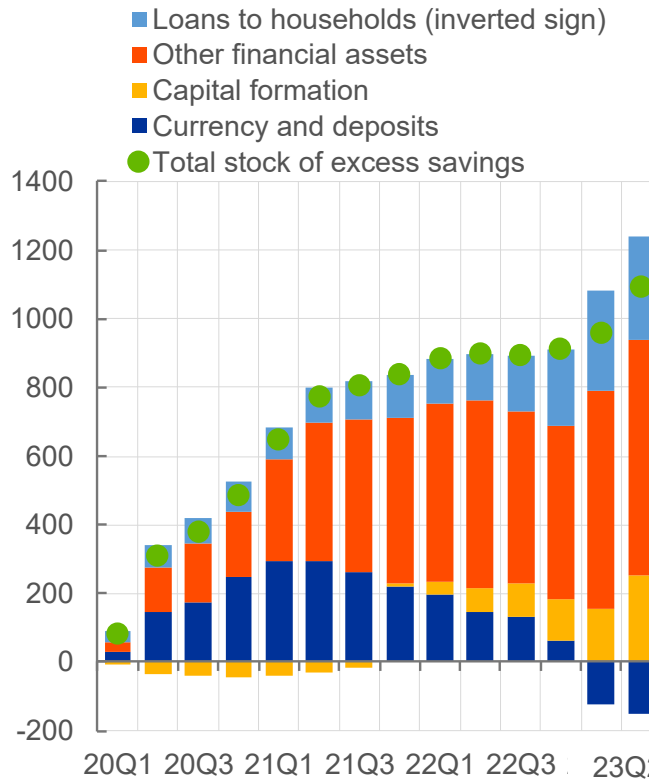
(deviation from pre-pandemic trend and cumulated since 2019Q4, EUR bn)



Sources: Eurostat, experimental DWA and ECB calculations.
Latest observation: Q2 2023.

Cumulated savings by assets

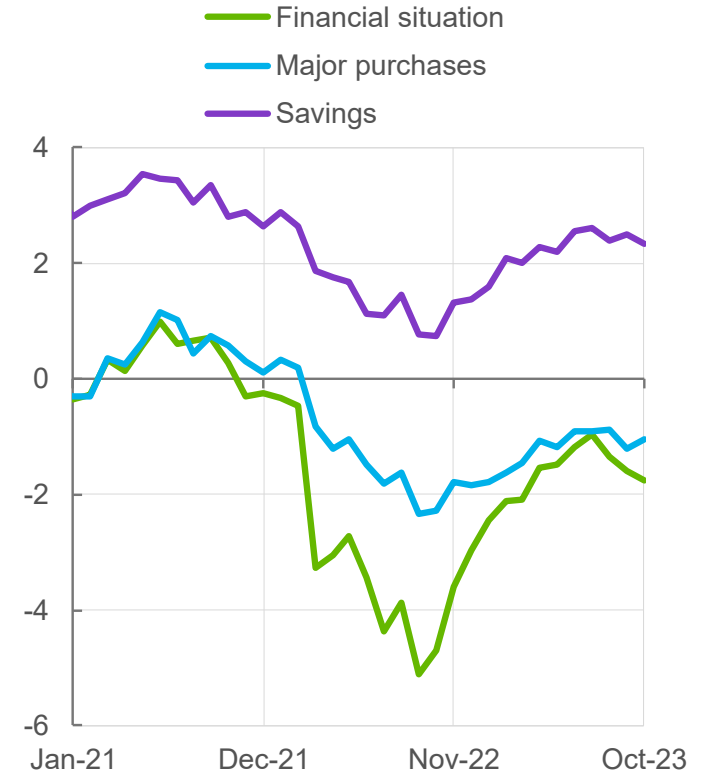
(deviation from pre-pandemic trend cumulated since 2019Q4, EUR bn)



Sources: Eurostat, ECB, experimental DWA, ECB calculations.
Notes: each asset represents the cumulated value in deviation from its extrapolated 2015-2019 trend. Other financial assets refers to stocks, bonds and others.
Latest observation: Q2 2023.

Household expectations

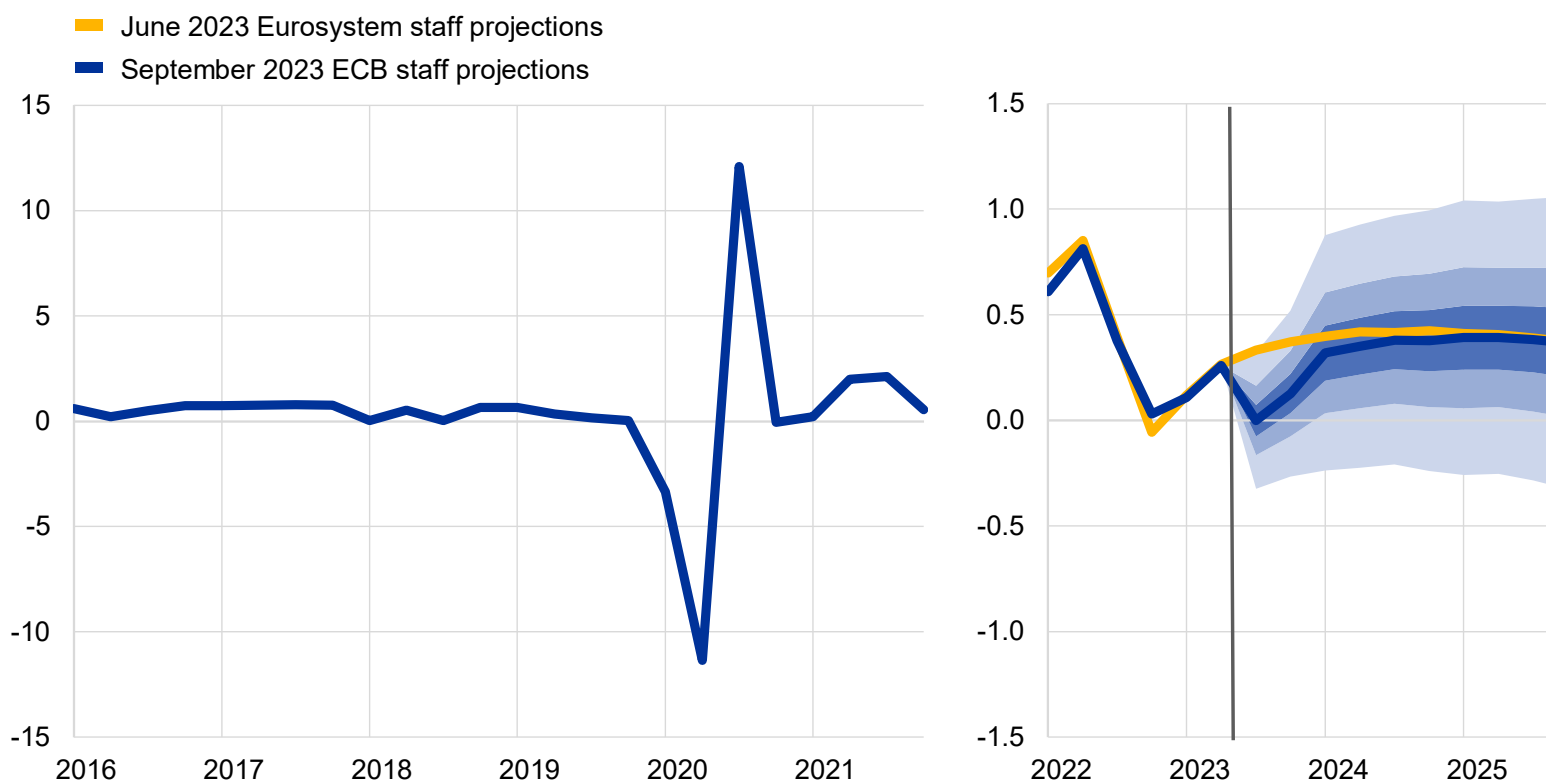
(standardised percentage balances)



Sources: DG-ECFIN and ECB calculations.
Note: The series are standardised using data from 2000 to 2019.
Latest observation: October 2023.

