

REASSESSING THE EFFECTIVENESS AND

TRANSMISSION OF MONETARY POLICY

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Panel contribution

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Federal Reserve Bank of Kansas City
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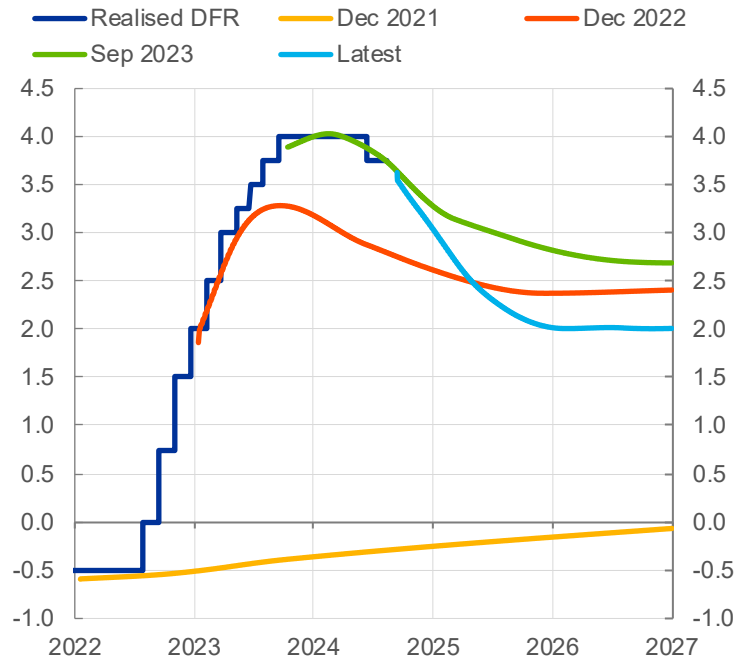
Outline

- Financial transmission
- Economic transmission
- Inflation expectations
- Sectoral shocks
- Sectoral balance sheets
- Conclusions



Policy path

Policy rate path and risk-free curve
(percentages per annum)



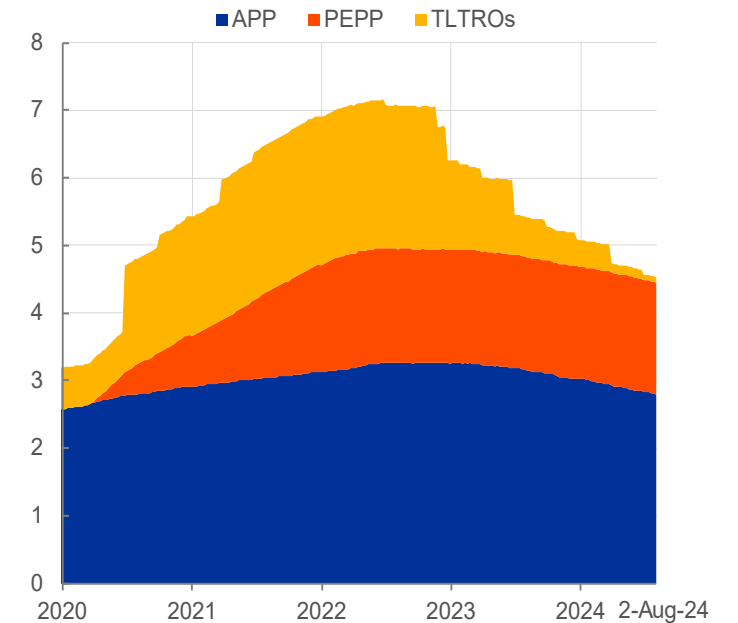
Sources: Bloomberg and ECB calculations.
Notes: The cut-off dates for the data used for the €STR forward curves are 17 December 2021, 16 December 2022, 15 September 2023, and 13 August 2024.

Slope of the risk-free yield curve
(percentages per annum)



Sources: Bloomberg and ECB calculations.
Latest observations: 8 August 2024

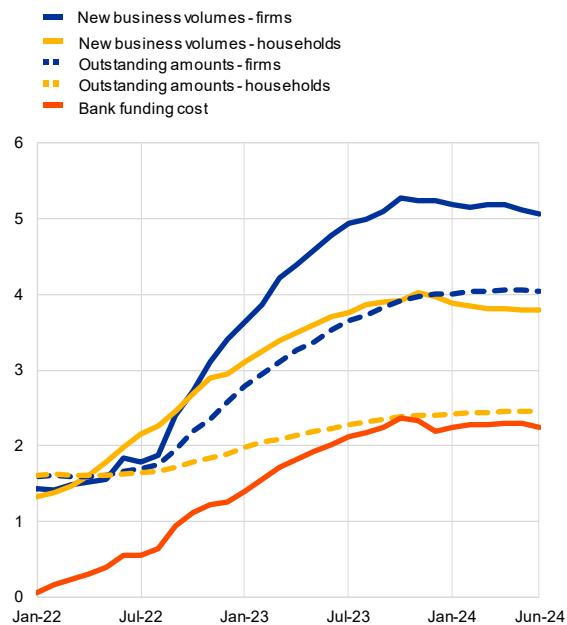
Evolution of Eurosystem balance sheet
(trillion EUR)



