

Peter Praet

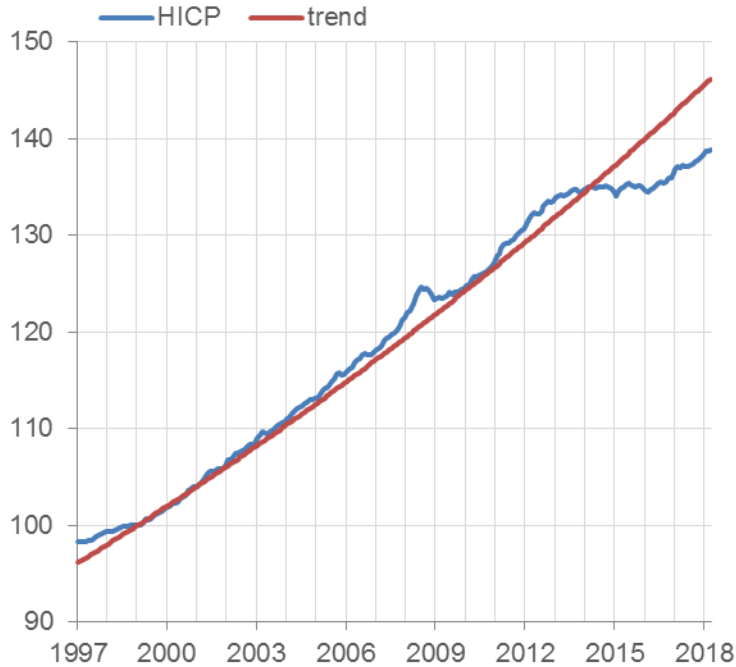
Economic and Monetary Policy in EMU: from unconventional times to sustainable and balanced growth

OECD Chief Economist Talks

Paris, 3 May 2018

Price level

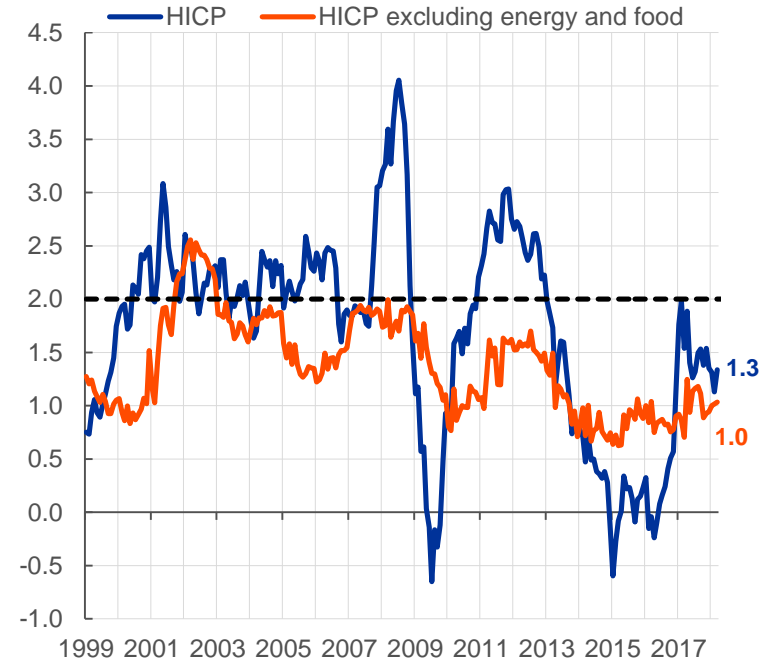
(1999m1=100, trend = year-on-year inflation at 2%)



Sources: Eurostat and ECB Calculations.
Latest observations: March 2018.

HICP and HICP excluding energy and food

(annual percentage changes)



Source: Eurostat.
Latest observation: March 2018.