Real growth expected to pick up in 2023

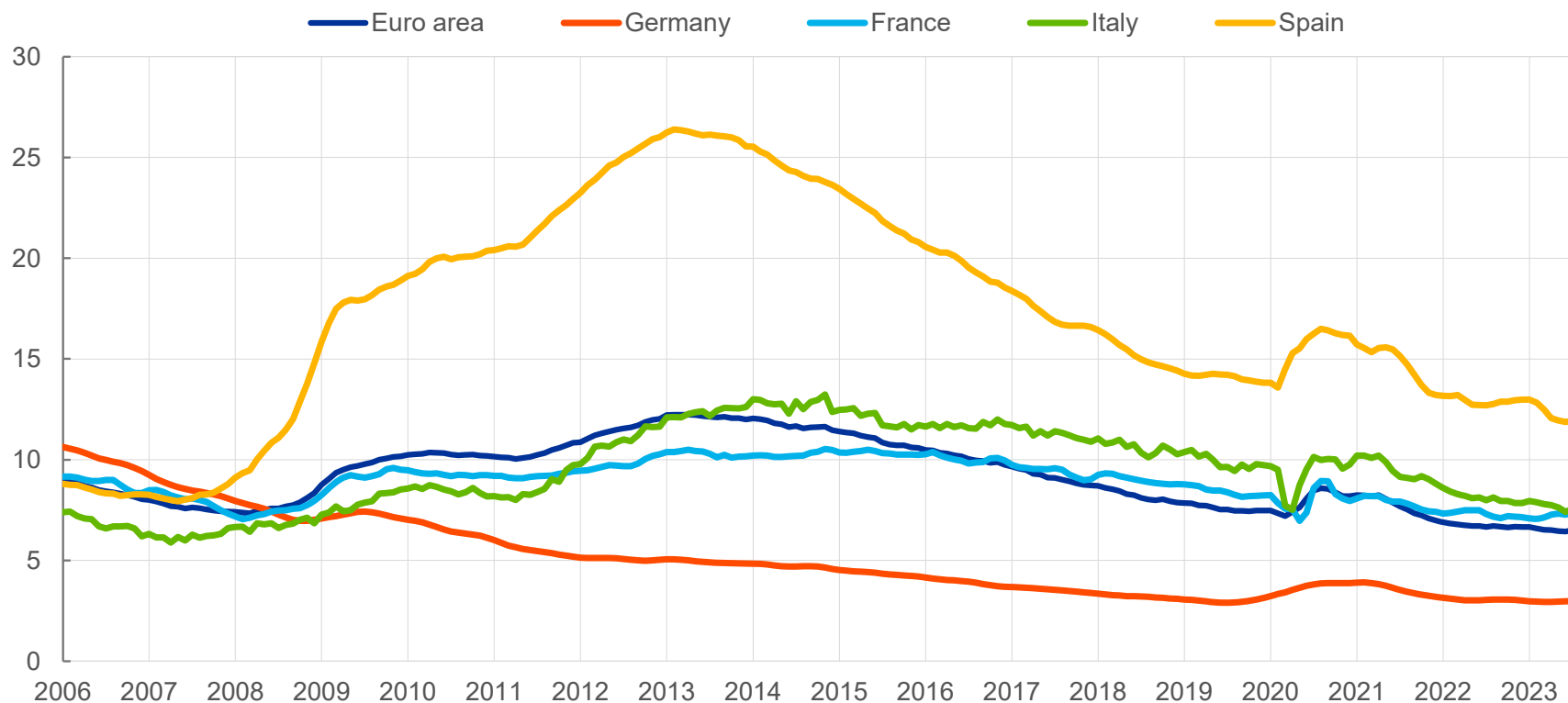
ECB staff macroeconomic projection: euro area real GDP growth (quarter-on-quarter percentage changes, seasonally and working day-adjusted quarterly data)



Notes: The ranges shown around the central projections provide a measure of the degree of uncertainty and are symmetric by construction. They are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome of real GDP growth will fall within the respective intervals.

Labour market remains strong

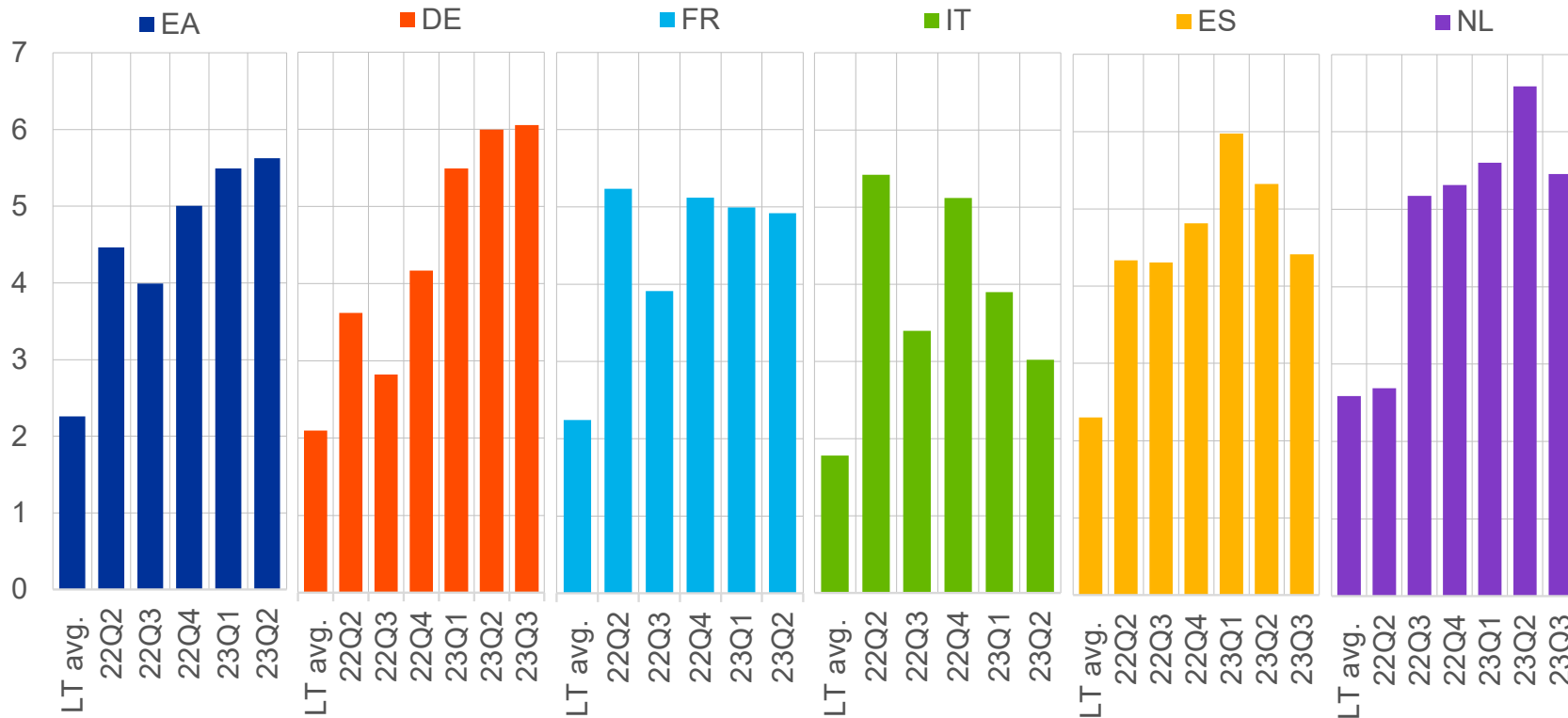
Unemployment rate in the euro area and largest economies (percentage)



Sources: Eurostat.
Latest observations: September 2023.

