



EUROPEAN CENTRAL BANK

EUROSYSTEM

The ECB's monetary policy in the COVID-19 crisis

DIJ DWIH Web Forum

9 November 2020

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

The ECB's response to the pandemic

COVID-19 pandemic presents huge challenges to public health and growth prospects of the euro area and global economies.

Unprecedented collapse in economic activity (-11.8% drop in Q2 euro area GDP)

Turbulences in financial markets during spring.

Fiscal response leads to large increases in government debt.

Forceful monetary policy response in order to:

Support liquidity conditions and ensure smooth transmission of monetary policy.

Help sustain the flow of credit to households and firms, especially SMEs.

Maintain favourable financing conditions for all sectors and jurisdictions.

Unlike for the global financial crisis the shock did not originate in the financial sector.

Overview

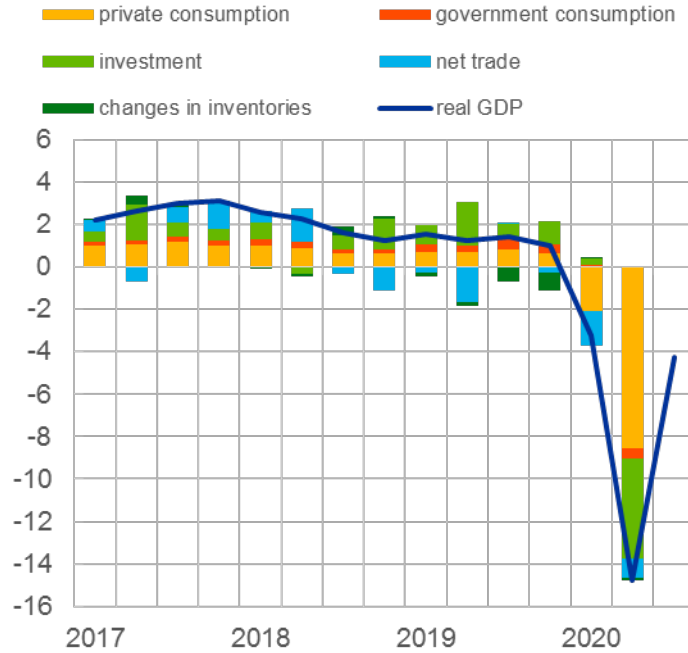
- 1 The outlook for the euro area
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The outlook for the euro area

Real GDP

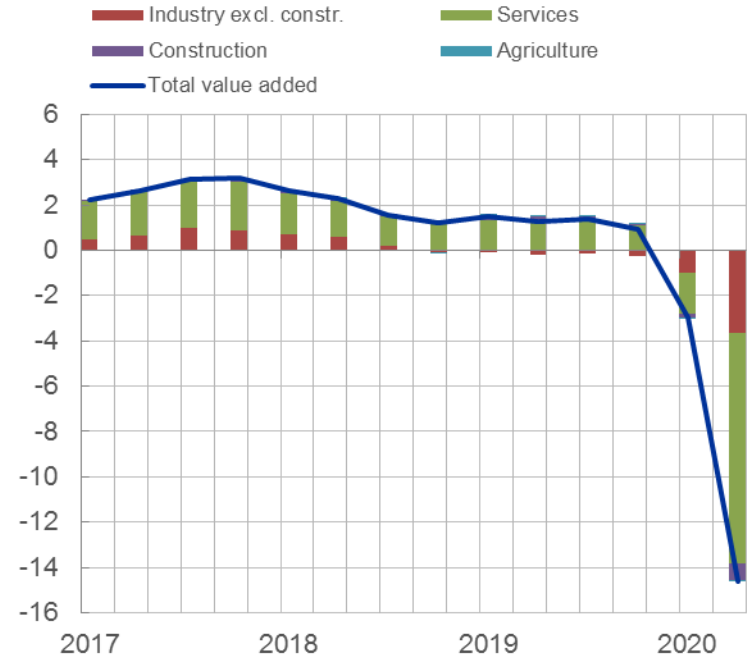
(year-on-year percentage changes; ppt contributions)



Source: Eurostat
 Latest observations: 2020Q3 for GDP (flash) and 2020Q2 for components.