Monetary policy stance determined by combination & interaction of:

- our **policy rates**,
- our **asset purchase programme**,
- and our **forward guidance** on each of these tools

... complemented by:

- the **TLTROs**, which will remain outstanding for the next three years

The ECB's forward guidance

Key ECB interest rates

- expected to remain at present levels for an extended period of time
- and well past horizon of **net asset purchases**

Asset Purchase Programme (APP)

- **net asset purchases** intended to continue at monthly pace of €30 billion, until end-Sep 2018
- or beyond, if necessary & in any case until GovC sees sustained adjustment in path of inflation (SAPI) consistent with inflation aim
- Eurosystem will reinvest principal payments from maturing securities for an extended period of time after end of net purchases, and in any case for as long as necessary

Criteria for sustained adjustment in the path of inflation (SAPI)

Convergence

- Headline inflation on course to reach levels below, but close to 2% in the medium term;

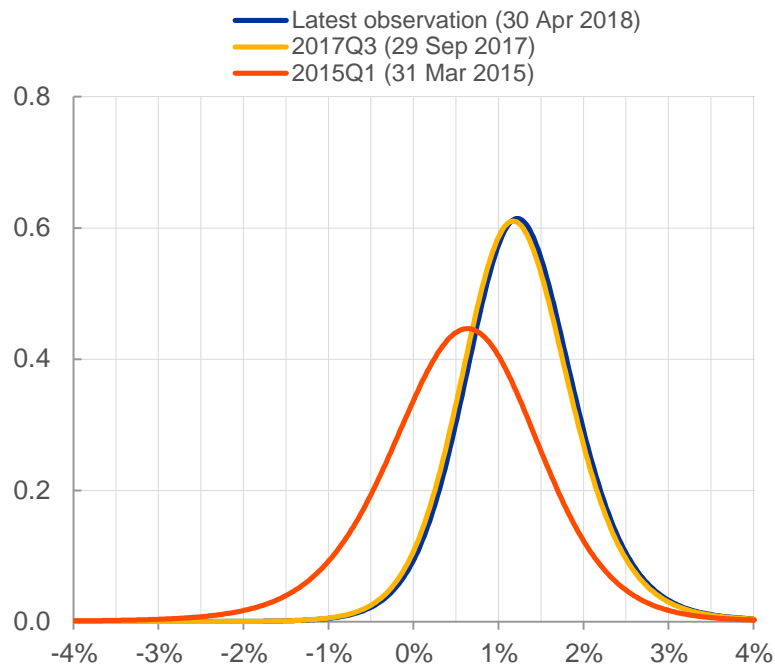
Confidence

- Sufficient confidence in durable stabilisation of inflation around these levels;

Resilience

- Resilience of inflation convergence even after the end of net asset purchases.

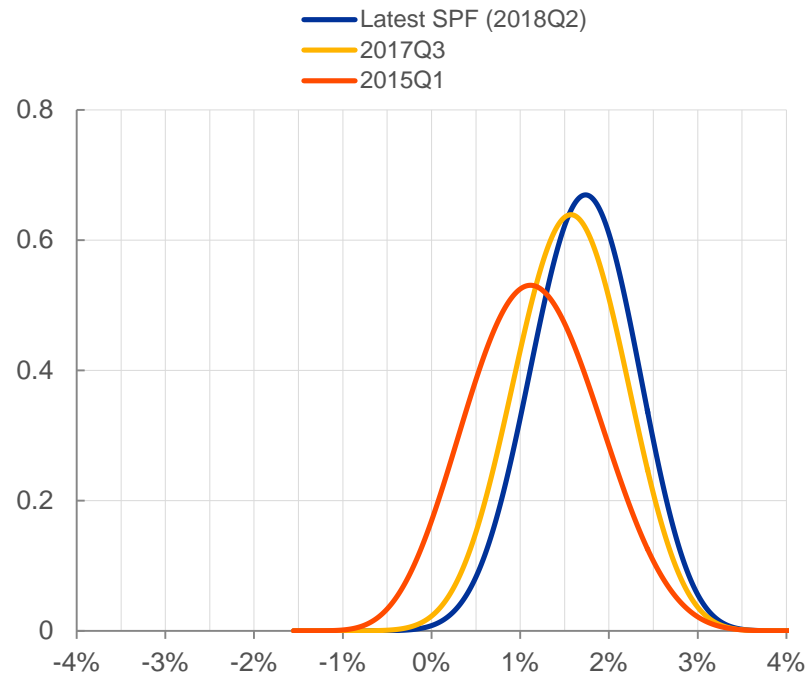
Option-implied probability density function of euro area inflation over the next two years



Sources: Bloomberg, Reuters, ECB calculations.