Wage growth across euro area countries

CPE growth in the euro area and largest economies (annual percentage changes)

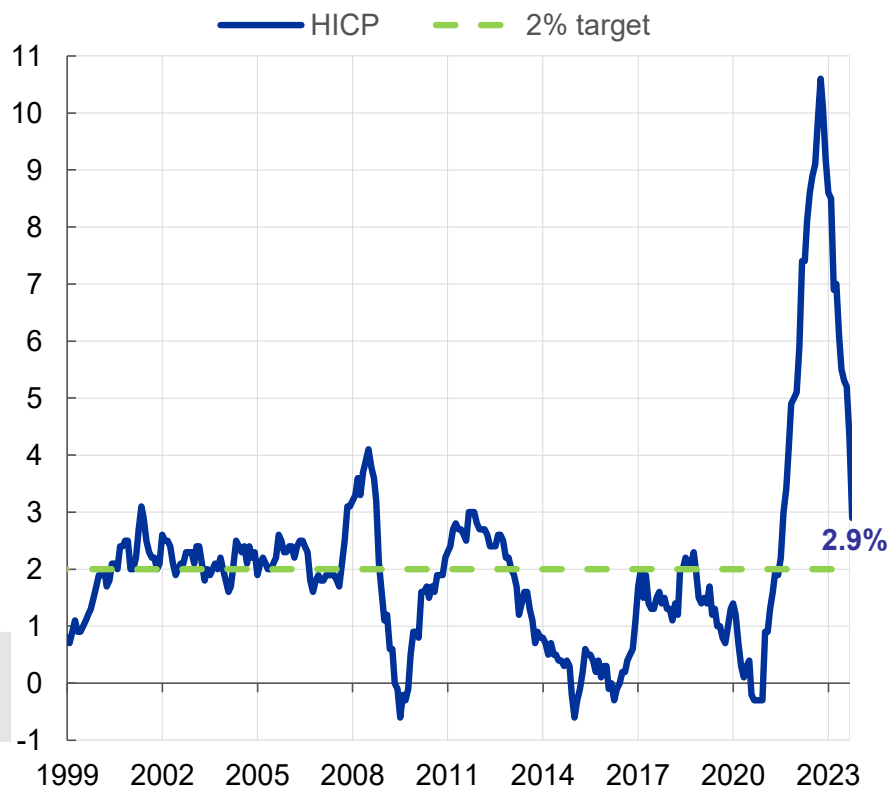


Sources: Eurostat and ECB calculations.
 Latest observations: Q3 2023 for Germany, Spain and the Netherlands; Q2 2023 for the rest.

Inflation declined markedly, expectations still elevated

Euro area HICP inflation

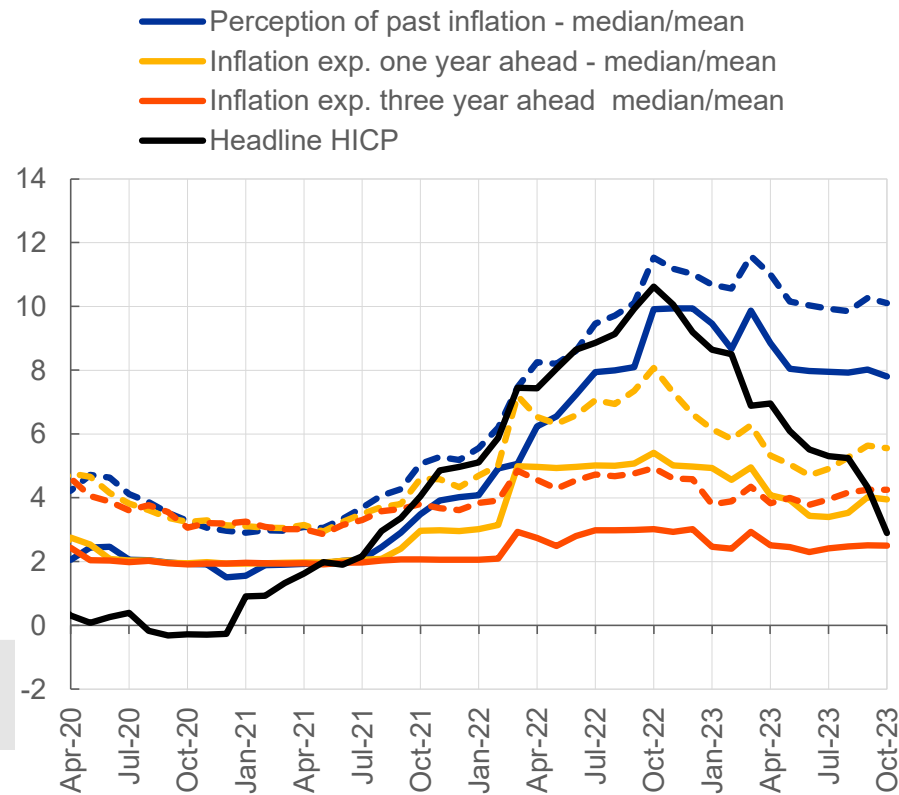
(annual percentage changes)



Source: Eurostat.
Latest observation: October 2023.

ECB Consumer Expectations Survey

(annual percentage changes)

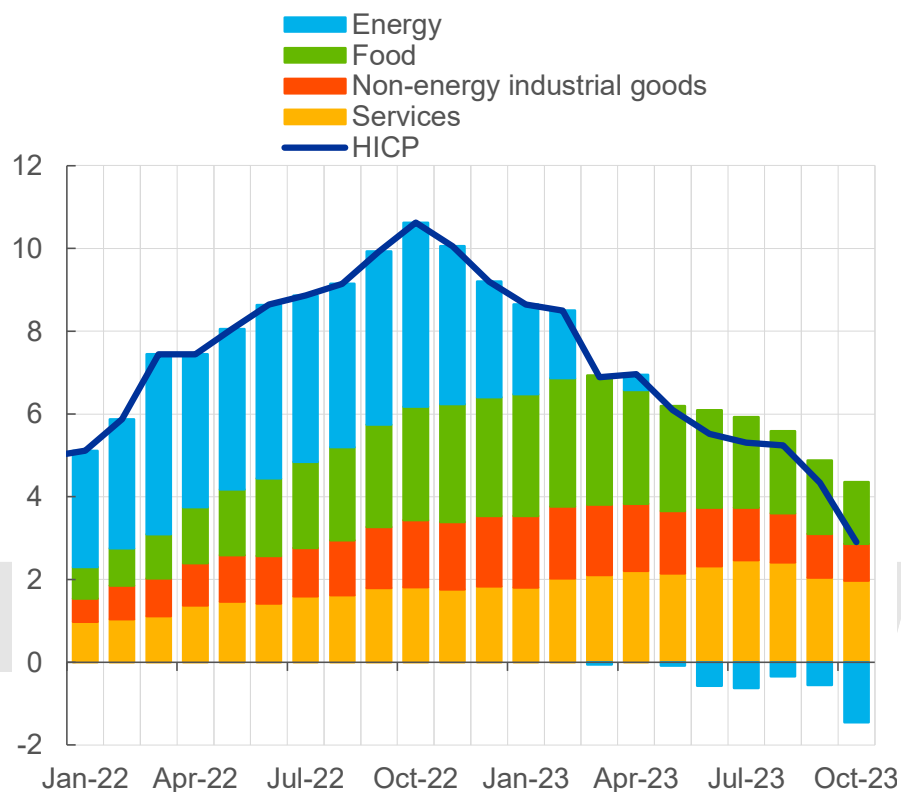


Sources: ECB Consumer Expectation Survey (CES).
Notes: Dashed lines represent the mean and solid line the median