Sources: ECB Calculations.
Notes: Purchase programmes are based on book value at amortised cost.
Latest observations: 2 August 2024.

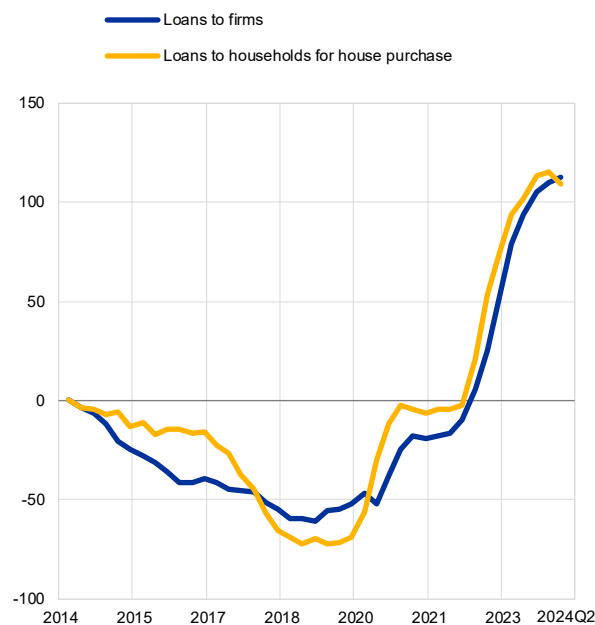
Financial transmission

Bank lending rates to firms and households, plus bank funding costs (percentages per annum)



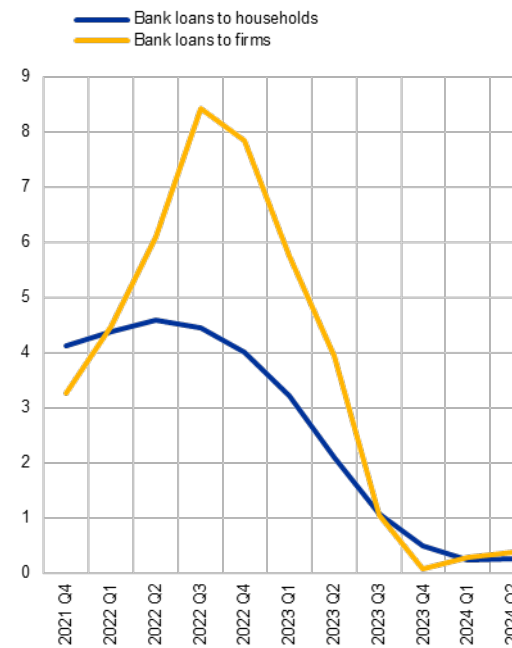
Sources: ECB (BSI, MIR, MMSR) and ECB calculations.
 Notes: The indicator for the total cost of borrowing for firms and households are calculated by aggregating short-term and long-term rates using a 24-month moving average of new business volumes. The bank funding cost series is a weighted average of new business costs for overnight deposits, deposits redeemable at notice, time deposits, bonds, and interbank borrowing, weighted by outstanding amounts.
 The latest observations are for June 2024.

Evolution of bank credit standards (cumulated net percentages of banks reporting a tightening of credit standards)



Sources: ECB (BLS) and ECB calculations.
 Notes: Net percentages for credit standards are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". Cumulation starts in the first quarter of 2014.
 The latest observations are the second quarter of 2024.