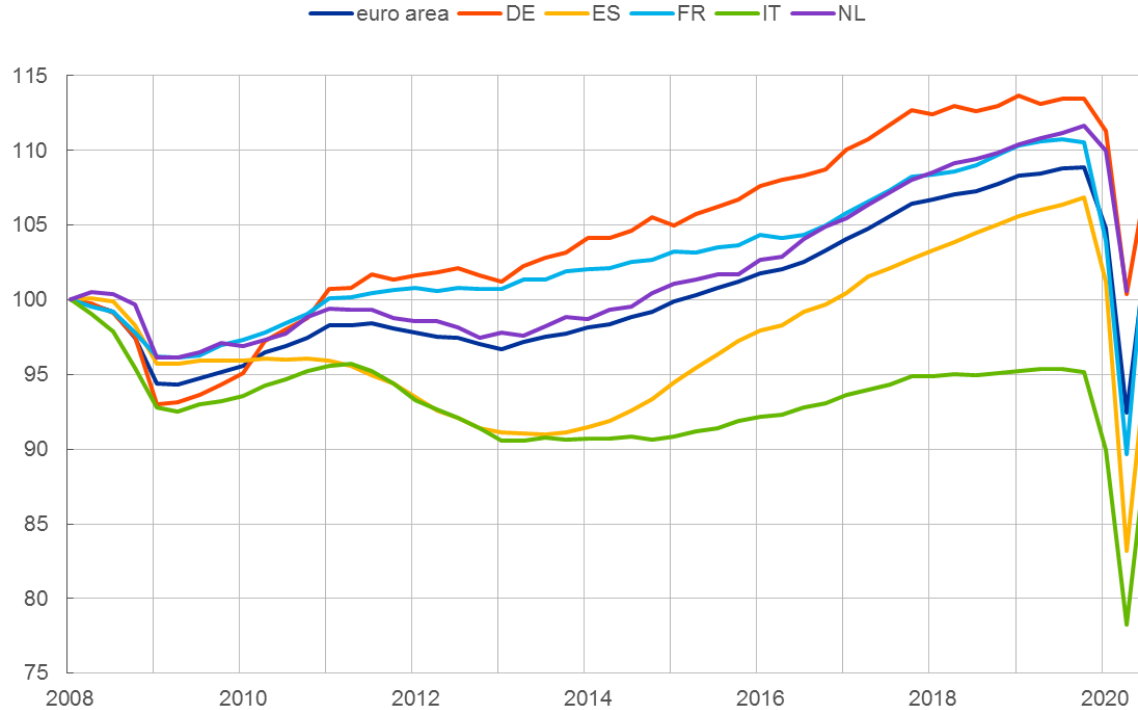
Real value added

(year-on-year percentage changes; ppt contributions)



Source: Eurostat
 Latest observations: 2020Q2.

Real GDP levels in the euro area

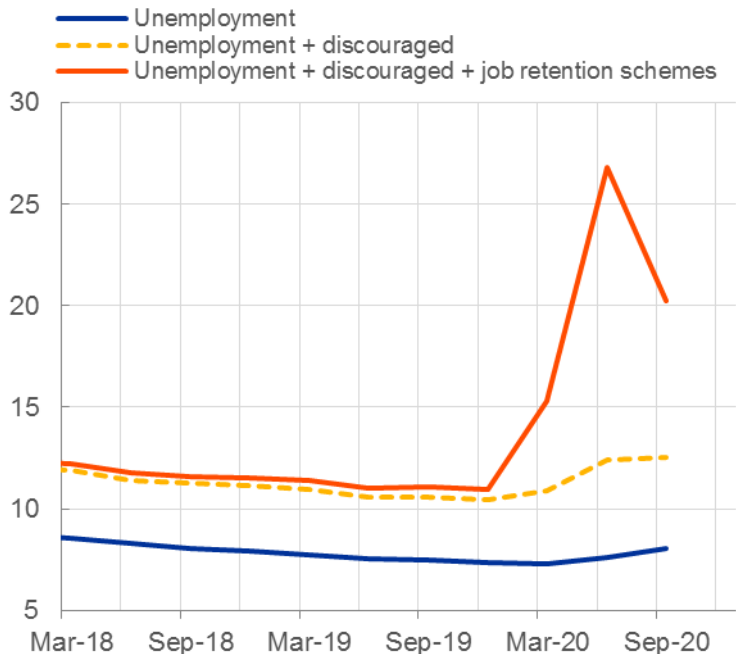


Source: Eurostat, 2008Q1=100.

