



EUROPEAN CENTRAL BANK
EUROSYSTEM

Striking the right balance: the ECB's balance sheet and its implications for monetary policy

Speech at MNI Connect webcast

18 February 2025

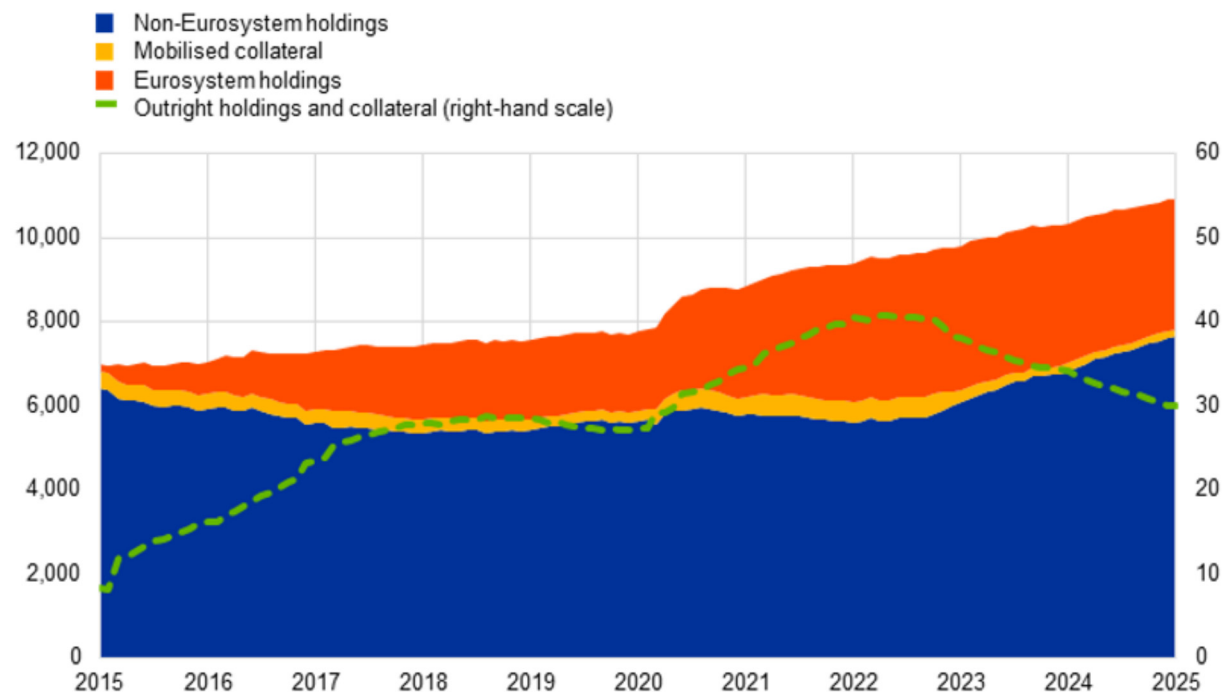


Piero Cipollone
Member of the Executive Board

Chart 1

Size of euro area government bond market and the Eurosystem's market footprint

(left-hand scale: EUR billions; right-hand scale: percentages)