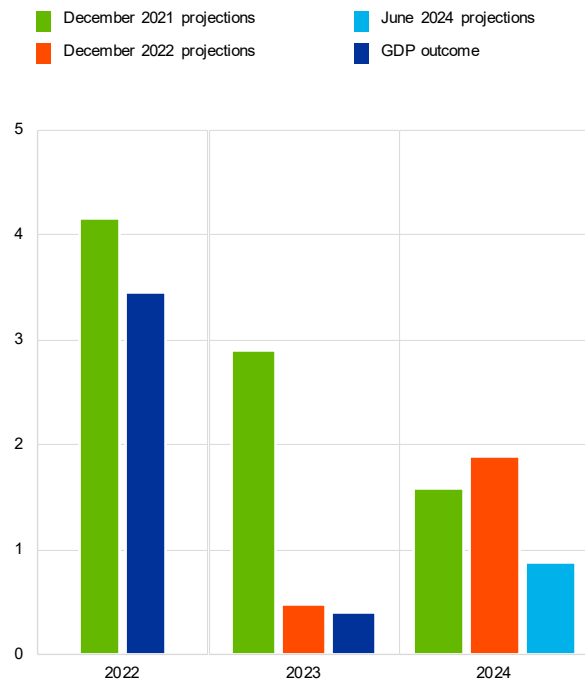
Credit volumes to firms and households (annual percentage changes)



Source: ECB (BSI).
 Notes: Bank loans to firms are adjusted for sales, securitisation and cash pooling. MFI loans to households are adjusted for sales and securitisation.
 The latest observations are for 2024 Q2.

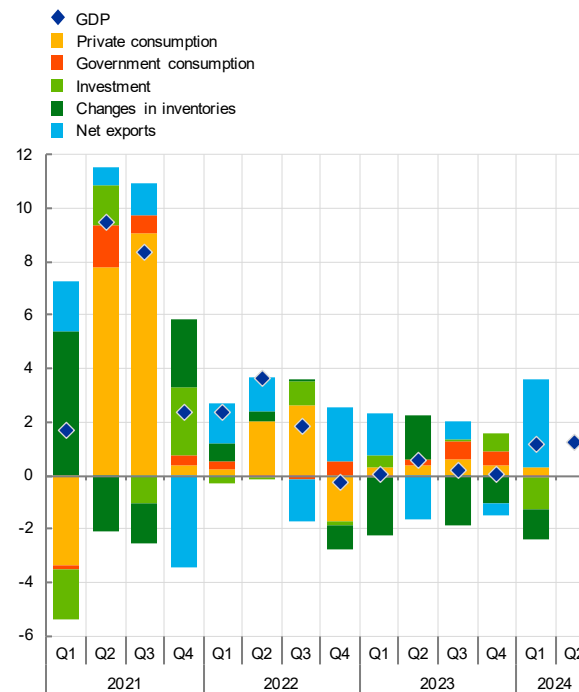
Economic transmission

Real GDP and projections
(annual growth rate)



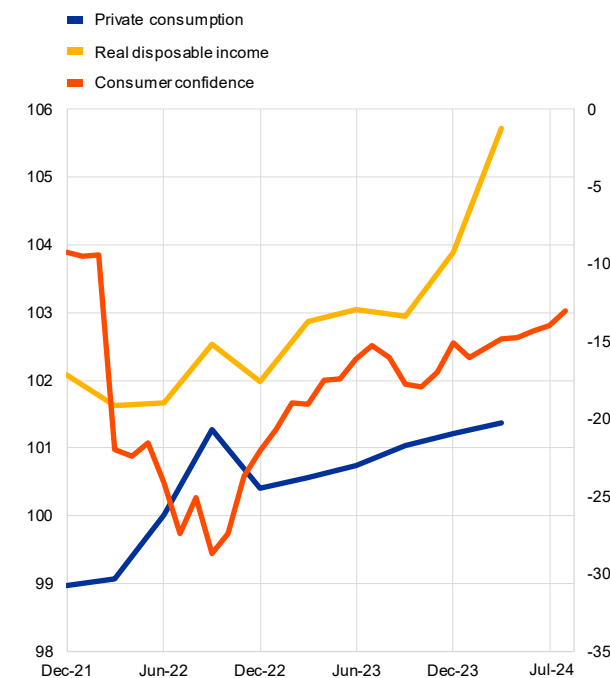
Sources: Eurostat; June 2024, December 2023, December 2022 and December 2021 Eurosystem staff projections; and ECB calculations. The latest observations are 2023 for GDP and 2024 for projections.

GDP growth contributions
(annualised quarter-on-quarter percentage changes and percentage point contributions)



Sources: Eurostat and ECB calculations. Notes: Annualised contributions do not exactly sum to annualised quarter-on-quarter GDP growth rates due to transformations of the underlying data. The latest observations are for the first quarter of 2024 for the contributions and the second quarter of 2024 for GDP.

