# The impact of monetary policy on the macroeconomy and European banks

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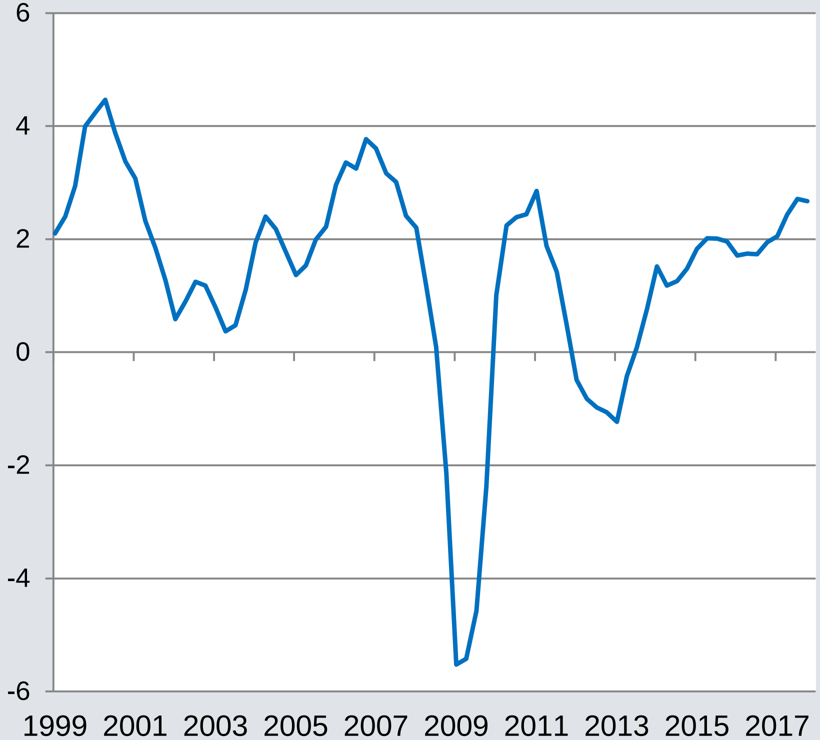
# A recovery with low inflation

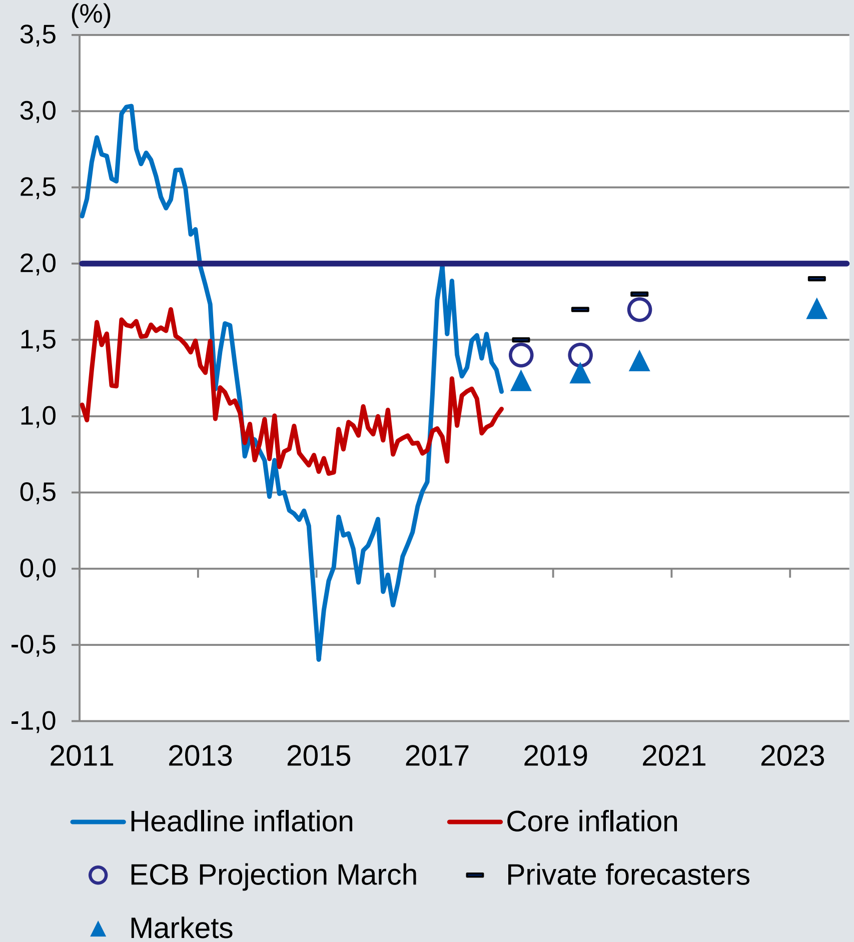
### Euro area annual real GDP growth

(%)