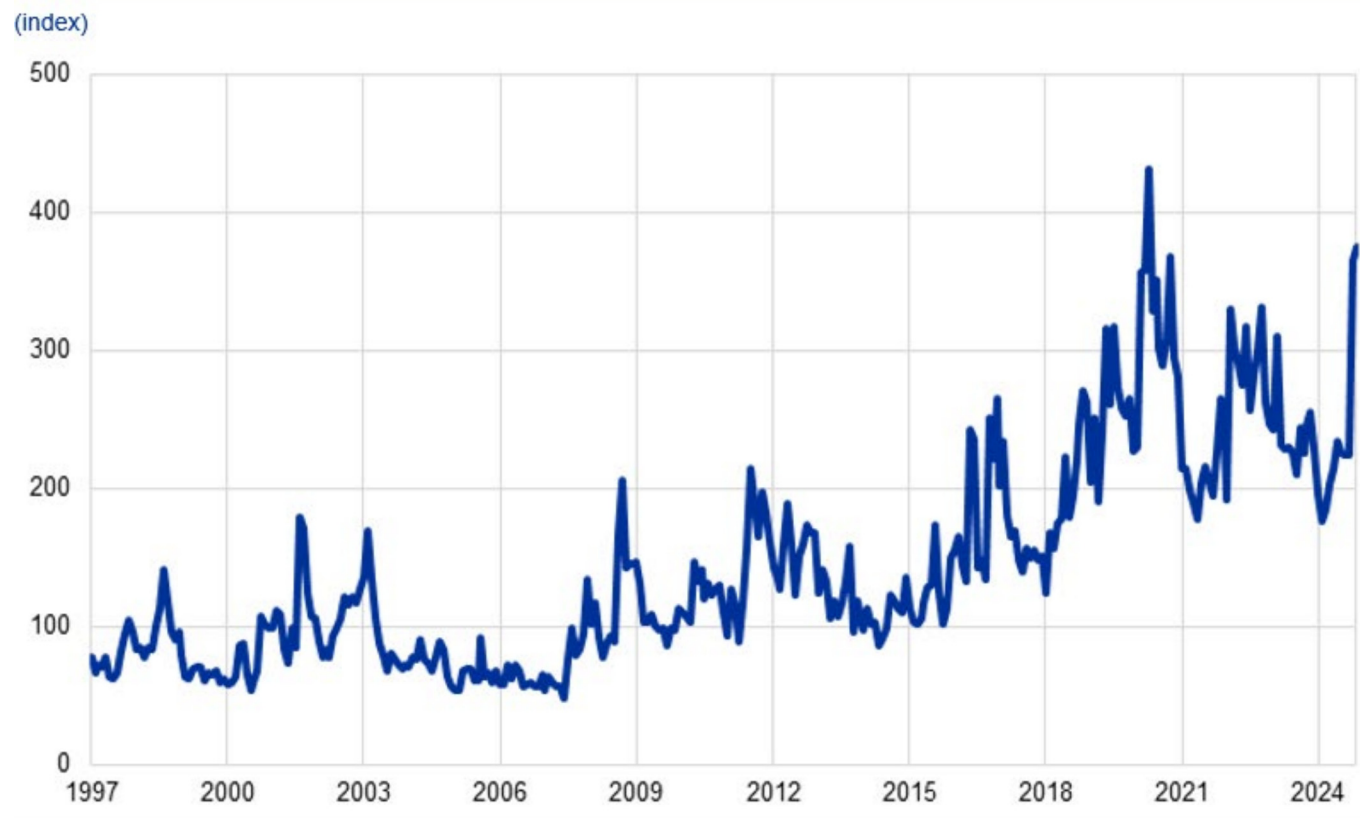


Sources: Eurosystem and Centralised Securities Database.

Notes: The chart shows the evolution of the size of the euro area government bond market and splits it into outright holdings (yellow) and mobilised collateral (green), as well as what is not held or mobilised as collateral with the Eurosystem (blue). The Eurosystem market footprint is a relative measure, computed as the share of the Eurosystem's euro area government bond (EGB) holdings compared with the nominal amount outstanding. Outright holdings are EGBs held by the Eurosystem via purchase programmes, adjusted by EGBs lent back via the securities lending against cash collateral facilities. Mobilised collateral includes EGBs mobilised as collateral for open market operations. The latest observations are for 31 January 2025.

Chart 2

Global Economic Policy Uncertainty index



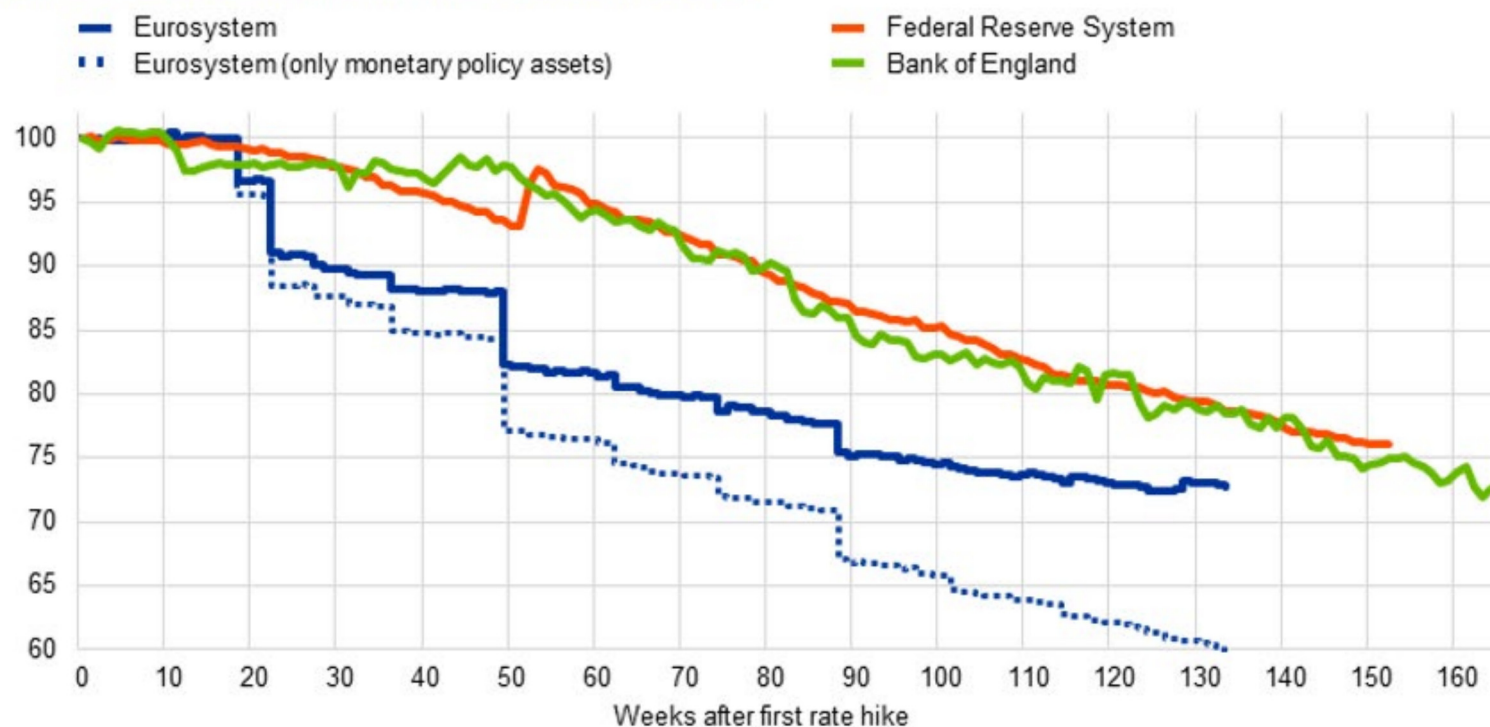
Source: Bloomberg.