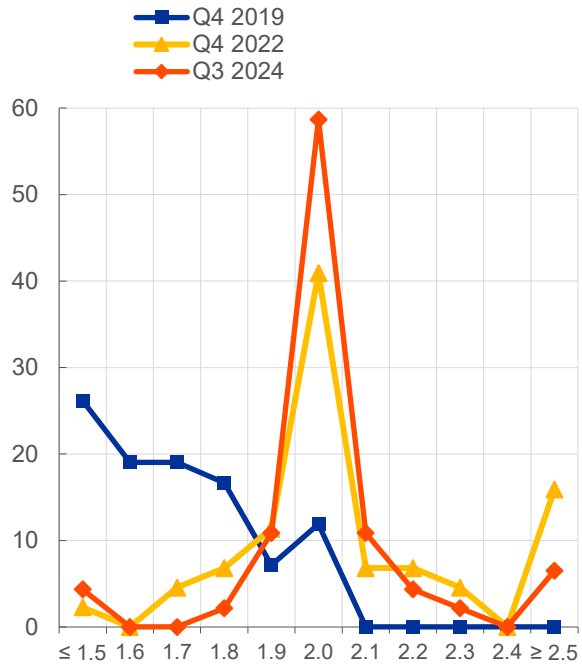
Private consumption, real disposable income and consumer confidence
(lhs: index Q4 2019 = 100; rhs: net percentage balance)



Sources: Eurostat and European Commission. Note: The latest observations are for the first quarter of 2024 for private consumption and disposable income, and July 2024 for consumer confidence.

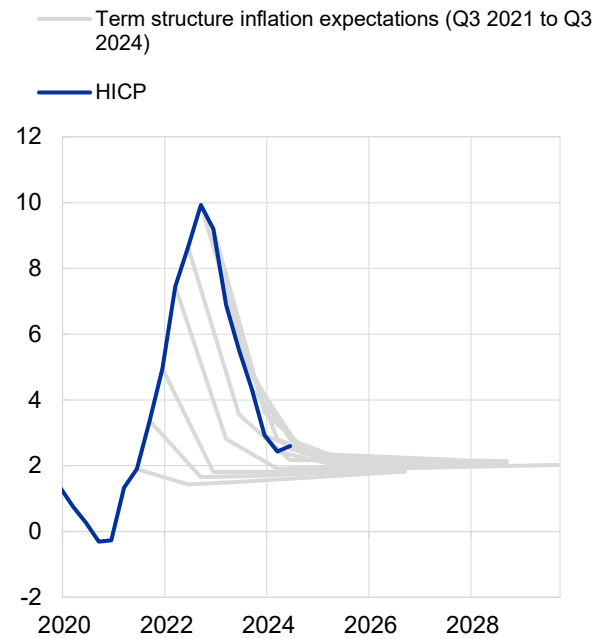
Inflation expectations

SPF: distribution of longer-term inflation expectations (percentage of respondents)



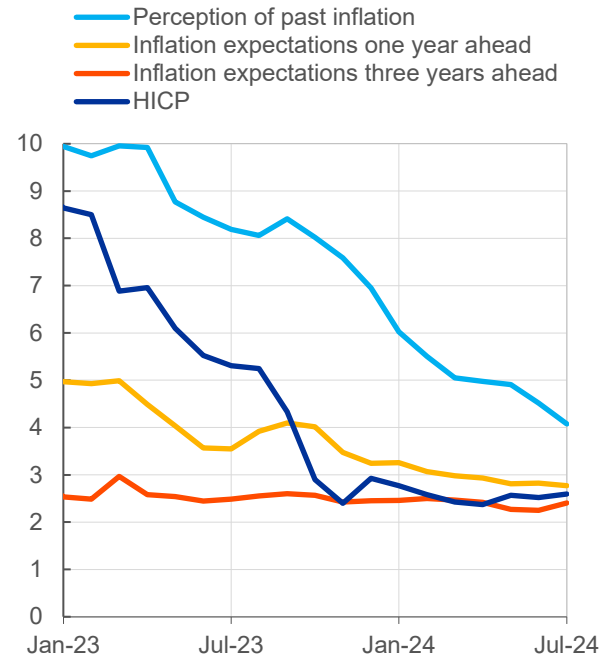
Sources: SPF and ECB calculations.
Notes: The vertical axis shows percentages of respondents, the horizontal axis shows the HICP inflation rate. Longer-term inflation expectations refer to four to five years ahead. The latest observations are for the third quarter of 2024.