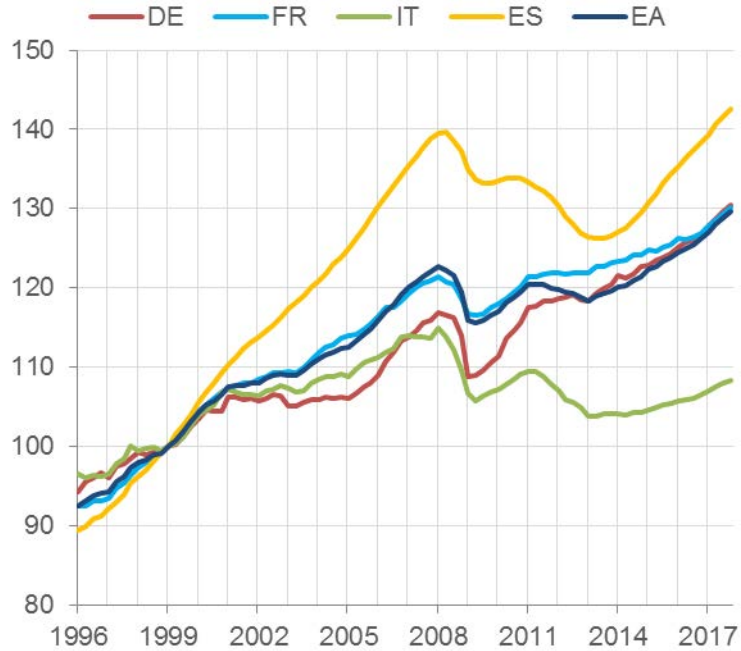
Notes: This chart shows the risk-neutral probability distribution function implied by two-year zero-coupon inflation options. These risk-neutral probabilities may differ significantly from physical, or true, probabilities. They are estimated on the basis of call ("caplets") and put options ("floorlets") with different strike rates on the (three-month lagged) euro area HICPxT (ex tobacco) index, assuming Black-Scholes option pricing and implied volatilities that vary across strike rates ("volatility smile").

Survey-implied probability density function of euro area inflation in two years time



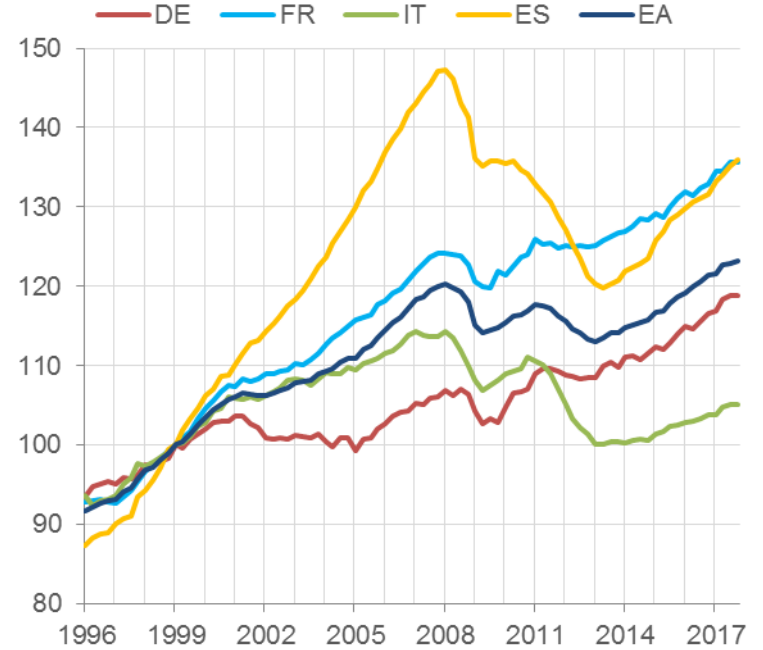
Source: ECB Survey of Professional Forecasters.