Latest observations: 2020Q3.

Unemployment, discouraged workers and workers in job retention schemes

(percent)

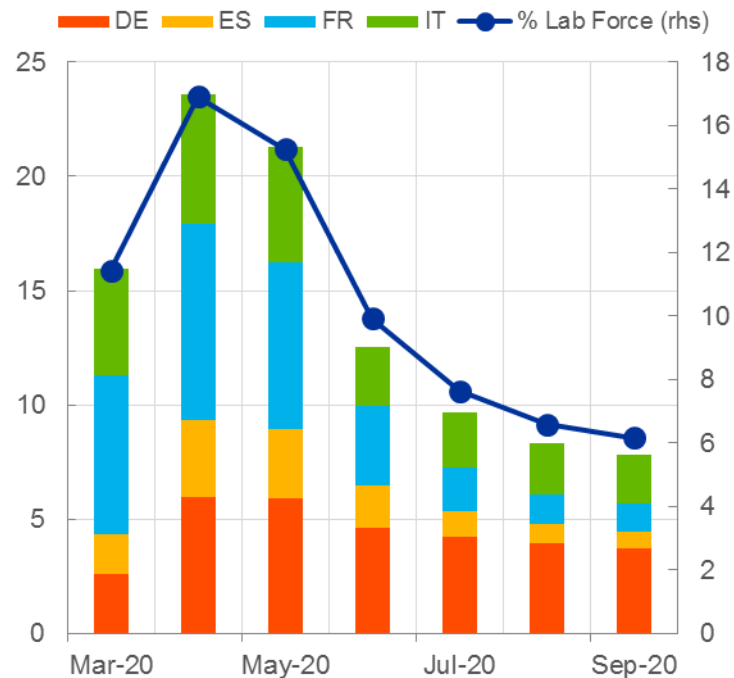


Sources: Eurostat and ECB staff calculations.

Latest observations: Unemployment rate, 8.1% in 2020Q3 (average of Jul and Aug 2020 data); unemployment + discouraged, 12.6% in 2020Q3 (ECB estimate), and unemployment + discouraged + job retention schemes, 20.3% in 2020Q3 (ECB estimate).

Number of workers in job retention schemes

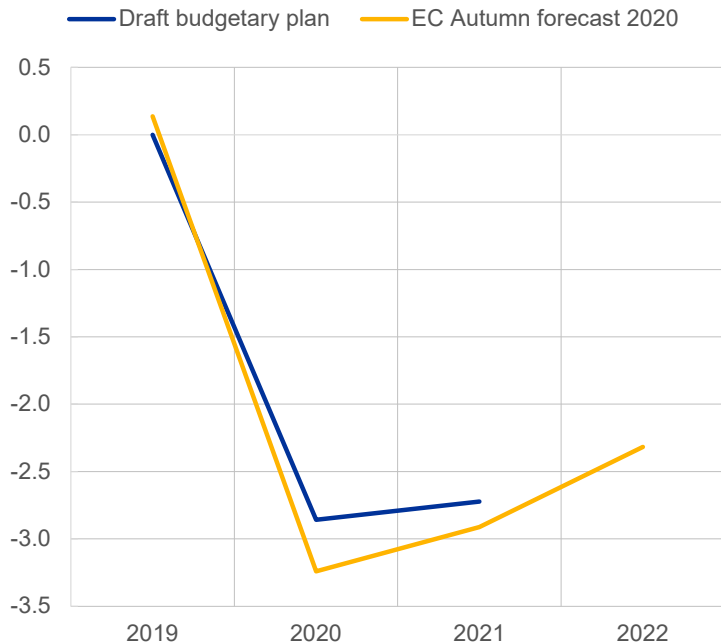
(lhs: persons, million; rhs: in percent of the labour force)



Sources: Eurostat; IAB; ifo Institut; Ministère du Travail, de L'Emploi et de L'Insertion; INPS; Ministerio de Inclusión, Seguridad Social y Migraciones.