Term structure of inflation expectations from professional forecasters (lhs: annual percentage changes; rhs: percentages per annum)



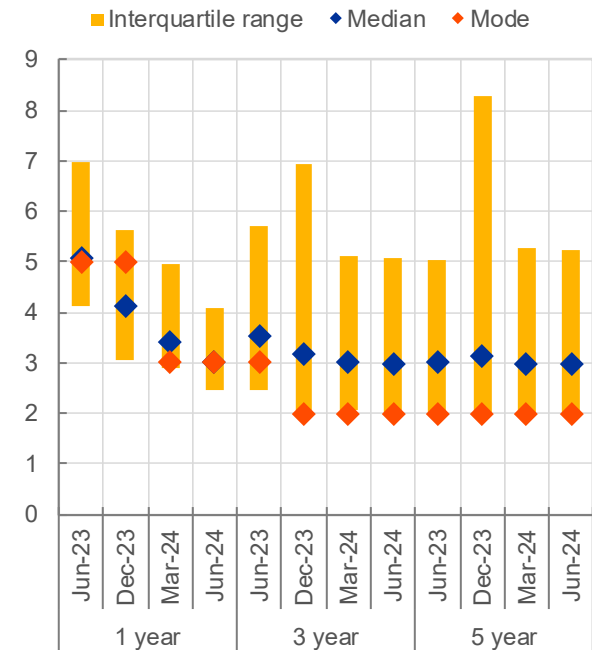
Sources: ECB SPF, ECB calculations and Bloomberg.
Notes: Term structure of inflation expectations show expectations for different horizons in past rounds of the SPF. Latest observations: July 2024 (flash) for HICP.

ECB consumer expectations survey (annual percentage changes)



Sources: ECB Consumer Expectations Survey (CES).
Notes: The series refer to the median value. Latest observations: July 2024. Data are under embargo until August 23rd, 10 am.

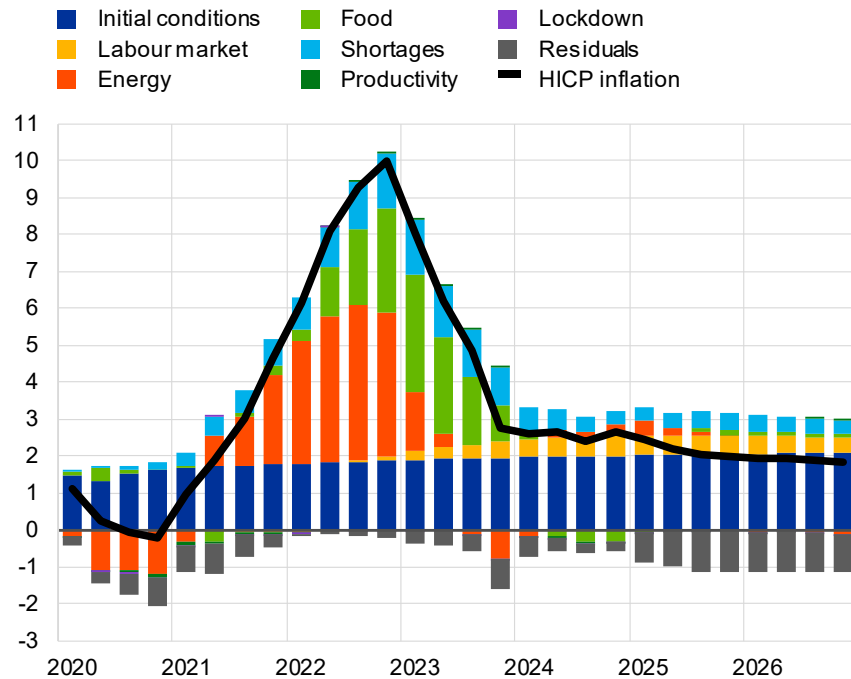
Firms' expectations about euro area inflation at different horizons (percentages per annum)