Inflation decline on the back of large base effects (energy and food)

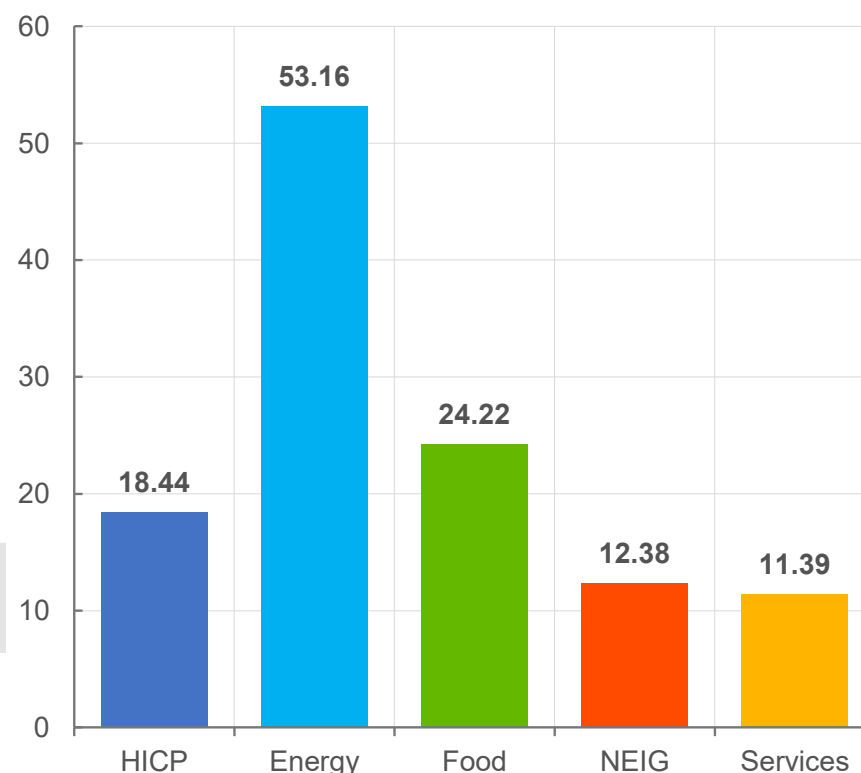
Headline inflation

(annual percentage changes; pp contributions)



Sources: Eurostat and ECB calculations. Latest observations: October 2023.

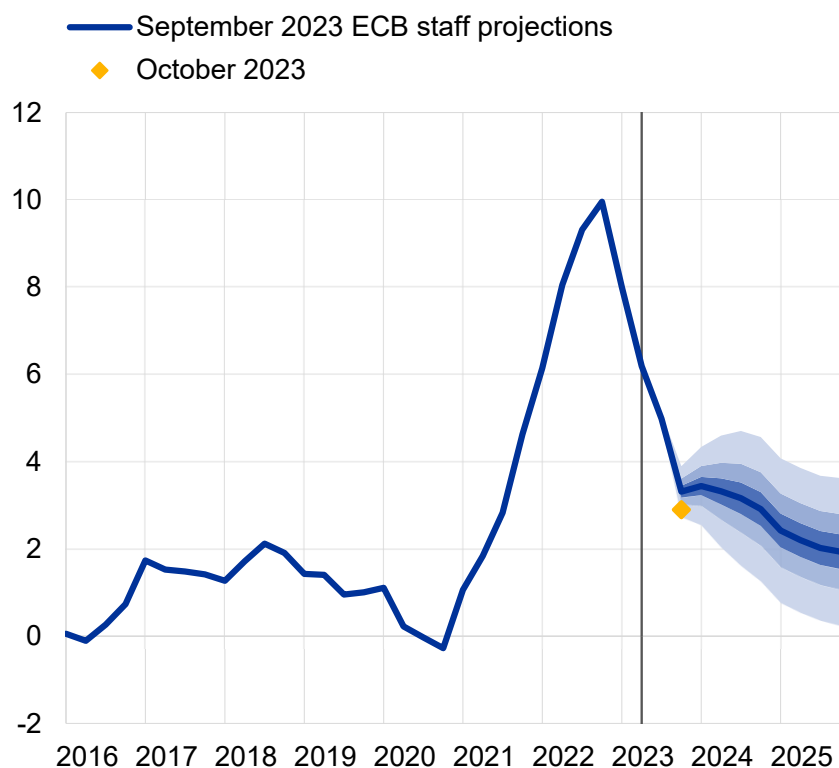
Cumulative change in HICP and components inflation since December 2020



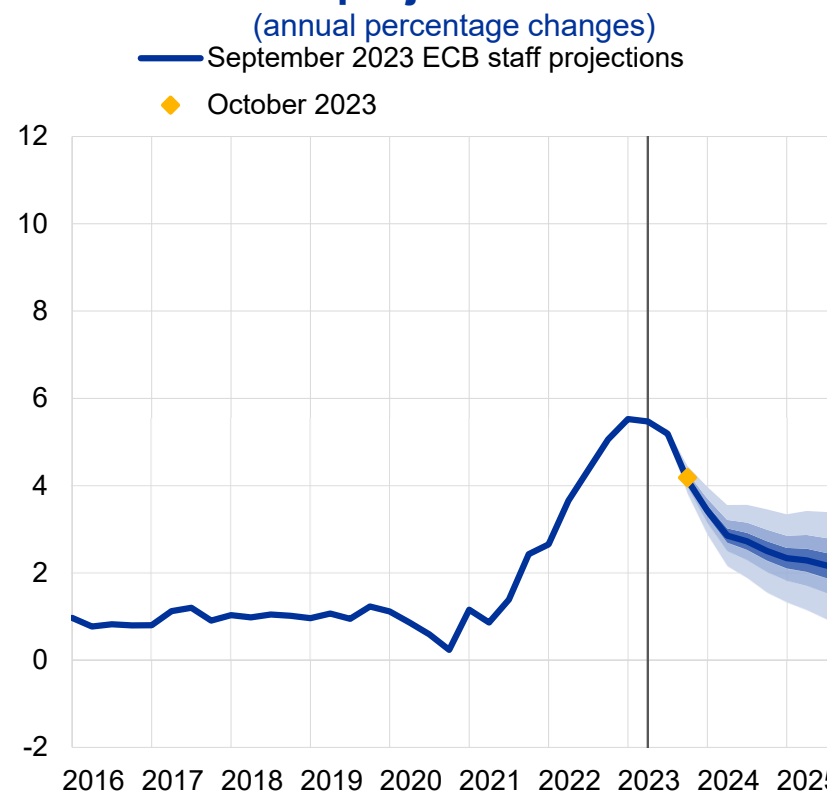
Sources: Eurostat and ECB calculations. Latest observations: October 2023.

Disinflation slowing, inflation projected to move towards 2%

HICP inflation projections (annual percentage changes)



HICP excluding energy and food inflation projections (annual percentage changes)



Source: September 2023 MPE and Eurostat. Notes: The ranges shown around the central projections are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome will fall within the respective intervals. For more information, see Box 6 of the March 2023 ECB staff macroeconomic projections for the euro area. Latest observation: October 2023 for monthly data (diamond).



4.

