

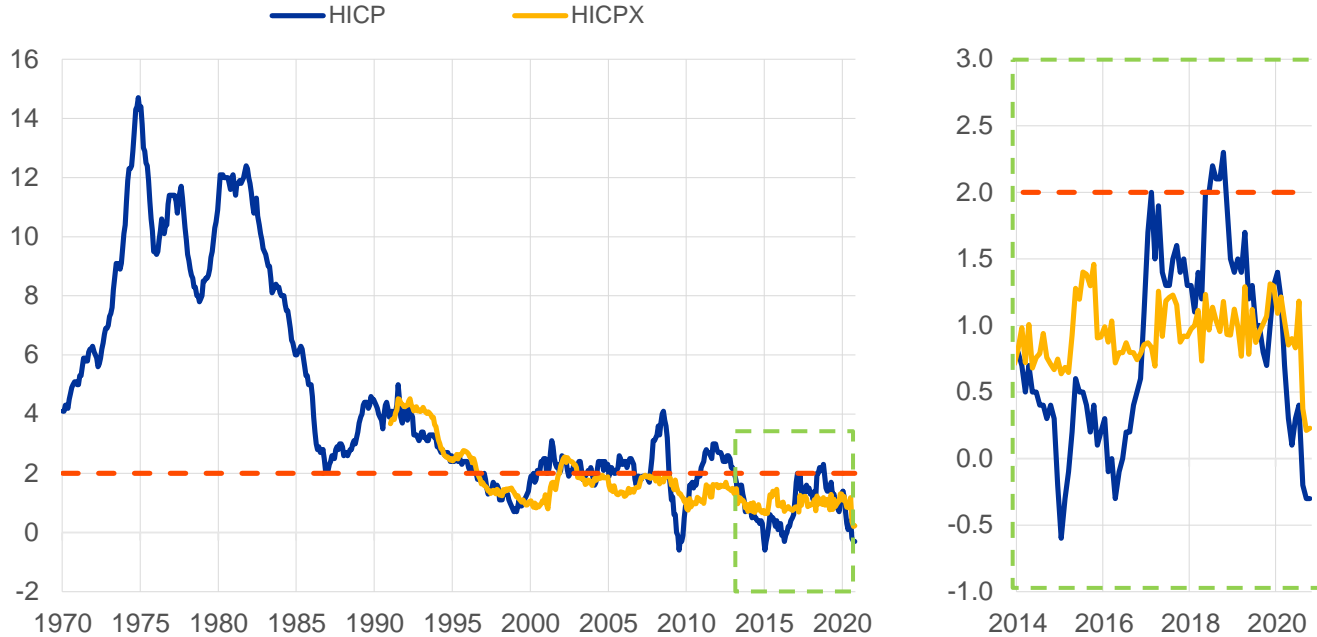
# COVID-19 and monetary policy: Reinforcing prevailing challenges

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Bank of Finland Monetary Policy webinar:  
New Challenges to Monetary Policy Strategies  
24 November 2020

# Secular decline in euro area inflation reinforced by pandemic

## HICP and HICP excluding energy and food (annual percentage changes)



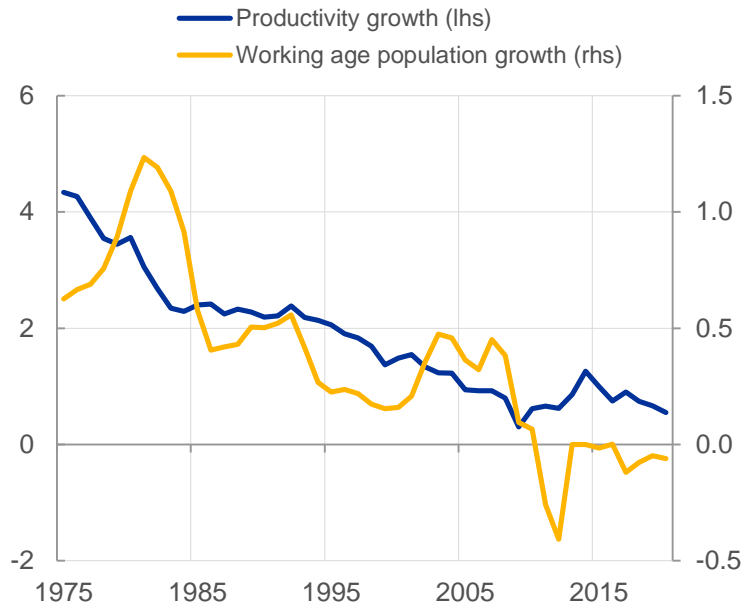
Sources: Eurostat and ECB calculations.