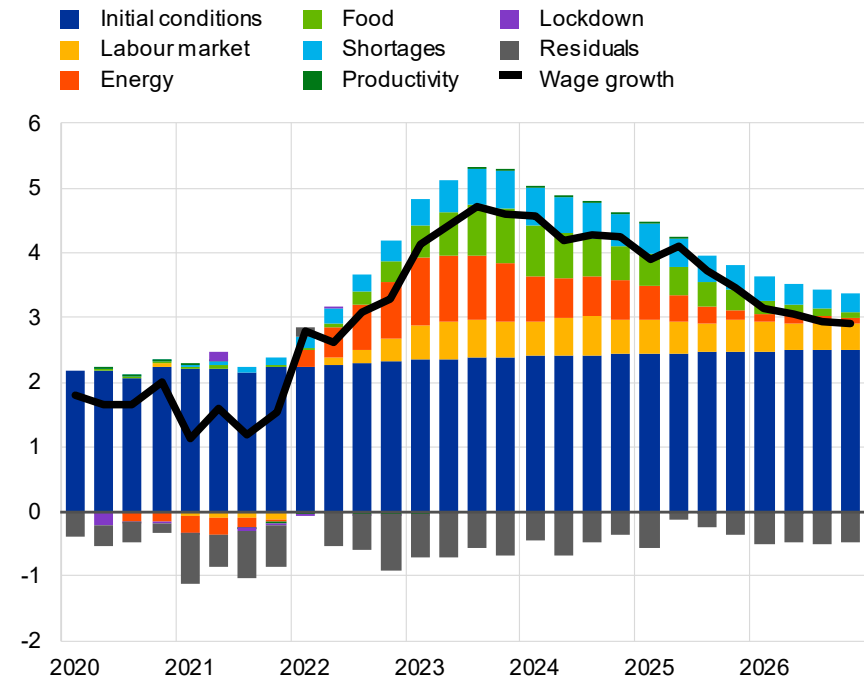
Sources: Survey on the Access to Finance of Enterprises (SAFE) and ECB calculations.
Notes: Survey-weighted median, mode and interquartile ranges of firms' expectations about euro area inflation in one year, three years and five years, respectively. All enterprises. Latest observation: June 2024.

Sectoral shocks

HICP inflation
(year-on-year growth rate, pp contributions)



Negotiated wage growth
(year-on-year growth rate, pp contributions)



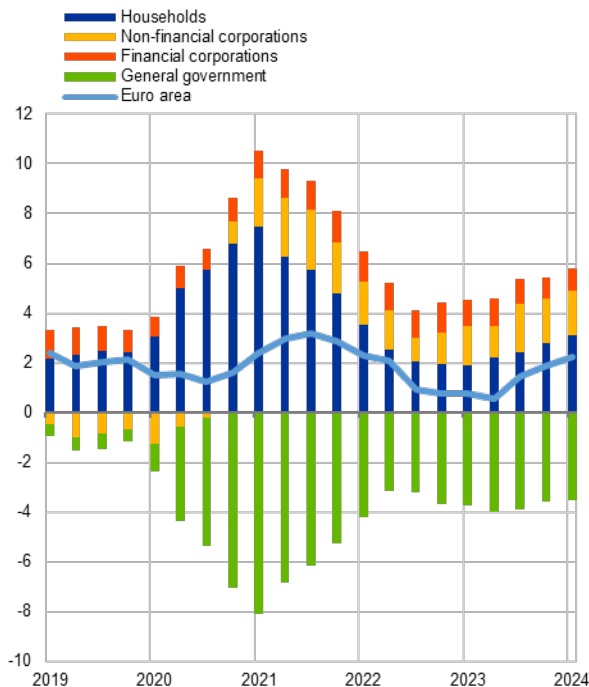
Source: ECB calculations based on Arce, O., Ciccarelli, M., Kornprobst, A. and Montes-Galdón, C. (2024), "[What caused the euro area post-pandemic inflation?](#)", Occasional Paper Series, No 343, ECB

Notes: The figures show decompositions of the sources of seasonally-adjusted annual wage growth and HICP inflation based on the solution of the full model and the implied impulse response functions. The out-sample projection is constructed by performing a conditional forecast starting in 2020Q1 conditional on realised variables between 2020Q1 and 2024Q1 and technical assumptions and inverted residuals between 2024Q2 and 2026Q4 such that HICP in the conditional projection is equal to the seasonally-adjusted June 2024 BMPE projection. Assumptions from the June 2024 BMPE baseline correspond to energy and food prices inflation and productivity growth. Labour market tightness is assumed to remain constant. The "shortages" (measured by the GSCPI) are known up to 2024Q2 and projected according to an AR(3) process thereafter. The historical decomposition treats the projection as data and is carried out from 2020Q1 onwards to compute the contributions of the initial conditions and of the exogenous variables.