Latest monetary policy decisions

ECB standard monetary policy instruments

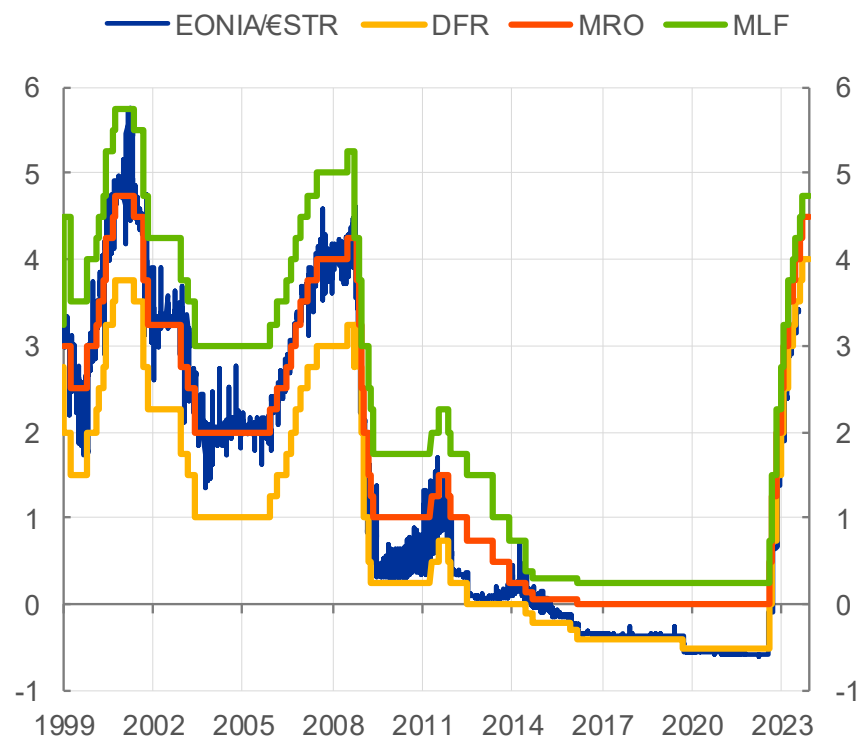


Normalisation of monetary policy starting end-2021

Inflation too high for too long

- **December 2021:** Decision to end net asset purchases under PEPP at end-March 2022.
- **June 2022:** End of net asset purchases under the APP
- **October 2022:** Change in terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO III).
- **Key ECB interest rates primary tool for setting the monetary policy stance.**
- **High level of uncertainty:**
 - no more forward guidance on future interest rates
 - data-dependency in decision-making

Key ECB interest rates



Sources: ECB and ECB calculations.

Latest observation: 26 October 2023 for €STR, MP7 for key ECB interest rates (as decided in the 26 October 2023 GovC meeting)

Key ECB interest rates

- **July 2022:**
 - Policy rate lift-off by 0.5pp (end of negative interest rate policy)
- **September and October 2022:**
 - Policy rate hikes of 0.75pp
- **December 2022, February and March 2023:**
 - Policy rate hikes of 0.5pp
- **May 2023, June 2023, July 2023 and September 2023:**
 - Policy rate hike of 0.25pp

October 2023 monetary policy decisions

- **Key ECB interest rates unchanged**, after 450 bp rise since July 2022)
- Based on **current assessment**, we consider that the **key interest rates are at levels** that, **maintained for a sufficiently long duration**, will make a substantial contribution to the timely return of inflation to our target.
- Future decisions will ensure that the key ECB interest rates will be **set at** sufficiently restrictive levels for as long as necessary.
- Continue to follow a **data-dependent approach** to determining the appropriate level and duration of restriction.
- Interest rate decisions will be based on the assessment of the **inflation outlook**, the **dynamics of underlying inflation**, and the **strength of monetary policy transmission**.

Asset purchase programmes

APP

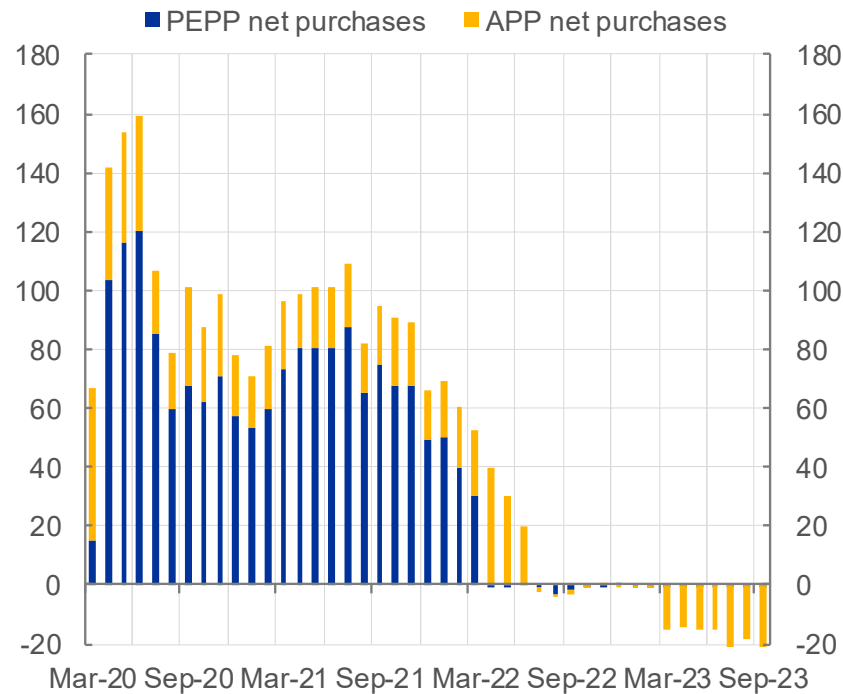
- APP portfolio is declining at a measured and predictable pace.
 - March-June 2023: €15 billion decline per month on average by not reinvesting all maturing securities
 - Reinvestments under the APP discontinued as of July 2023.

PEPP

- Intention to reinvest the principal payments from maturing securities purchased under the PEPP programme until at least the end of 2024.

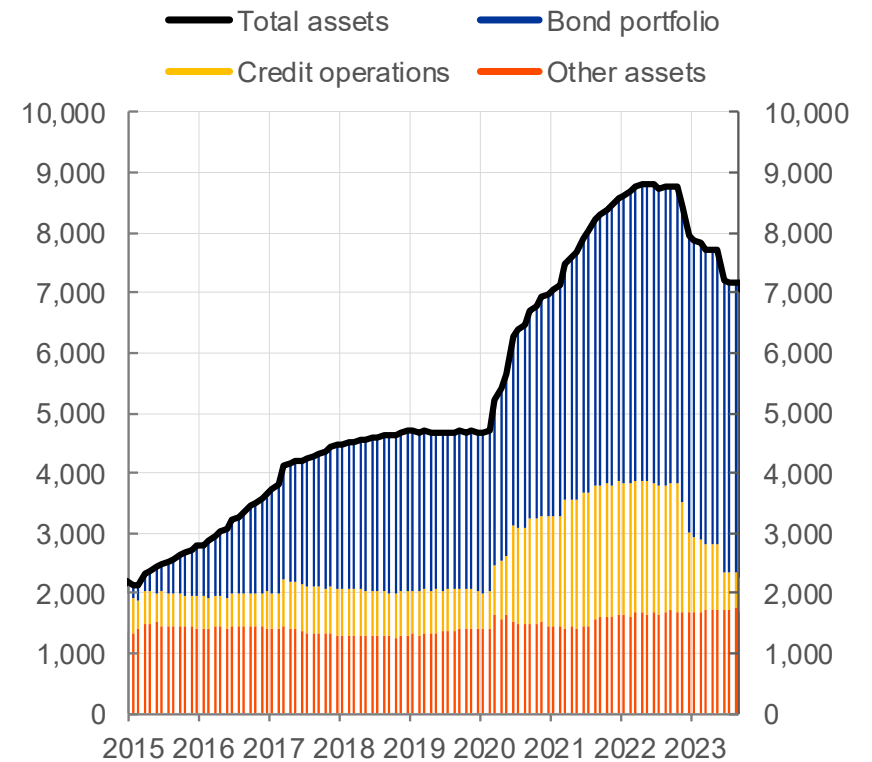
Asset purchases and balance sheet

Net asset purchases under APP & PEPP
(EUR billion)



Source: ECB.
Latest observation: 30 September 2023.