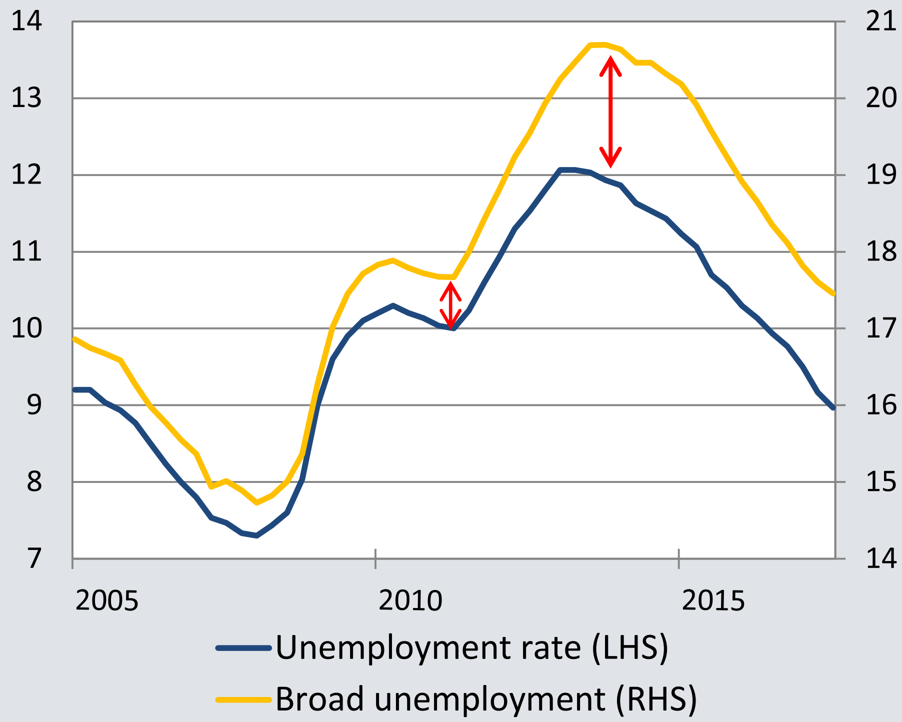

### Inflation rates and forecasts for headline inflation

(%)