Notes: HICPX refers to the HICP excluding energy and food. Latest observation: October 2020.

# Ageing society and lower productivity growth weighing on real equilibrium rate

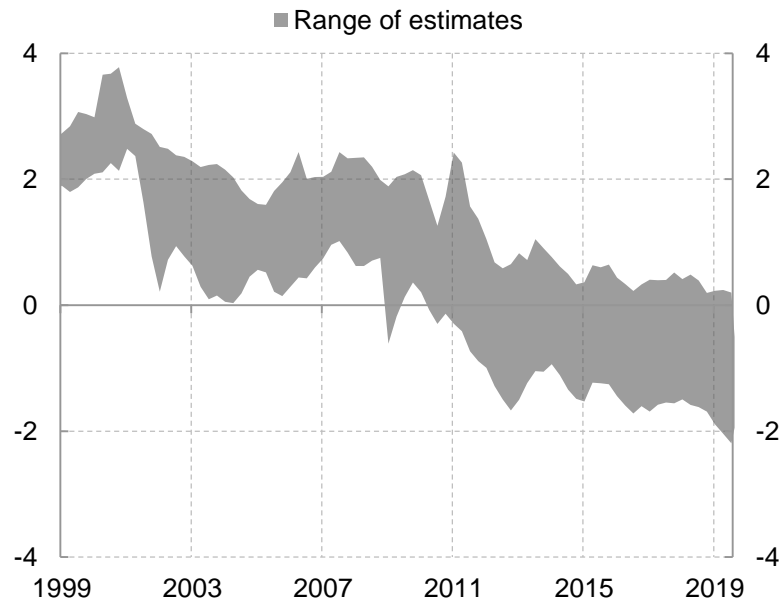
## Labour productivity and working age population

(12 euro area countries, year-on-year percentage changes, 5-year moving average applied to the productivity series)



Sources: European Commission AMECO database and ECB staff calculations.  
Note: Labour productivity is measured as the ratio of GDP to total hours worked. The working age population refers to the age group between 15 to 64 years. The chart refers to the aggregate of the original 12 euro area member states in order to present a consistent time series over a longer period of time. Aggregates of the 19 euro area member states for the recent years would deviate only marginally from the figures presented here.

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



Source: Brand et al. (2018), "The natural rate of interest: estimates, drivers, and challenges to monetary policy", ECB Occasional Paper No 217.  
Note: The area of the estimates includes point estimates from several models and therefore reflects model uncertainty but no other source of uncertainty.

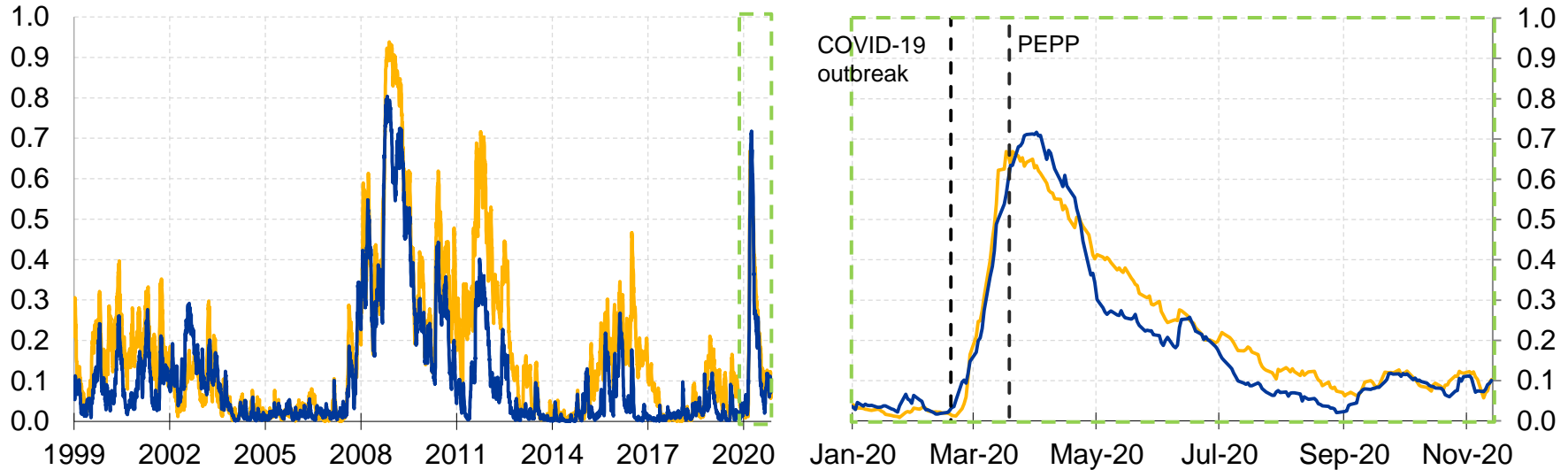
# PEPP highly effective in stabilising financial markets