Eurosystem balance sheet (assets)
(EUR billion)



Source: ECB.
Latest observation: 13 October 2023.

Smooth transmission of policy rates to financing conditions

10-year GDP-weighted sovereign yield and 10-year nominal OIS in the euro area

(percentages per annum)

- EA 10-year GDP-weighted sovereign yield
- EA 10-year nominal OIS

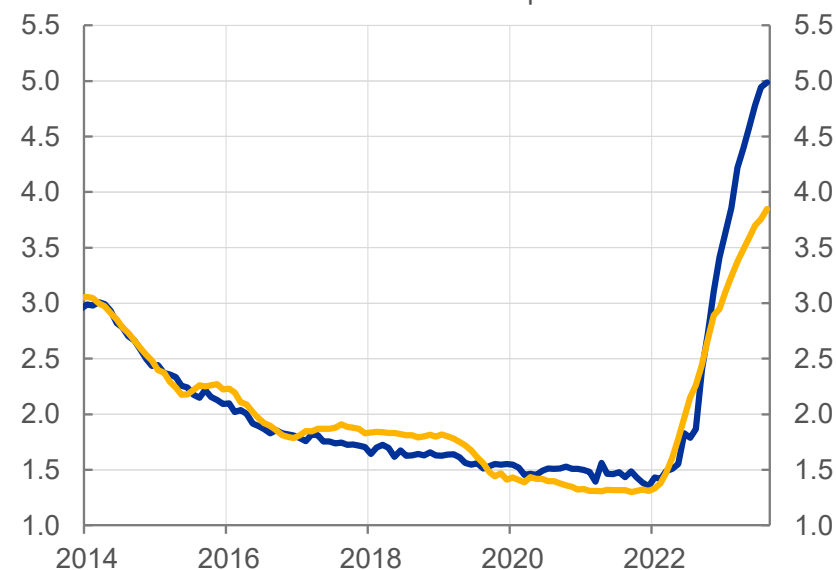


Sources: Refinitiv and ECB calculations.
Latest observation: 26 October 2023.

Lending rates to firms and households in the euro area

(percentages per annum)

- Non-financial corporations
- Households for house purchase

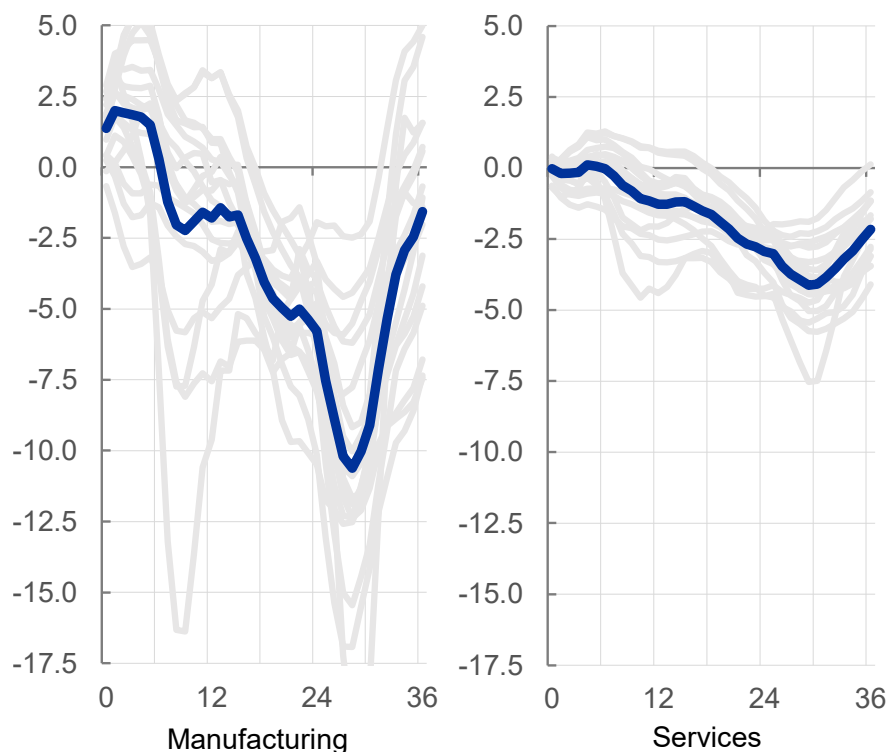


Source: ECB (MIR).

Notes: The indicator for the total cost of borrowing is calculated by aggregating short- and long-term rates using a 24-month moving average of new business volumes.
Latest observation: August 2023.

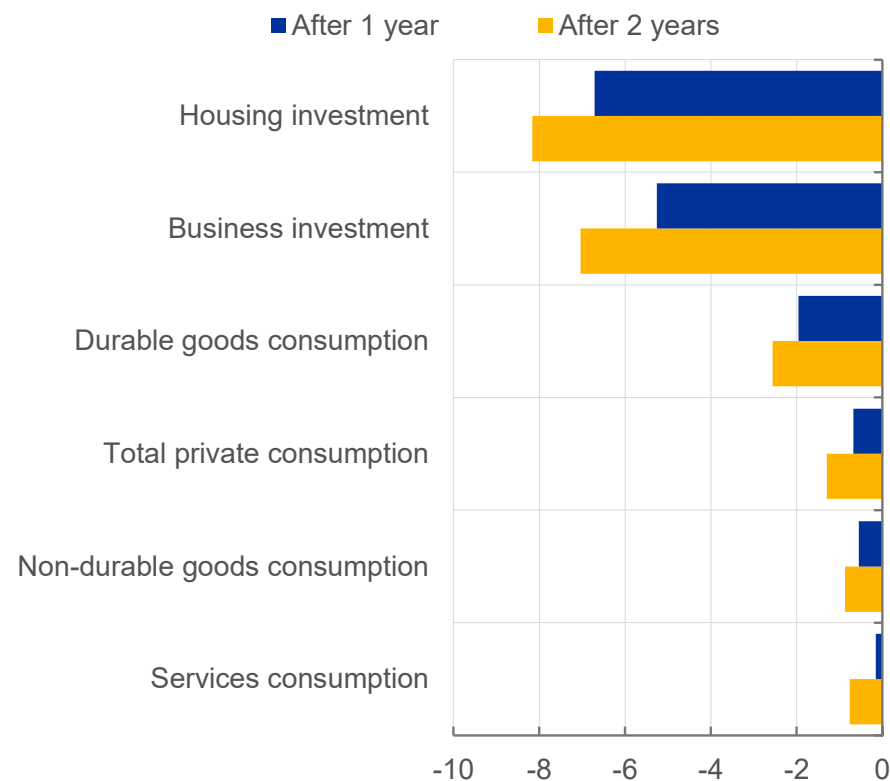
...and progressively to the economy

Impact of monetary policy shocks on manufacturing (left) and services (right)
(percentages)



Sources: Eurostat, Altavilla et al. (2019) and ECB calculations.
Notes: The chart reports the monthly impulse response functions across 16 local projection models with different lag specifications and shock identifications. The responses are normalised to a 100 basis point peak response in the 3m OIS rate. The thick blue lines represent averages.