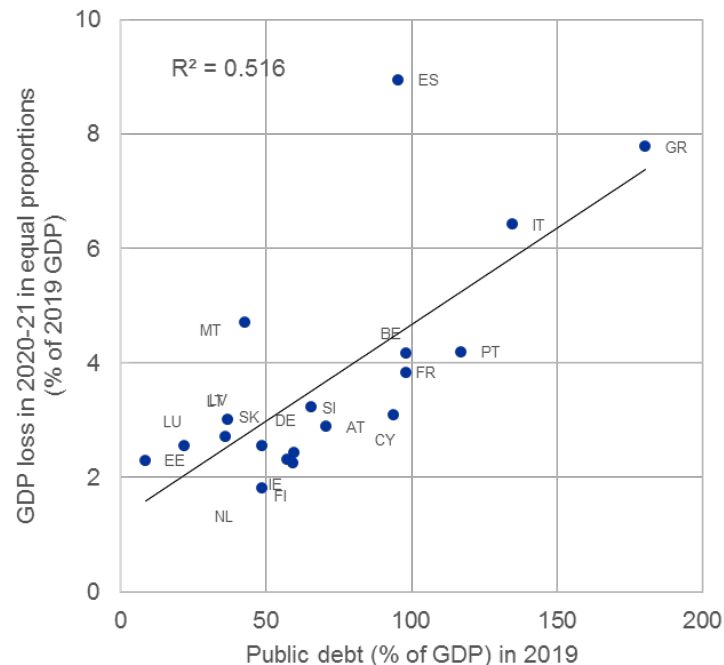
Latest observations: Sep 2020 for the number of workers in ERTE in Spain; Sep 2020 for the number of workers in Kurzarbeit in Germany and Activité Partielle in France; Jun 2020 for the number of workers in Cassa Integrazione in Italy.

Cyclically-adjusted primary balance (% of GDP)



Sources: European Commission Autumn forecast, 2020; Draft Budgetary Plans for 2021.

Severity of crisis and government debt (% of GDP)



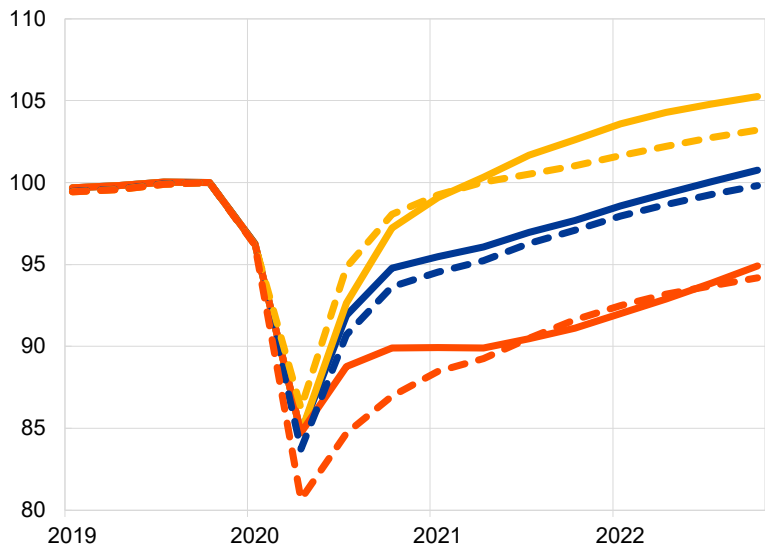
Sources: European Commission's Autumn forecast and ECB calculation.

Notes: The GDP losses in 2020 and in 2020-21, in equal proportions, are one of the criteria for the allocation of the grants under the Recovery and Resilience Facility of the Next Generation EU instrument. They are calculated as an average of the projected GDP loss in 2020 compared to 2019 and the projected GDP loss in 2021 compared to 2019.