## Composite Indicator of Systemic Stress (CISS)

(0=No Stress,1=High Stress)

— Euro area

— US



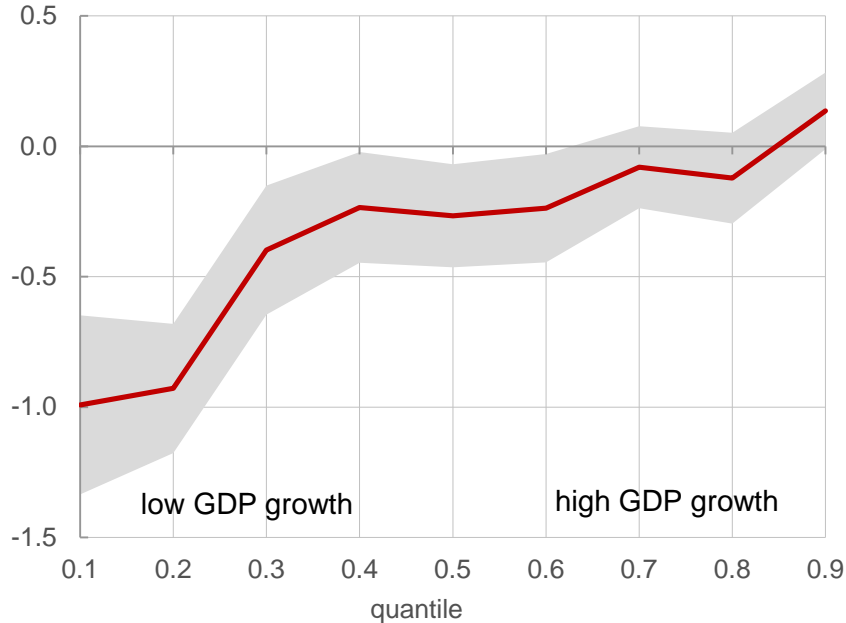
Source: ECB Working Paper No 1426. The CISS aggregates stress symptoms across money, bond, equity and foreign exchange markets and is computed from time-varying correlations among individual asset returns.

Last observation: 13 November 2020.

# Monetary policy most effective in stressed conditions, deposit rates often floored at 0%

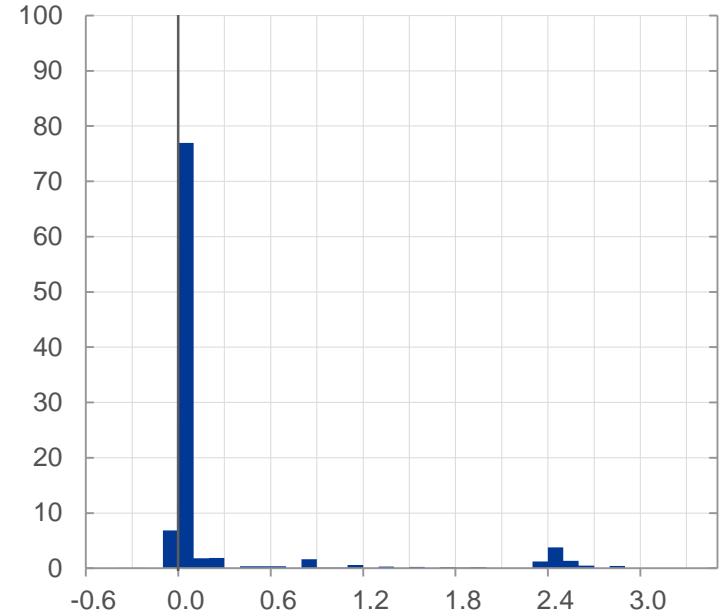
## Financial conditions and real GDP growth across quantiles

