Peter Praet: The ECB's asset purchase programme – the impact so far

Speech by Mr Peter Praet, Member of the Executive Board of the European Central Bank, at the Eurofi conference, Luxembourg, 9 September 2015.

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The ECB's expanded asset purchase programme has met with our initial expectations. First of all, it has strongly signalled the ECB's commitment to deliver its medium-term price stability objective, which has in turn been reflected in an upward shift in inflation expectations at all horizons. In keeping with this, any second round effects on inflation from the steep drop in oil prices last year appear to have been forestalled, and the tightening of medium-term real rates we saw towards the end of last year has been reversed (though the path of real rates implied by markets has recently steepened noticeably). More generally, the signalling effect of the APP has been visible in solidifying business and consumer confidence underpinning a broadening economic recovery.

The expanded APP, together with our credit easing package launched in summer 2014, has also had a positive impact on both market and bank credit dynamics. The cost of market-based debt fell to historically low levels in the early part of 2015, and though it has risen in recent months, financing flows have remained robust. This implies a "first order" monetary policy effect from our interventions. The credit easing package and expanded APP has been effective too in reducing wholesale funding costs for banks, allowing banks to pass on better funding conditions to their customers. Since summer last year the average cost of borrowing for euro area non-financial corporations has fallen by around 70 bps, and by 90 bps and 110 bps for NFCs in Spain and Italy, respectively. The latest evidence from the July Bank Lending Survey confirms the improvement in credit conditions. During the second quarter of 2015 credit standards continued to ease for firms, and even more so for households. Reflecting the endogenous relationship between credit supply and demand, credit demand also increased among both groups driven mostly by the low level of interest rates.

The impact of the expanded APP on bank funding costs has been partially reversed by the recent market repricing. Here, however, the credit easing package and our broader asset purchases could act as complements, in particular the Targeted Long-Term Refinancing Operations. For the APP, the ECB defines the volume of liquidity it would like to inject, but cannot determine the price; for TLTROs, we define the price of the liquidity, but banks determine the volume. One tool can therefore act as an automatic stabiliser for the other. Indeed, as wholesale funding costs for banks have risen, so has the attractiveness of the TLTRO. This substitution effect accounts in particular for the higher participation in the fourth operation by banks in less vulnerable countries.

Some observers have voiced concerns that the APP could in fact negatively affect bank lending by squeezing margins and hence banks' profitability. I do not share this view. ECB staff estimates of the impact of the APP show the overall effect on bank capital to be positive. Capital gains on securities held, lower funding costs, improved credit quality and higher intermediation volumes outweigh the negative impact of the flattening of the term structure on net interest income. Though structural problems certainly remain in the euro area banking sector, banks' weak profitability is to a large extent linked to the macroeconomic environment – something that the successful implementation of our programme will help address.

In sum, the expanded APP, combined with our other credit easing measures, is largely producing its desired effects. We judge that the recent volatility in financial markets has not materially affected this picture, although close monitoring and continuous assessment are warranted from a monetary policy perspective. It is nonetheless clear that the effectiveness of the APP would be enhanced by complementary measures from other policymakers. In particular, the improving economic and financial environment provides the ideal conditions for governments to press ahead with structural reforms, which are in turn necessary to make the recovery lasting. Raising expectations of future growth is vital to lift animal spirits and encourage a stronger rebound in investment, which is the cornerstone of a self-sustaining economic recovery.