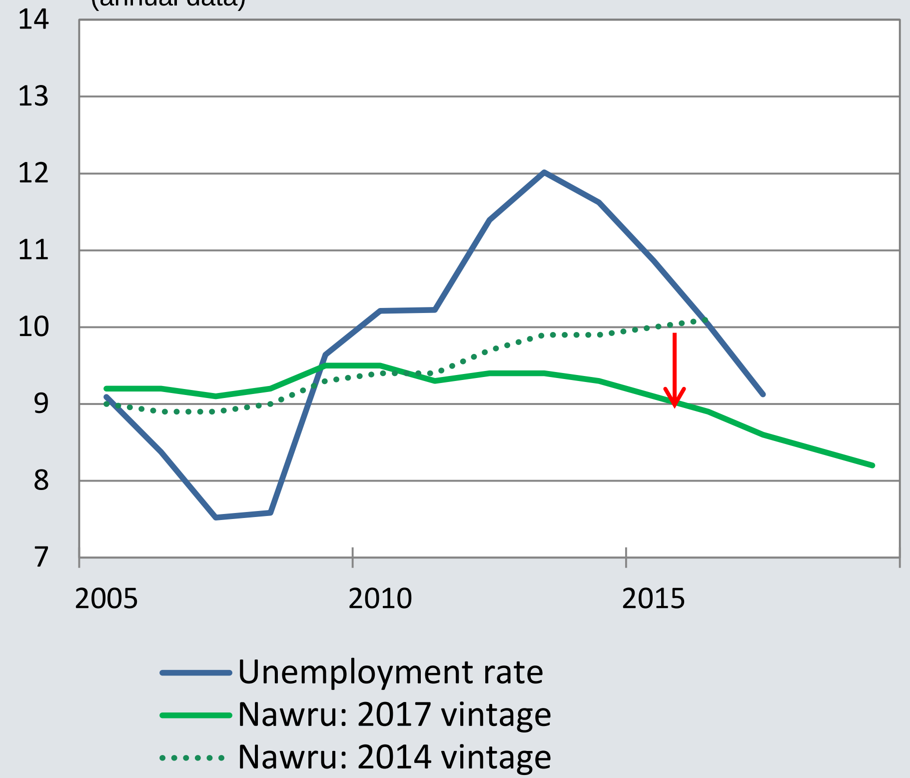


# Despite strong growth, slack might be larger than presumed

**Euro area unemployment measures**

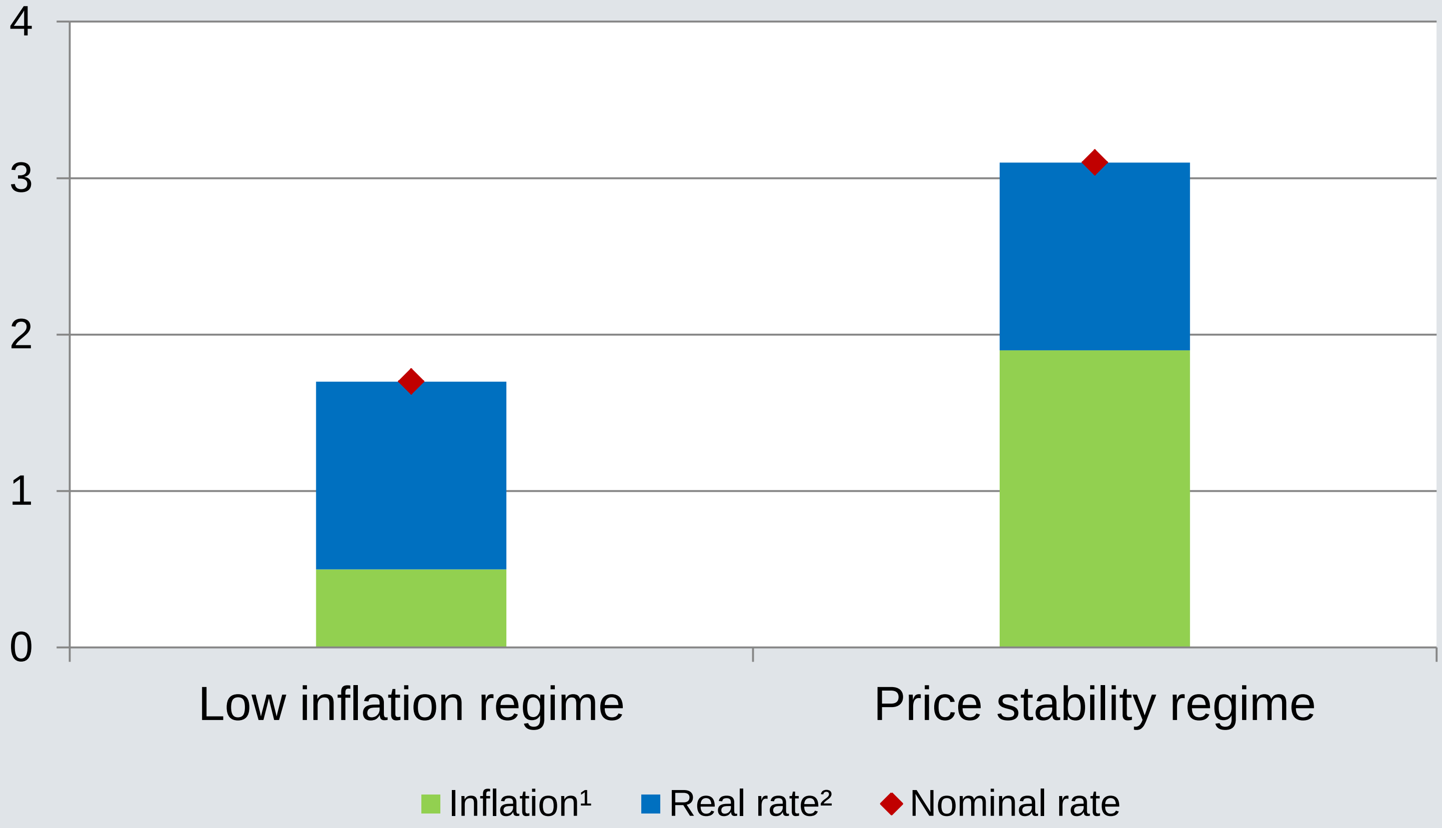



**Unemployment rate and EC revisions of natural rate**
(annual data)




- Widening gap between broad and regular unemployment rates
- Systematic downward revisions of natural rate → more slack