(year-on-year percentage change)



## Distributions of deposit rates to households across individual MFIs in the euro area in September 2020

(x-axis: deposit rates in percentages per annum, y-axis: frequencies in percentages, weighted by volumes)

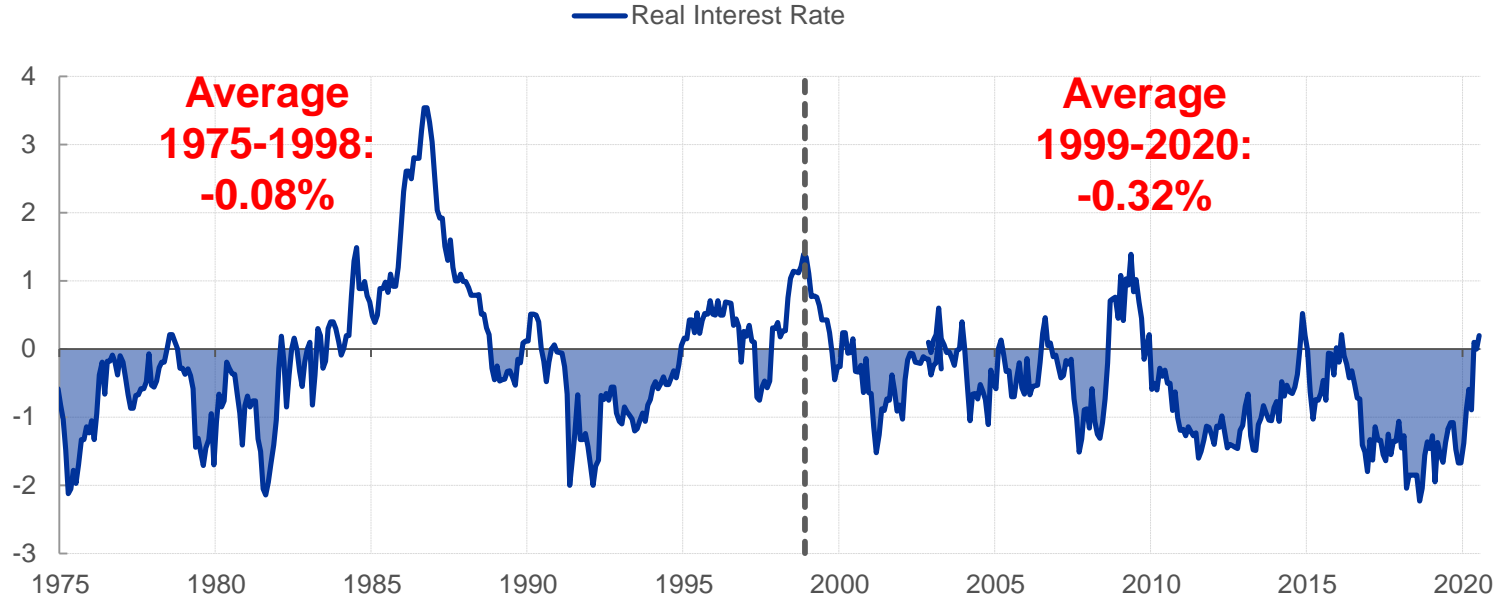


Source: ECB calculations based on Adrian, Boyarchenko and Giannone (2017).  
Notes: The chart shows the impact of a tightening in financial conditions on euro area real GDP growth across quantiles of the GDP distribution.

Sources: ECB and ECB calculations.  
Notes: Deposit rates on outstanding amounts as reported by individual banks for each of the available product categories, weighted by the respective outstanding amounts. Deposits of Households include non-profit institutions serving households (NPISH).