Real GDP (1999=100)



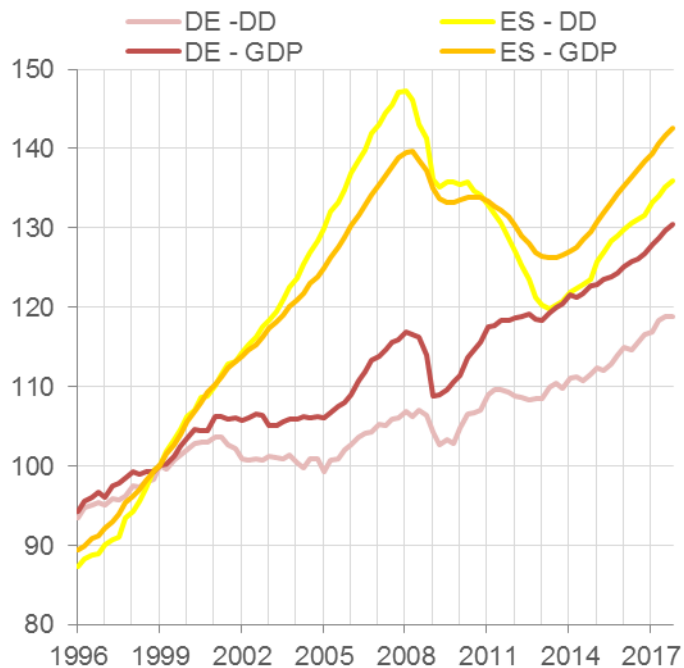
Sources: Eurostat and ECB Calculations
Latest observations: 2017Q4 (quarterly data).

Domestic demand (1999=100)



Sources: Eurostat and ECB Calculations
Last observation: 2017Q4 (quarterly data).

Domestic demand and real GDP (1999Q1=100)

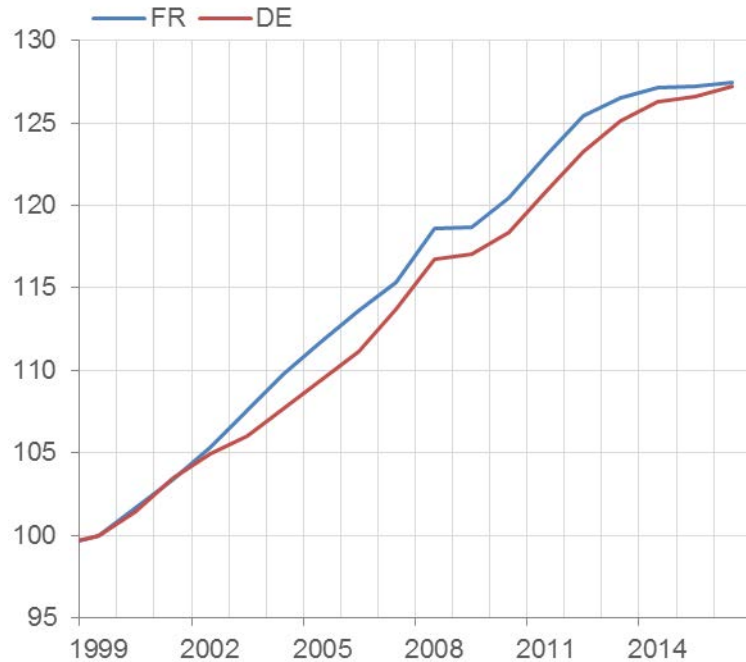


Sources: Eurostat and ECB staff calculations.

Note: DD stands for domestic demand.

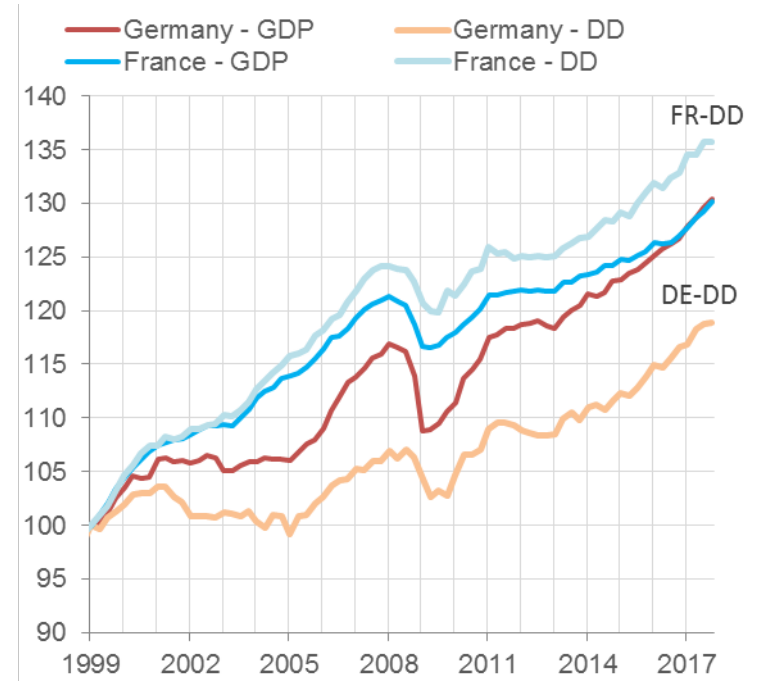
Last observation: 2017Q4 (quarterly data).