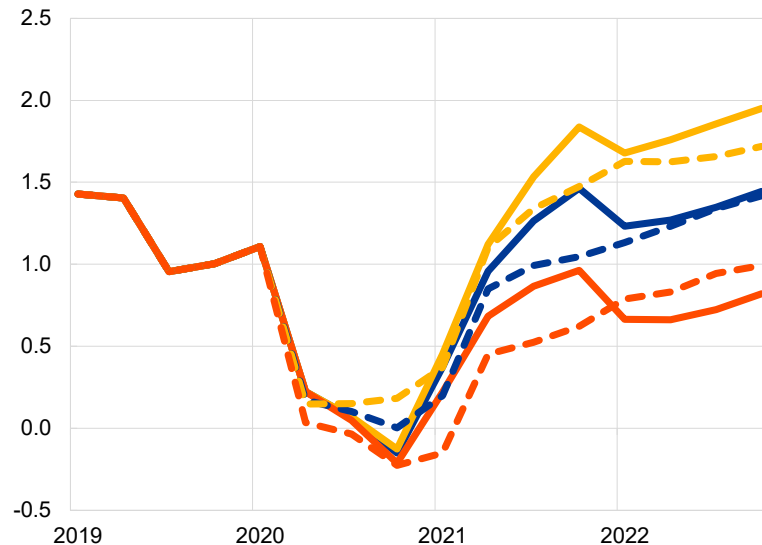
Staff macroeconomic projections for the euro area

- September 2020 projections
- Mild
- Severe
- - June 2020 projections
- - Mild
- - Severe

a) Alternative real GDP scenarios



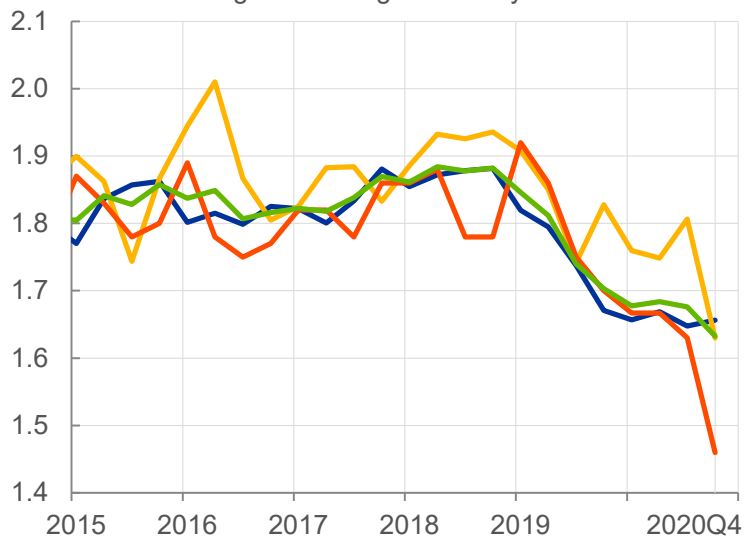
b) Alternative HICP scenarios



Longer-term euro area inflation expectations from surveys

(annual percentage changes)

- SPF (4 to 5 years ahead)
- Consensus Economics (5 years ahead)
- Eurozone Barometer (4 years ahead)
- Weighted average of surveys



Sources: ECB SPF, Consensus Economics and Eurozone Barometer.

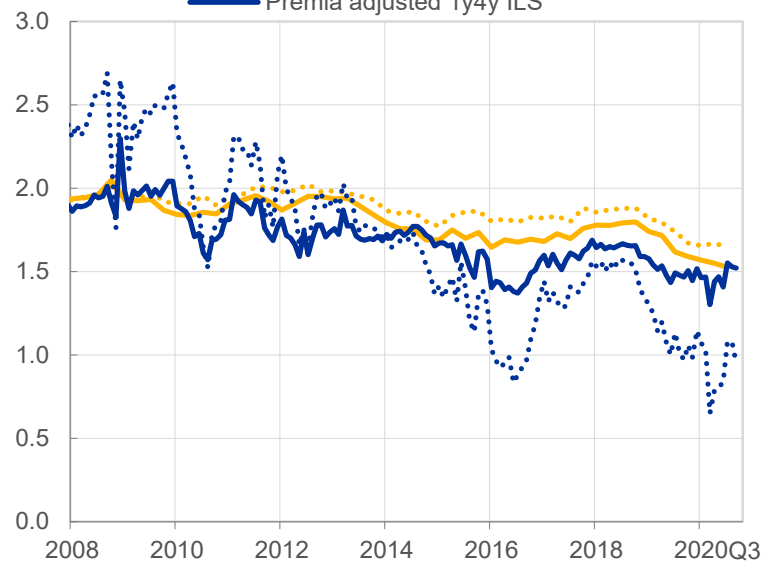
Note: The average of the SPF, CE and EZB longer term inflation expectations is weighted by their respective average number of respondents.