# Negative real rates are not a new phenomenon

## Income from savings in Germany (yearly change in %)



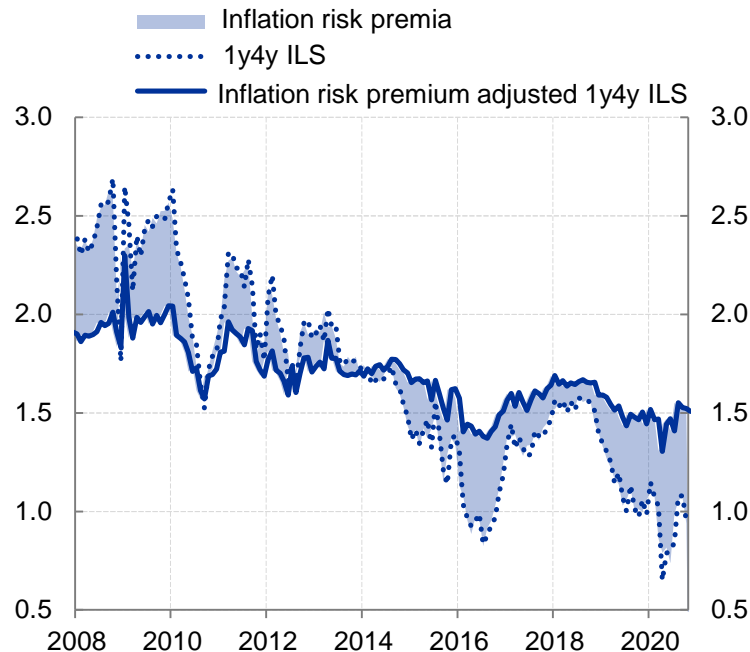
Source: Deutsche Bundesbank and ECB calculations.

Notes: Data until 2003 refer to deposit rates by banks for savings with minimum interest and with agreed notice period of 3 months. Thereafter, effective interest of German banks on deposits from private households with an agreed notice of up to 3 months. Deflated using the CPI and HICP for Germany.

# Declining risk premium accounting for large share of fall in inflation expectations

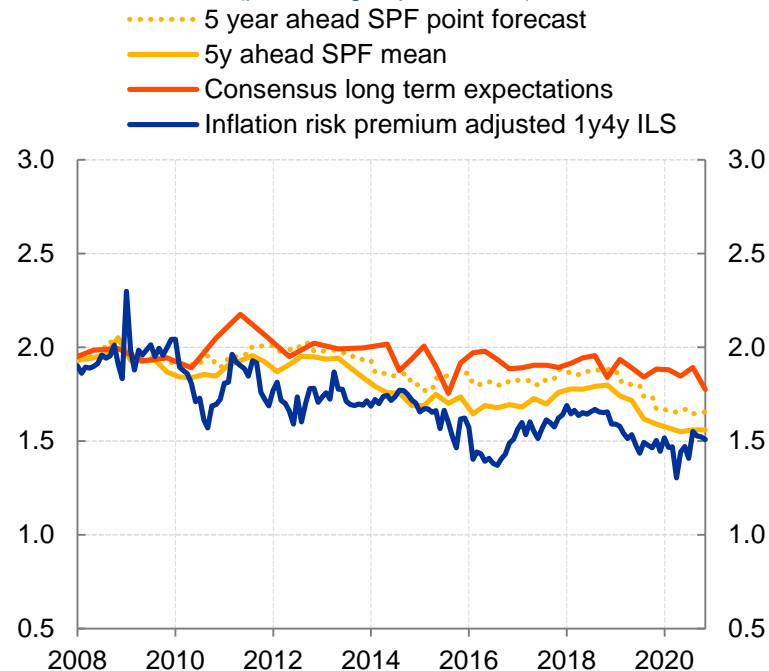
## Inflation risk premium-adjusted 1y4y ILS

(percentages per annum)



## SPF inflation expectations, Consensus expectations and risk premium-adjusted 1y4y ILS

(percentages per annum)



Sources: Refinitiv, ECB calculations.

Notes: The decomposition is derived on the basis of an affine term structure model fitted to the euro area zero-coupon inflation-linked swap curve. The IRP adjusted ILS is calculated by adding the IRP to the 1y4y ILS rate.