Price level (1999=100)



Sources: AMECO and ECB Calculations.
Latest observations: 2017 (annual data).

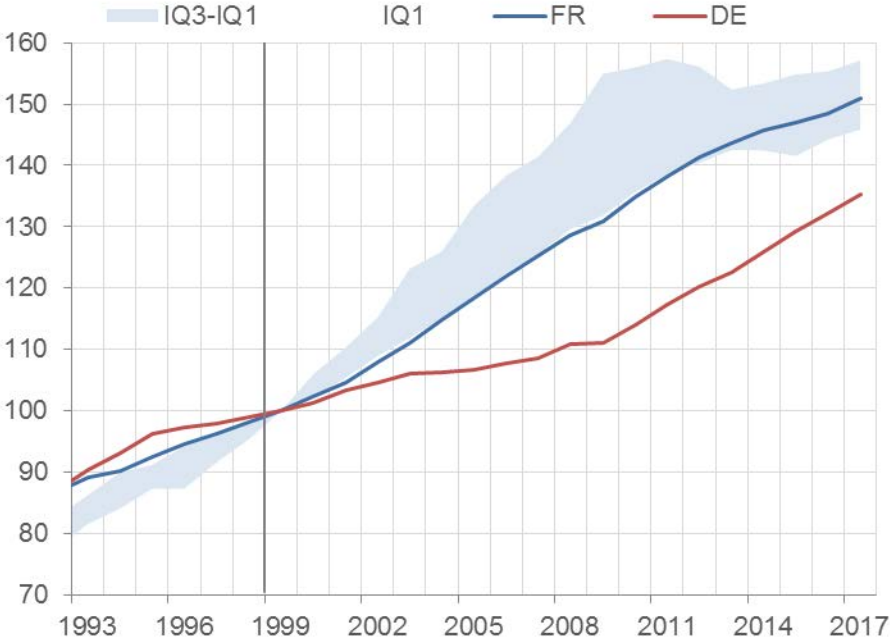
Domestic demand and real GDP (1999Q1=100)



Sources: Eurostat and ECB staff calculations.
Note: DD stands for domestic demand.
Last observation: 2017Q4 (quarterly data).

Compensation per employee

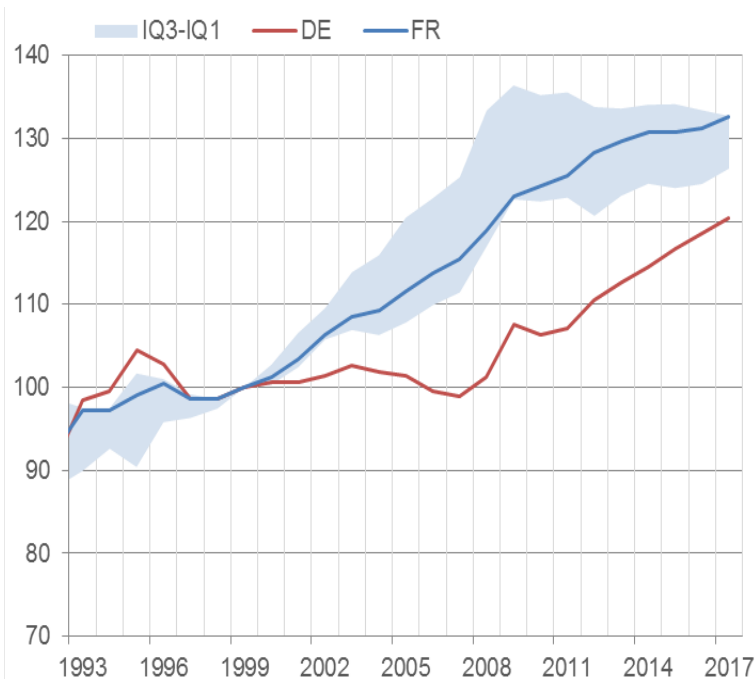
(1999=100)