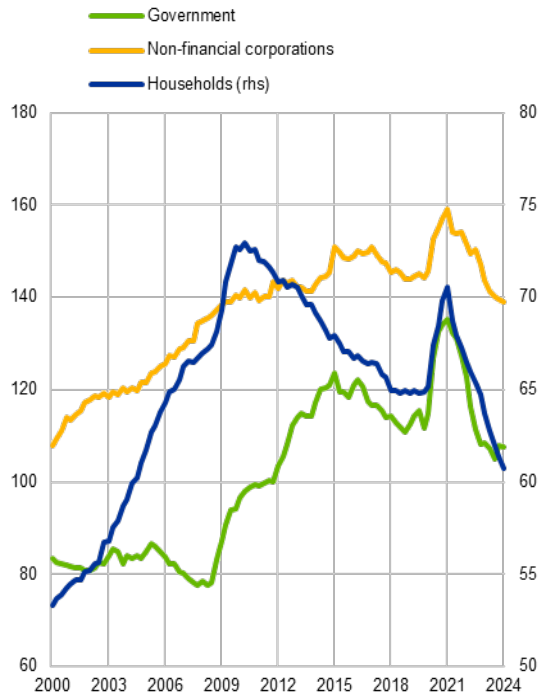
Sectoral balance sheets

Euro area net lending / net borrowing
(as a percent of nominal GDP – four quarter sums)



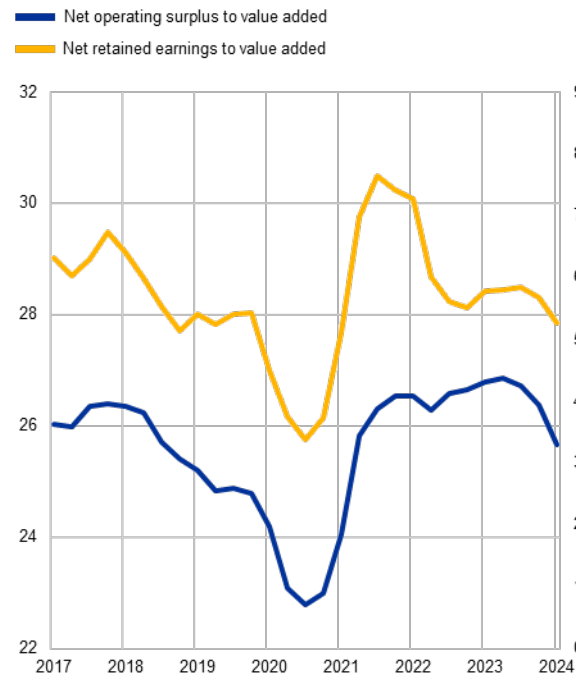
Sources: Eurostat and ECB.
Latest observations are for 2024 Q1.

Sectoral leverage
(as a percent of nominal GDP)



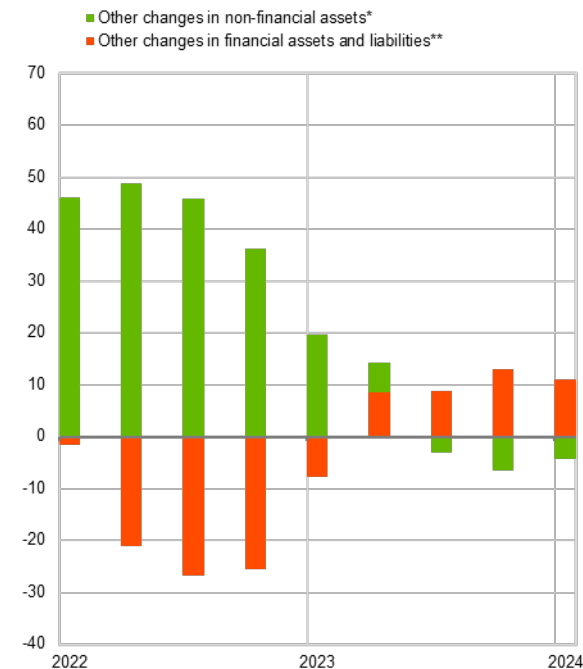
Sources: Eurostat, ECB and ECB calculations.
Notes: Leverage is defined as total non-equity liabilities divided by the four-quarter sum of nominal GDP.
Latest observations are for 2024 Q1.

NFC margins and saving ratio
(percentages, four-quarter moving averages)



Sources: ECB and ECB calculations.
Latest observations are for Q1 2024

Net worth of households
(percentage of nominal disposable income)