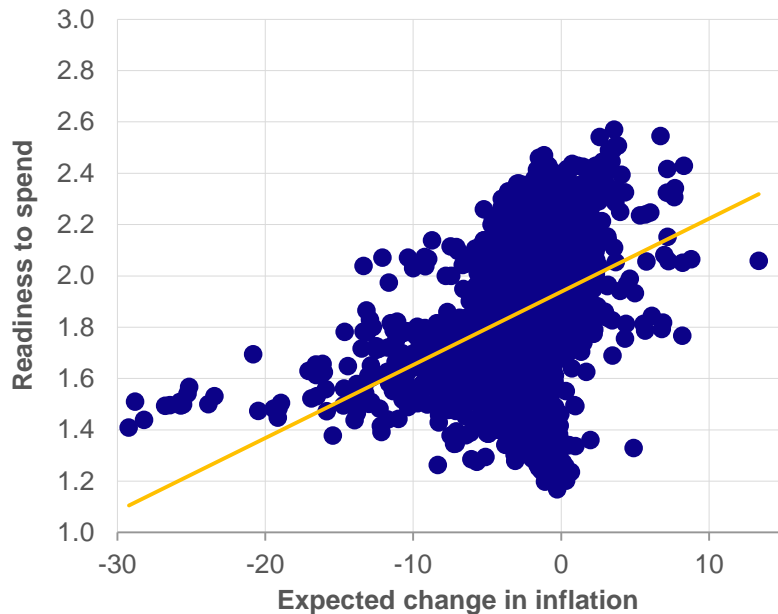
Latest observation: October 2020 (monthly data).

Sources: Bloomberg, Refinitiv, Consensus Economics and ECB calculations.

Notes: The term premia-adjusted 1y4y ILS rate is based on the decomposition of an affine term structure model and fitted to the euro area zero-coupon ILS curve. The IRP adjusted ILS is calculated by adding the IRP to the 1y4y ILS rate. Consensus long-term expectations refer to the average expected EA inflation rate 6 to 10 years ahead from the Consensus Economics survey. Survey expectations from the Survey of Professional Forecasters (SPF) refer to the point estimate and mean, respectively, of the reported probability distributions for year-on-year expectations 5 years ahead. Latest observation: October 2020 (monthly data).

# Association of higher inflation expectation with lower expected economic growth

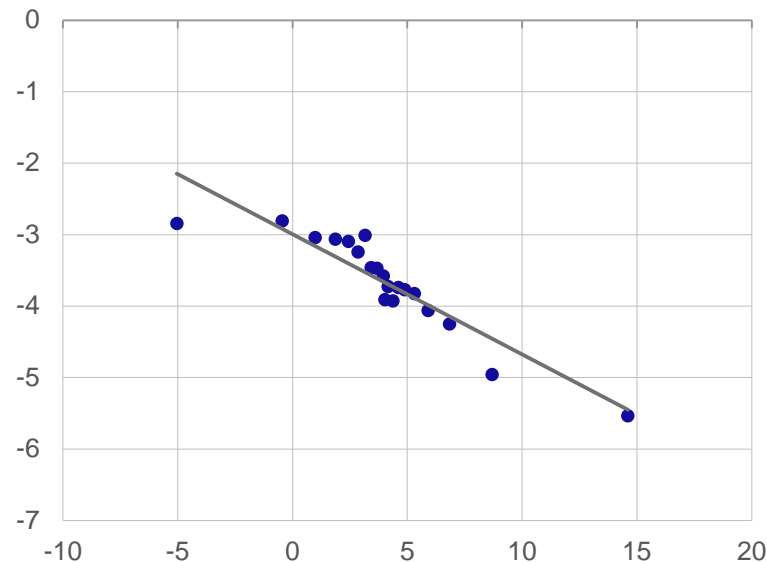
## Readiness to spend vs. expected change in inflation



Source: Duca, Kenny, Reuter (2020); DG-ECFIN Consumer Survey.  
Notes: One dot represents a country aggregate (weighted by individual weights) at one moment in time identified by month and year. Expected change in inflation refers to the difference between expected inflation one year ahead and perceived inflation over the last year. Readiness to spend is coded 1 for not being the right moment to spend, 2 for being neither the right moment nor the wrong moment and 3 for being the right moment to spend.