Sources: AMECO and ECB Calculations.
Note: the grey shaded area shows the 25-75% ranger among EA12 countries
Latest observations: 2017 (annual data).

Unit Labor Cost

(1999=100)

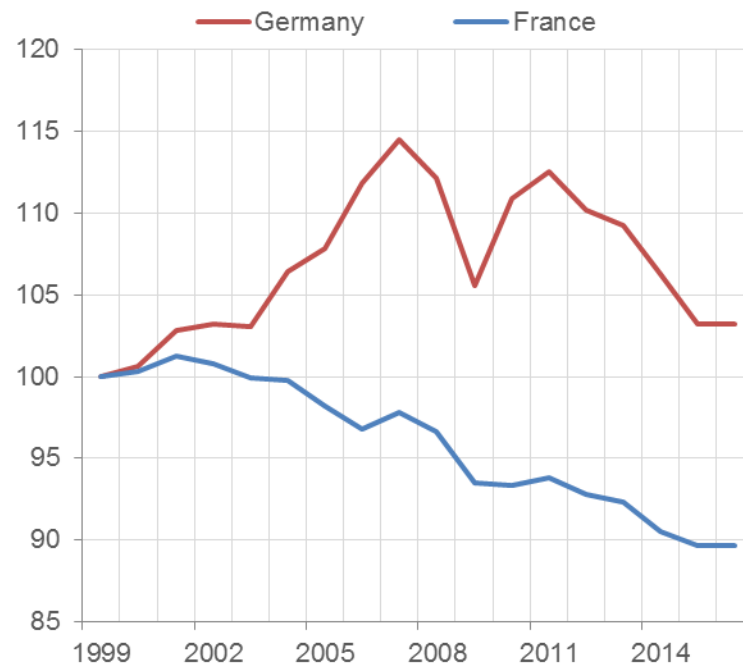


Sources: AMECO and ECB Calculations.

Note: the grey shaded area shows the 25-75% ranger among EA12 countries
Latest observations: 2017 (annual data).

Traded sector mark-up

(1999=100)

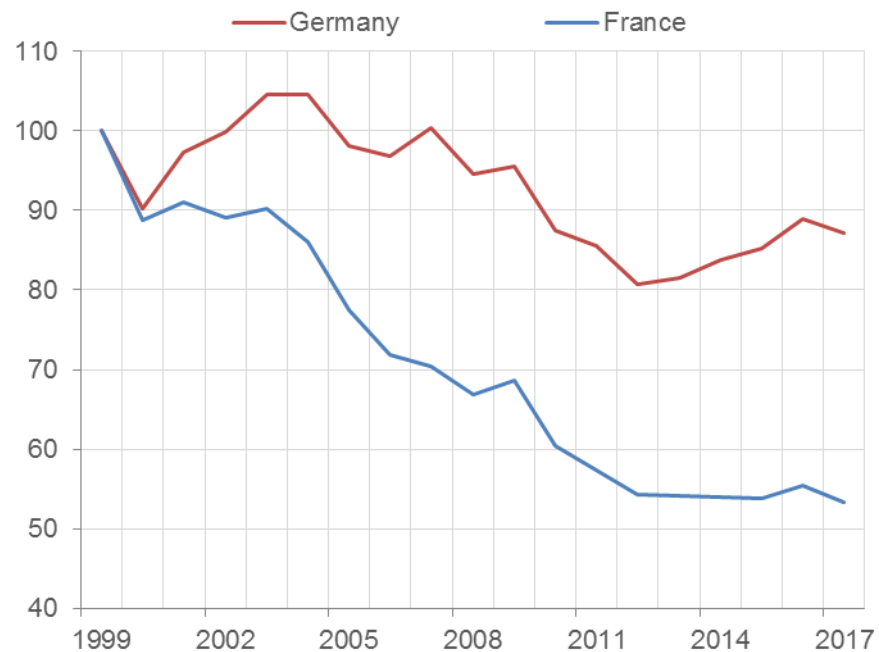


Sources: AMECO and ECB Calculations.