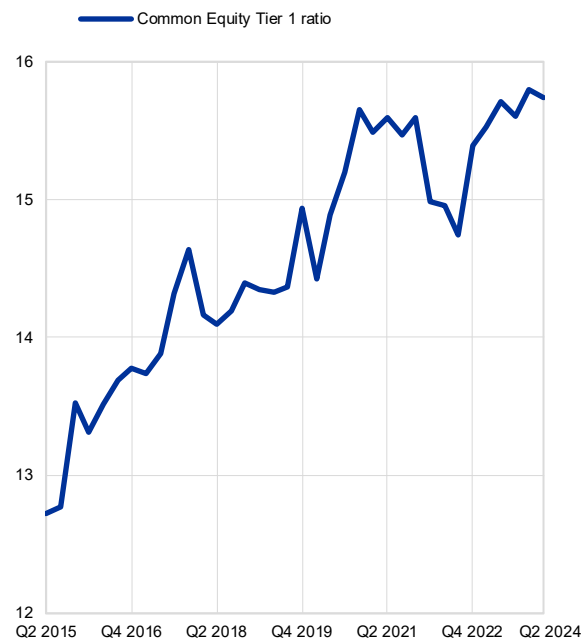


Sources: Eurostat, ECB and ECB calculations.
Notes: * Mainly holding gains and losses on real estate (including land).
** Mainly holding gains and losses on shares and other equity.
Latest observations are for 2024 Q1.



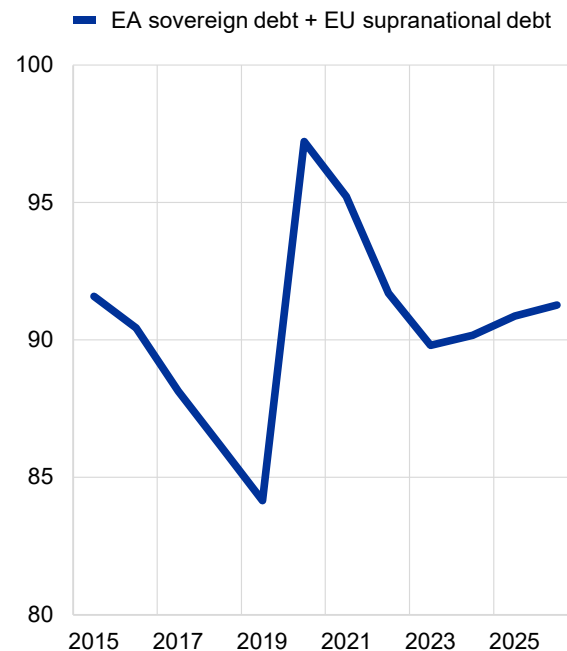
Balance sheets

Capital ratio of the banking system
(percentages)



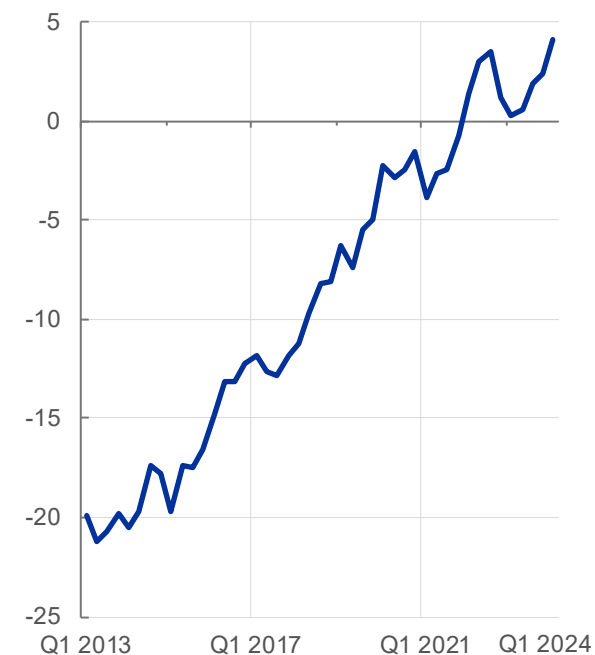
Source: ECB Supervisory Reporting.
Notes: The sample consists of significant institutions under the supervision of the ECB (changing composition).
The latest observations are for the first quarter of 2024.

Gross debt
(percentage of Euro Area GDP)



Source: June 2024 Eurosystem staff macroeconomic projections
Notes: Supranational EU debt (not reflected in the Euro area aggregate) is the gross outstanding debt of the EU institutions, including NGEU financing.
Supranational EU debt is not an official statistic, but an internal estimate.

Net international investment position
(percentage of GDP)



Sources: ECB (BoP) and Eurostat (National Accounts).
Latest observation: Q1 2024.



Conclusions

- Interim assessment: ECB monetary policy has been effective in dampening demand and stabilising inflation expectations, underpinning a timely return of inflation to the target
- Substantial transmission to financial system, economy and inflation expectations
- Calibration driven by: sectoral nature of shocks; evolution of sectoral balance sheets
- Full convergence back to target to be completed
- Restrictive stance still appropriate