Semi-elasticities of domestic demand to a borrowing rate increase
(percent)

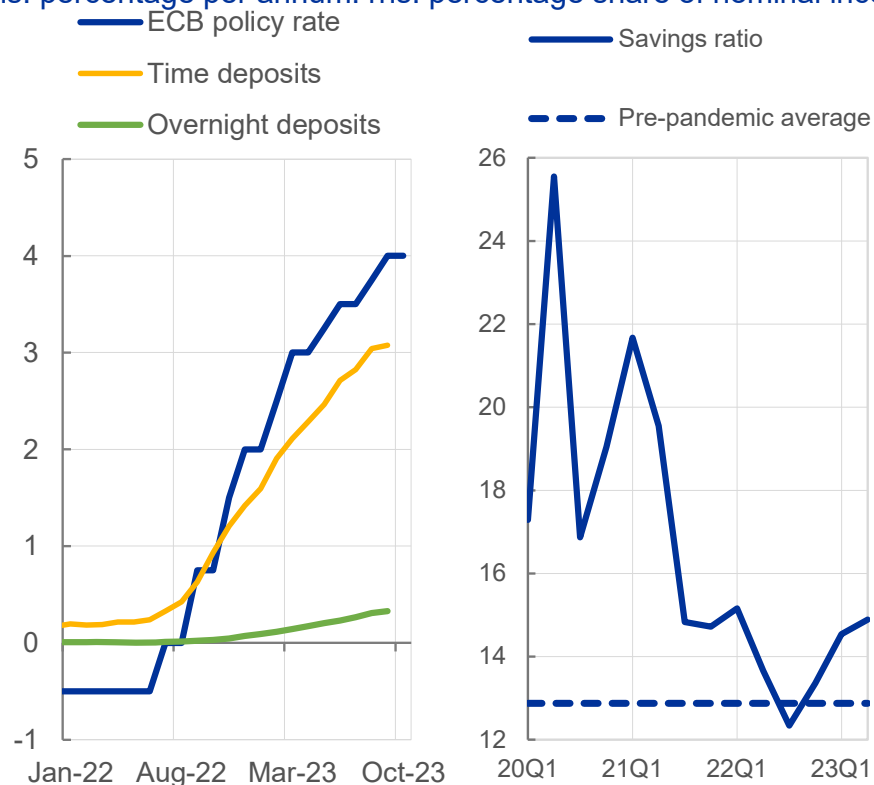


Sources: Eurostat, ECB and ECB staff calculations.
Notes: The chart shows estimated semi-elasticities of demand components to a 1pp increase in the sector-specific borrowing rate, using linear local projections as in Box 4, Economic Bulletin, Issue 6/2022. Business investment is proxied by machinery and equipment investment.

Limited pass-through to deposit rates, house prices moderating

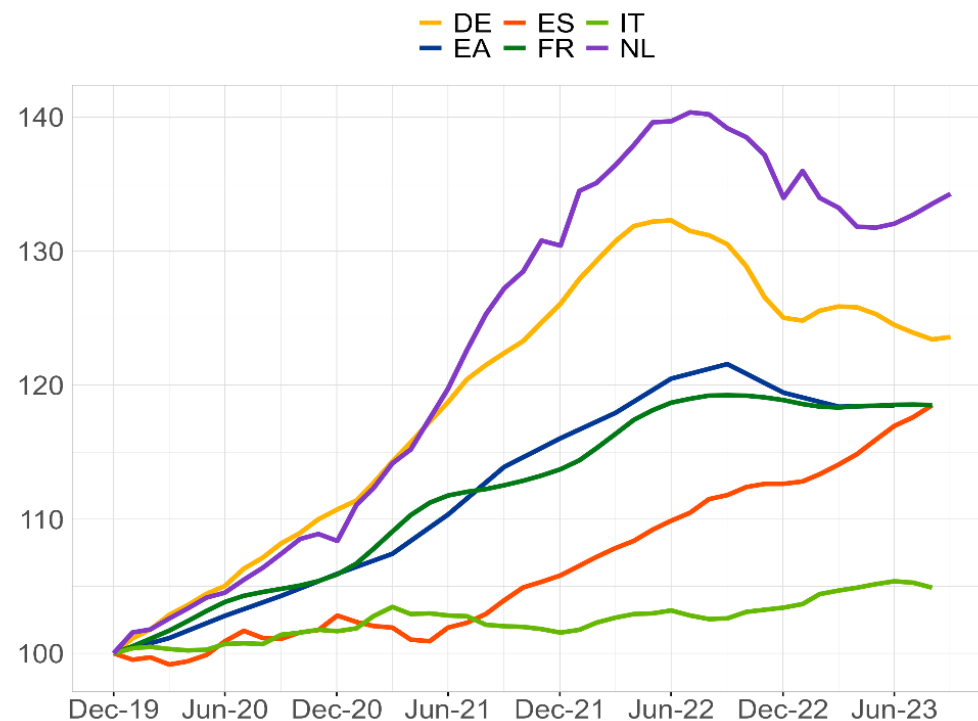
Household deposit rates and savings ratio

(lhs: percentage per annum: rhs: percentage share of nominal income)



House prices

(Monthly RRE price indices – December 2019 = 100)

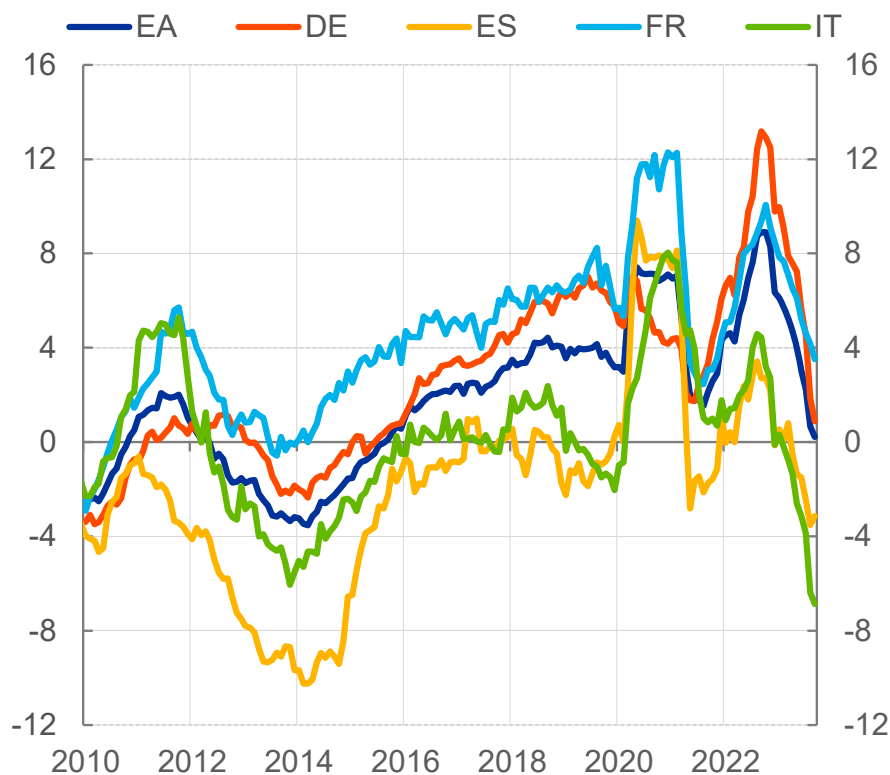


Sources: Europace, Eurostat, Immobiliare.it, Indomio.es, Meilleursagents.com, Statistics Netherlands. Notes: RRE stands for Residential Real Estate. Last EA observation from Eurostat is for Q2 2023, so several countries with more timely data available are added. For IT and ES an average listing price index is reported. For all other countries the index reported is a hedonic price index based on transaction prices.

Sources: Eurostat, ECB (MIR, FM) and ECB calculations. Notes: Time deposits are those of maturity of up to 2 years. Pre-pandemic average of savings ratio is calculated over the period 1999 Q1-2019 Q4. Last observations: October 2023 for the ECB policy rate, September 2023 for deposit rates, 2023 Q2 for savings ratio.