Note: Markup calculated as a the difference between sector selling price minus the sectoral unit labour cost developments.
Latest observations: 2016 (annual data).

World export market share

(goods, 1999=100)

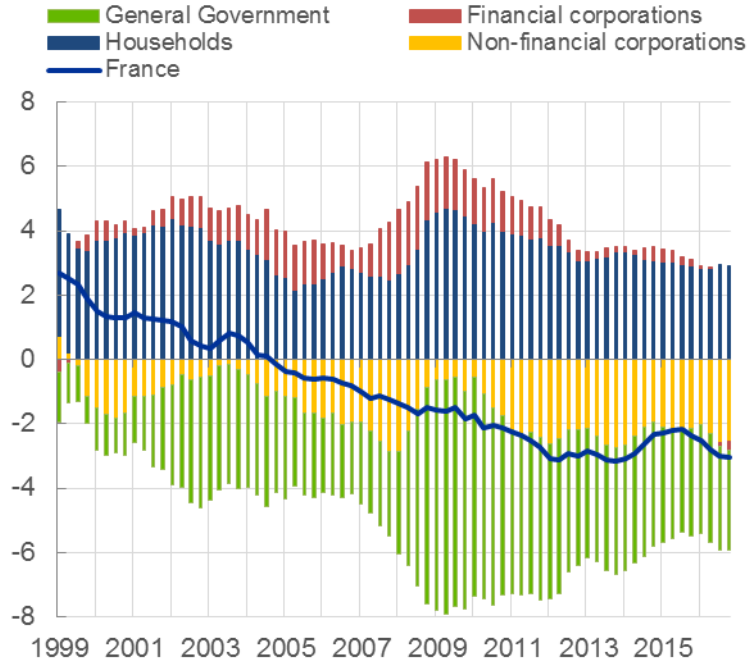


Sources: IMF DOTS and ECB Calculations.

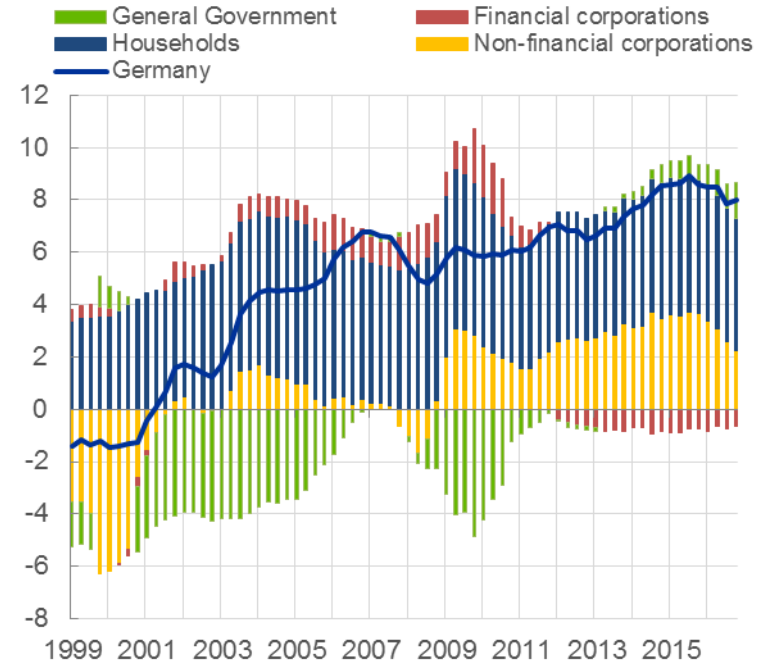
Note: world export market share calculated as the share of a country's exports in world exports.

Latest observations: 2017 (annual data).