# The importance of getting inflation back towards 2%



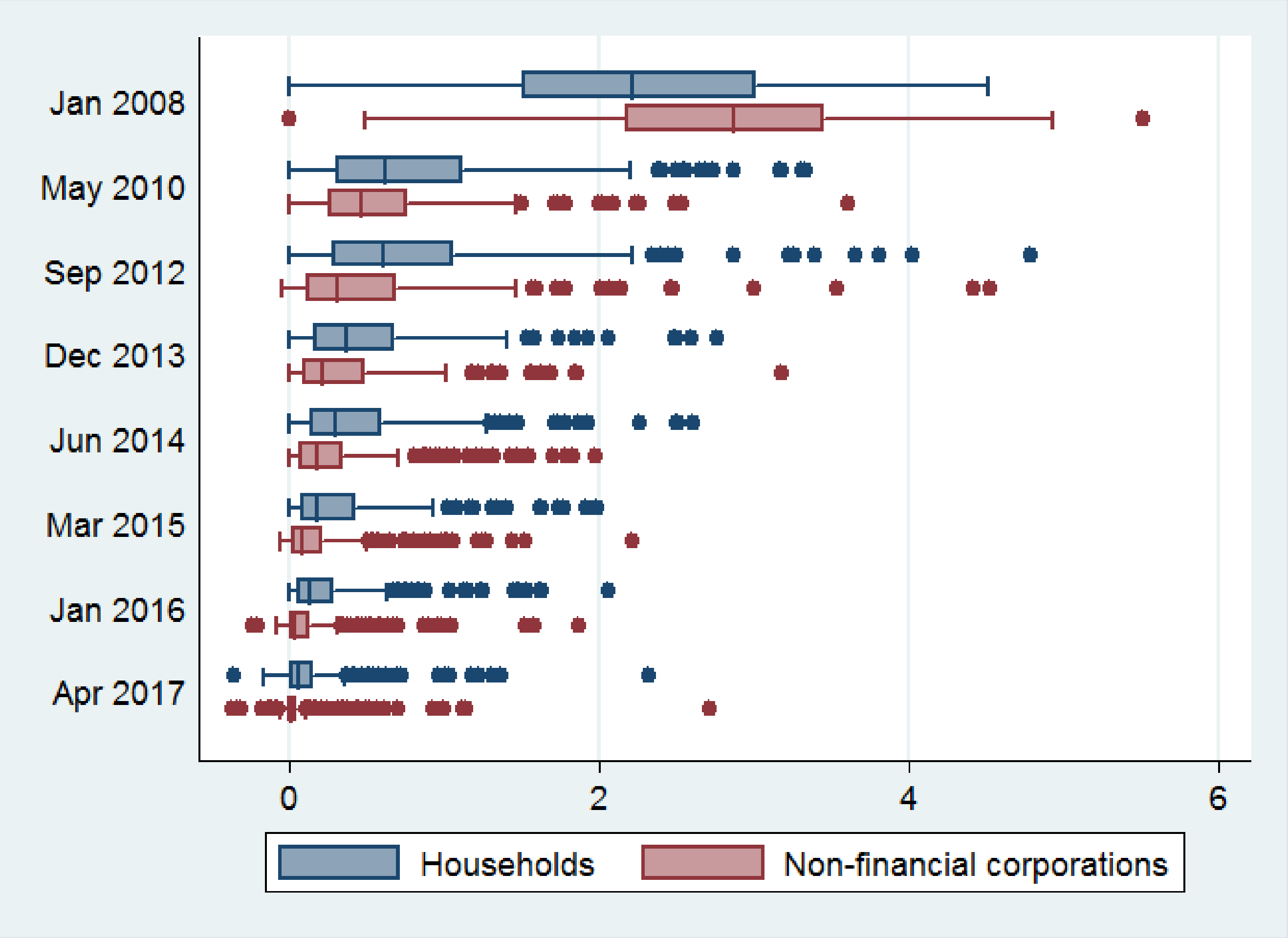

➔ Low trend inflation would imply low nominal interest rates in steady state and limit the scope to use standard monetary policy measures

[1]The inflation rate in the low inflation regime equals the average headline inflation since 2014. In the price stability regime, it converges to 1.9%.
[2] The real rate equals the European Commission's potential growth rate estimate for the euro area for 2018.

# Retail deposit rates in the euro area

**Distribution of retail deposit rates applied by banks in the euro area[1]**

(rates on deposits of households and of non-financial corporations, percentages)




Sources: ECB, own calculations.
Note: The box includes values between the 25th and the 75th percentile, with the median is shown by a line. The whiskers include values up to 1.5 interquartile ranges above the 75th or below the 25th percentile. The dots indicate outside values (beyond the limits of the whiskers).

# Diversity of channels with different dynamic profiles

- Persistent (negative) impact on net interest income
- But also:
  - One-off capital gains due to asset revaluation
  - Persistent (positive) effect of economic improvement
    - Lower borrower risk
    - Stronger loan demand
  - Lower debt servicing cost ➔ higher loan quality

# Banks’ characteristics matter

- Volume of retail deposits
- Maturity of loan and bond portfolio
- Share of marketable assets
- Higher initial capital or margin to lower costs

# Final thoughts

- Increase banks' resilience through (macro)prudential policies
- Despite reaching 2% inflation, rates may settle at lower levels than before the crisis because of lower real rates – a job for other policymakers
- Structural challenges for banks will remain after 'normalisation'

**Thank you for your attention**