Latest observations: 2020Q4.

SPF inflation expectations and risk premium-adjusted 1y-in-4y ILS rate

(percentages per annum)

- 5 year ahead SPF point forecast
- 5y ahead SPF mean
- 1y4y ILS
- Premia adjusted 1y4y ILS



Sources: Bloomberg, Refinitiv and ECB calculations.

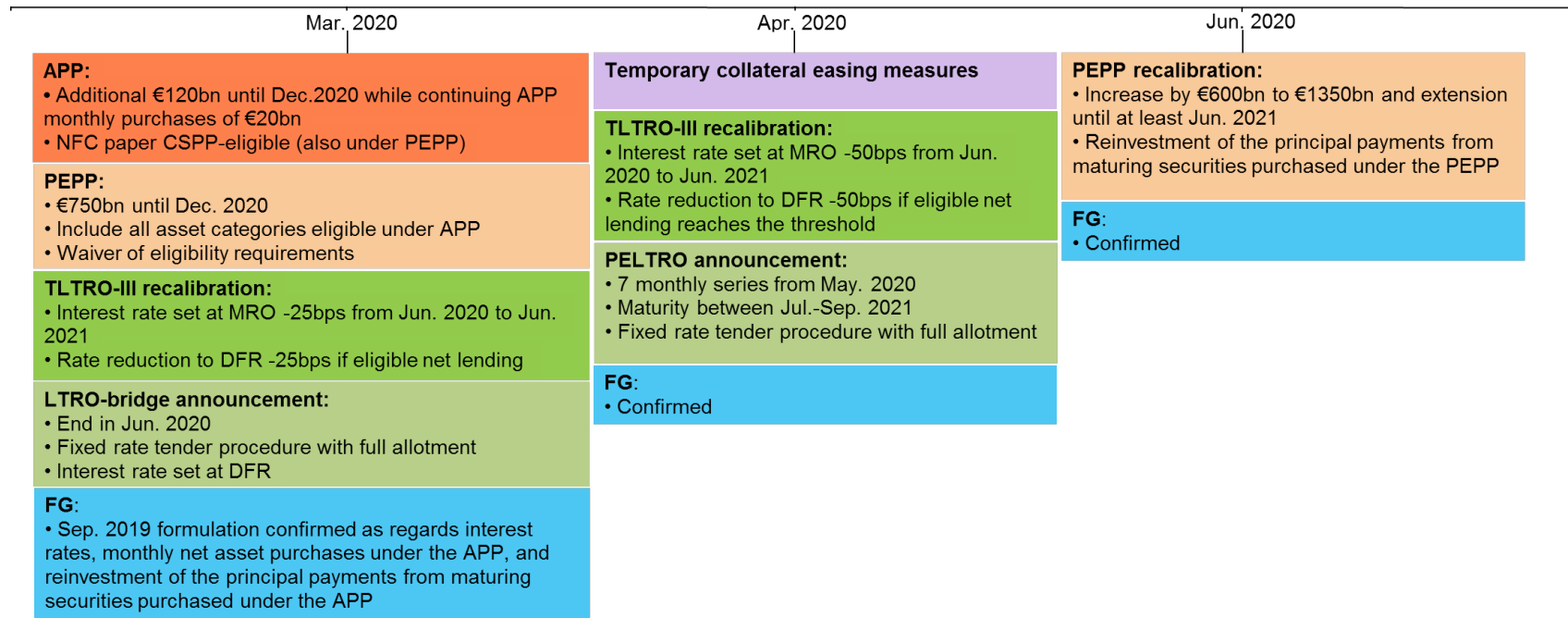
Notes: The risk adjusted 1 y-in-4y ILS rate is based on the decomposition of an affine term structure model fitted to the euro area zero coupon ILS curve. Survey expectations from the ECB's Survey of Professional Forecasters (SPF) refer to the mean of the reported

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The ECB's policy response to the COVID-19 pandemic