France net lending/borrowing (in bn EUR)



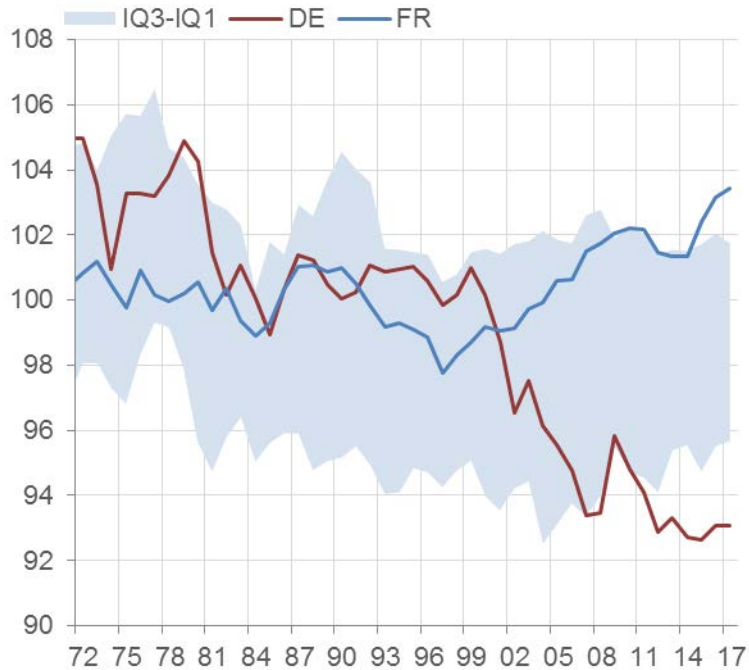
Germany Net lending/borrowing (as percent of GDP)



Sources: Eurostat and ECB calculations.
 Note: Data refer to four-quarter sums.
 Latest observation: 2017Q3 (quarterly data).

Sources: Eurostat and ECB calculations.
 Note: Data refer to four-quarter sums.
 Latest observation: 2017Q3 (quarterly data).

Domestic demand (as % of GDP)

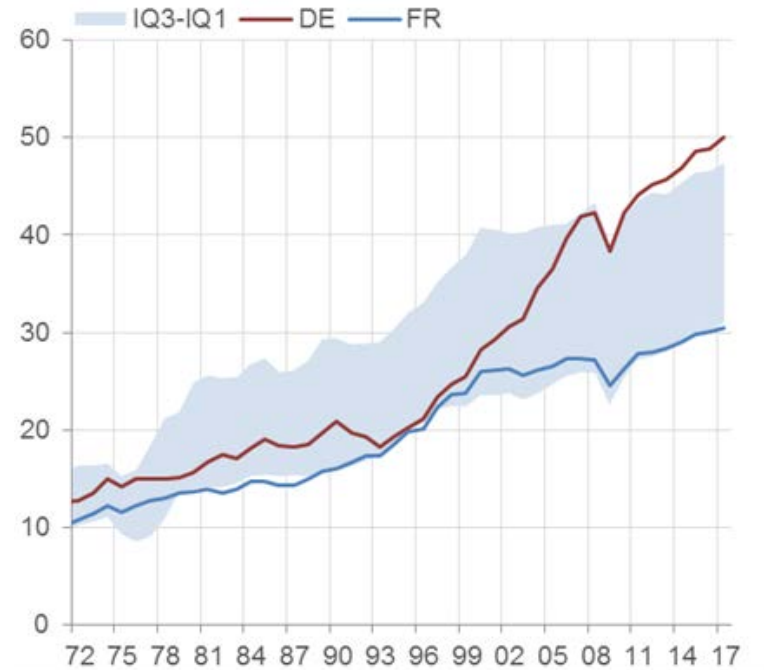


Sources: Global Financial database, eurostat and ECB calculations.

Note: the IQ3-IQ1 shows the 25-75% interquartile range of the following countries: AT, DE, BE, FR, IT, ES, PT, GR, NL, FI, US, UK, SE, JP, CA, AU, DK, NO, CH. Last observation: 2017.

Sources: Eurostat and ECB calculations.

Export (as % of GDP)



Sources: Global Financial database, eurostat and ECB calculations.

Note: the IQ3-IQ1 shows the 25-75% interquartile range of the following countries: AT, DE, BE, FR, IT, ES, PT, GR, NL, FI, US, UK, SE, JP, CA, AU, DK, NO, CH. Last observation: 2017. Sources: Eurostat and ECB calculations.