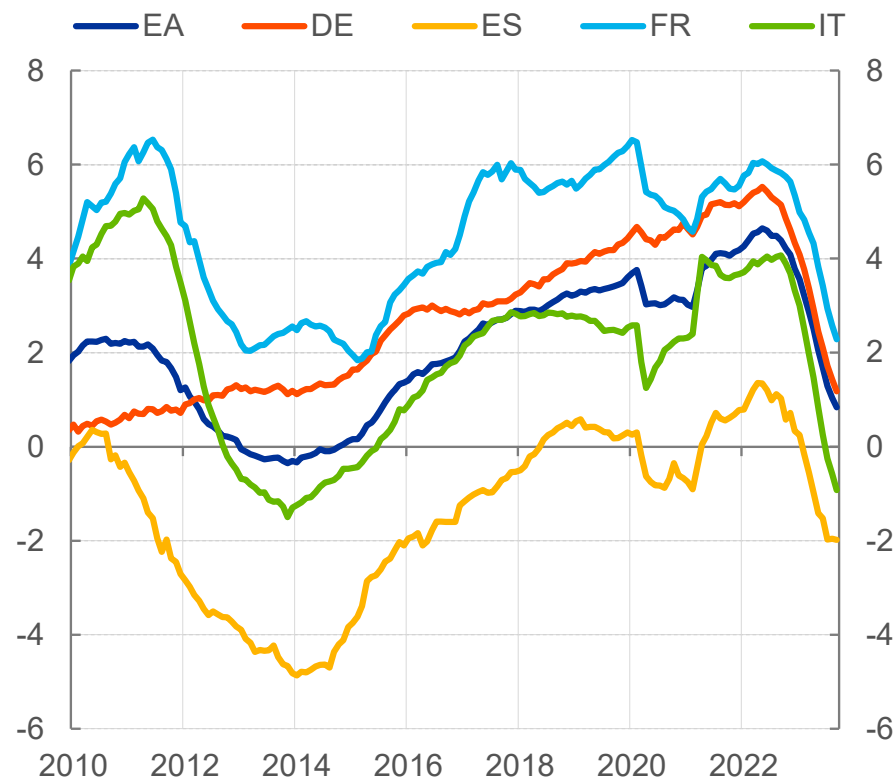
Annual growth of bank loans to firms and households

Loans to NFCs in selected euro area countries (annual percentage changes)



Source: ECB (BSI).
Latest observation: September 2023.

Loans to households in selected euro area countries (annual percentage changes)



Source: ECB (BSI).
Latest observation: September 2023.



Thank you for your attention

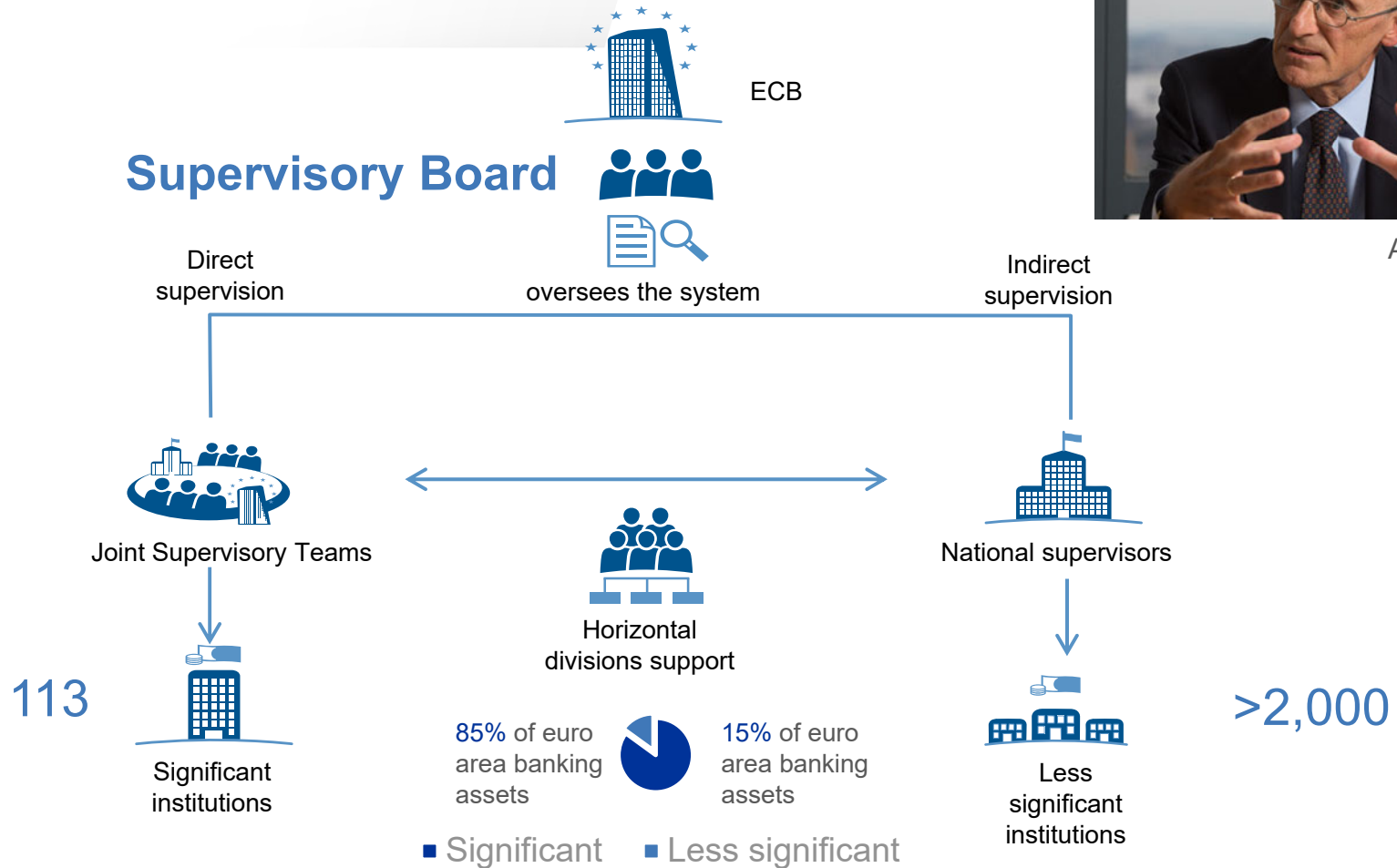


Annexes

European Banking Supervision



Andrea Enria



What's part of the mandate?



Primary objective

The primary objective of the [Eurosystem] shall be to maintain price stability.

Without prejudice to the objective of price stability, the [Eurosystem] shall support the general economic policies in the Union with a view to contributing to the objectives of the Union" (*Article 127 TFEU*)

* * *



Dual/triple mandate

"To furnish an elastic currency [and] to afford means of re-discounting commercial paper"
(*Federal Reserve Act, 1913*)

* * *

"Maintain the growth of monetary and credit aggregates commensurate with the economy's long-run potential to increase production, so as to promote effectively the goals of **maximum employment, stable prices and moderate long-term interest rates**" (*Amendment of the Federal Reserve Act, 1977*)

TPI modalities (I)

Aim

- Counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries

Implementation

- Secondary market purchases of public sector securities of jurisdictions experiencing deteriorating financing conditions not warranted by country-specific fundamentals

Eligibility criteria

- Compliance with the EU fiscal framework
- Absence of severe macroeconomic imbalances
- Sound and sustainable macroeconomic policies
- Fiscal sustainability

TPI modalities (II)

Activation

- Assessment of market and transmission indicators, eligibility criteria, proportionality to ECB's primary objective

Termination

- Durable improvement in transmission, or assessment that tensions are due to country fundamentals

Relation to the monetary policy stance

- Purchases will not cause persistent impact on overall Eurosystem balance sheet and hence on monetary policy stance