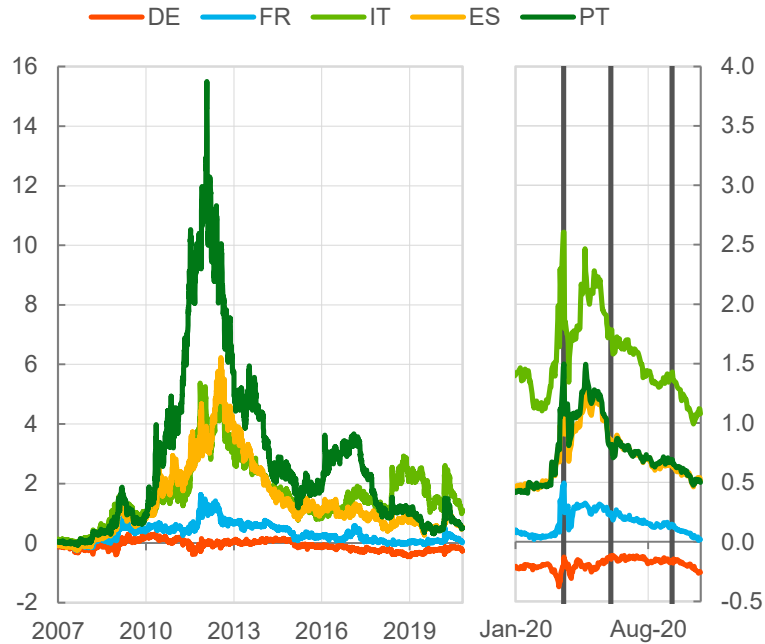
ECB measures since the start of the pandemic

- TLTROs
- Asset Purchase Programme (APP)
- LTROs-PELTROs
- Pandemic Emergency Purchase Programme (PEPP)
- Collateral easing measures
- Forward guidance (FG)



10-year sovereign yield spreads vs. 10-year OIS rate

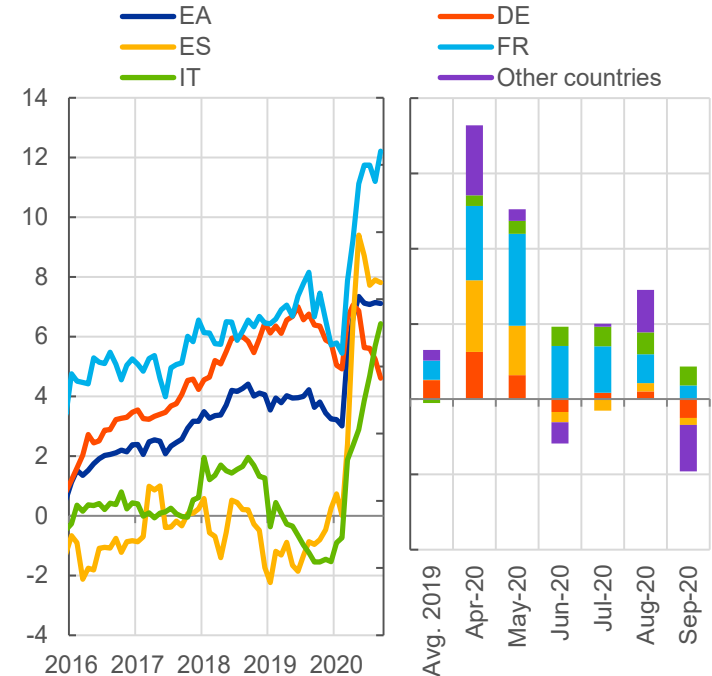
(percentages per annum)



Sources: Bloomberg, Refinitiv, ECB calculations.
 Notes: The spread is the difference between individual countries' 10-year sovereign yields and the 10-year EONIA OIS rate. The vertical lines refer to the days before the PEPP announcement (18 Mar), the June GovC meeting (2 Jun), and the September GovC meeting (8 Sep), respectively.
 Latest observation: 23 October 2020.

MFI loans to non-financial corporations

(lhs: annual percentage changes; rhs: EUR bn)



Source: ECB.
 Latest observation: September 2020.

Conclusions

Economic prospects are highly uncertain due to the ongoing COVID-19 pandemic.

Impact on economic activity has been huge with an uneven and incomplete recovery across sectors and countries.

Policy response has cushioned immediate impact.

Monetary and fiscal policy have been working hand in hand.

Fiscal policy has supported spending of households and firms.

Monetary policy has maintained favourable financing conditions for all sectors and jurisdictions.

Long-term consequences and extent of permanent damage still unclear.

Thank you