## Joint distribution of expected inflation and economic growth

(x-axis: inflation expectations for next 12 months;  
y-axis: expected GDP growth for next 12 months)



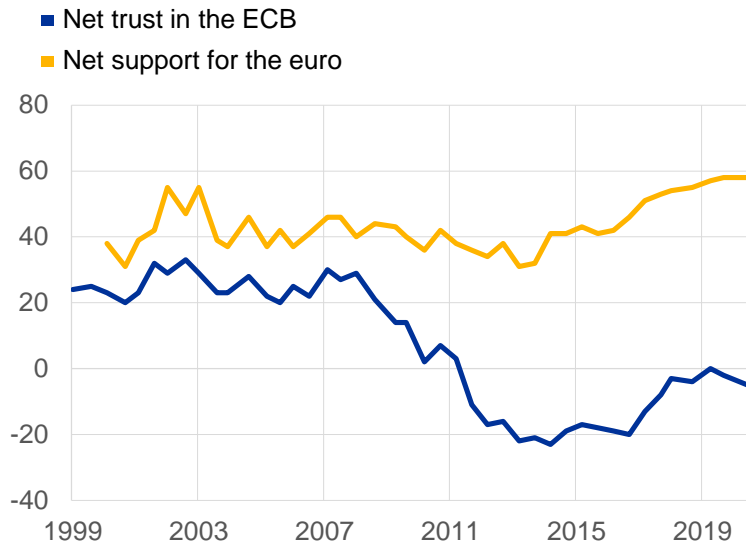
Source: ECB Consumer Expectations Survey, ECB calculations.  
Notes: The panel plots the joint distribution of household expectations for GDP growth and inflation for the next 12 months. Fitted line takes into account time and household (incl. country) fixed effects.



# Declining trust in ECB could affect inflation expectations and hamper monetary policy

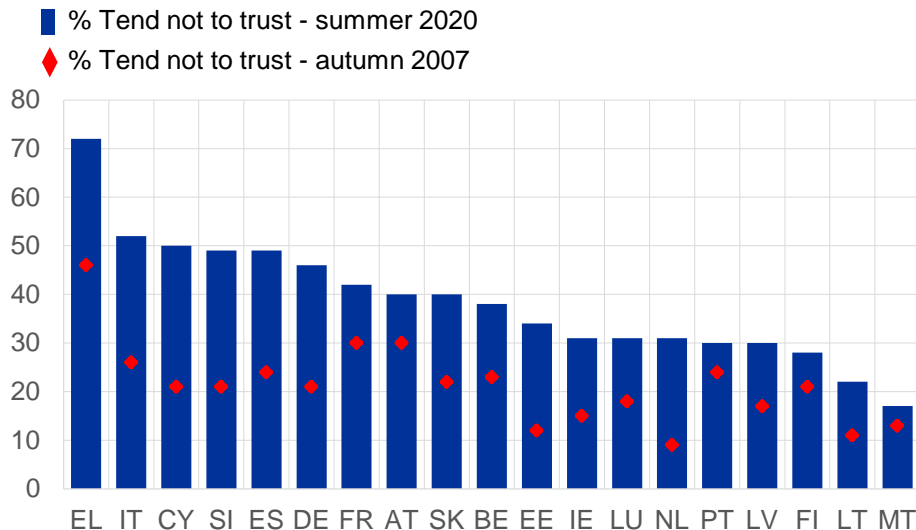
## Net trust in the ECB and net support for the euro

(percentage points)



## Share that tend not to trust the ECB: 2020 vs. 2007

(percentages)



Source: Eurobarometer

Notes: Net support for the euro is calculated as the share answering "for" minus the share answering "against" to the question "Please tell me whether you are for or against it: A European economic and monetary union with one single currency, the euro." Net trust is calculated as the share of respondents giving the answer "Tend to trust" minus the share giving the answer "Tend not to trust" to the question "Please tell me if you tend to trust it or tend not to trust it?: The European Central Bank." Respondents who answered "don't know" are excluded in both cases.

Source: Eurobarometer 93 and 68.

Notes: The share of respondents giving the answer "Tend not to trust" to the question "Please tell me if you tend to trust it or tend not to trust it?: The European Central Bank."

**Thank you very much  
for your attention!**