Note: The latest observation is for December 2024.

Chart 3

Central bank total assets

(index = 100 at the start of the respective policy rate hiking cycles)



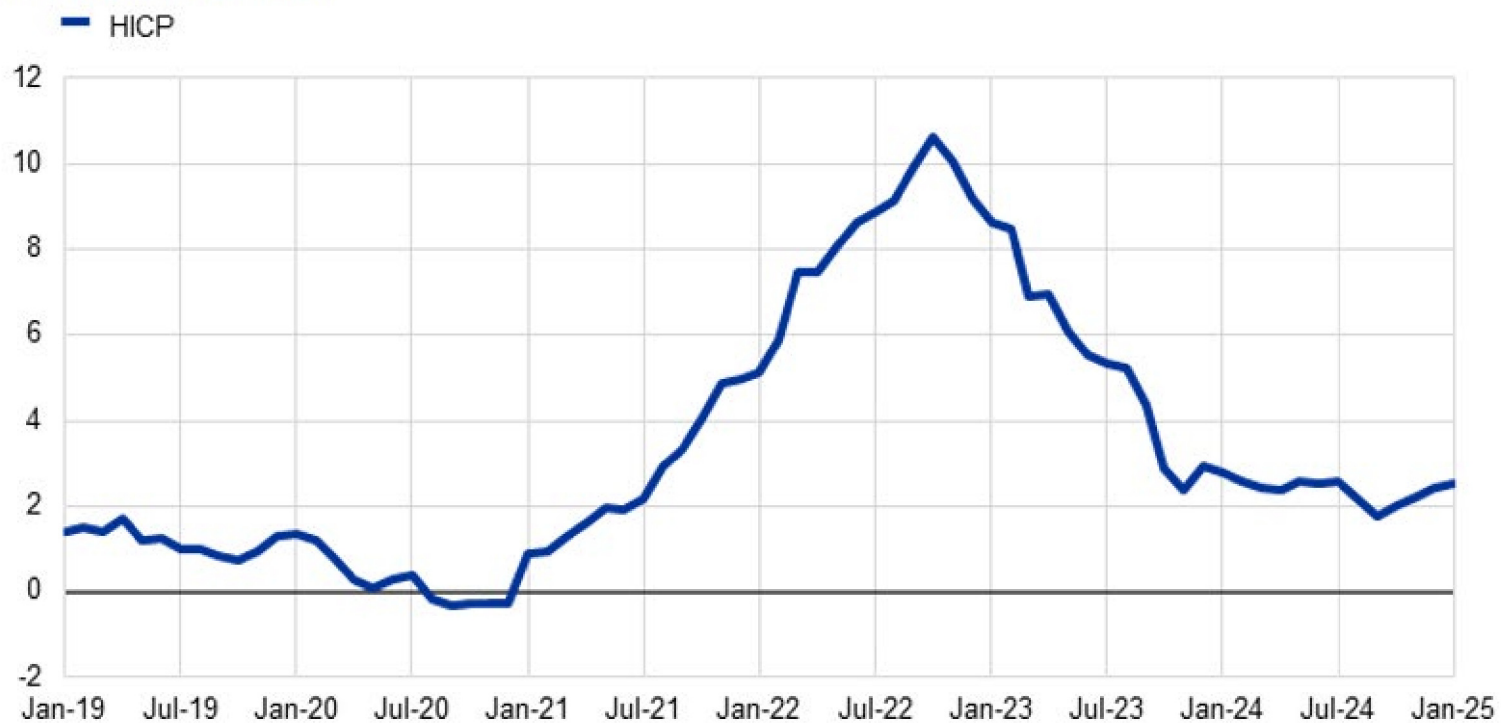
Sources: Bloomberg and ECB calculations.

Notes: The x-axis starts on 21 July 2022, 16 March 2022 and 15 December 2021 for the Eurosystem, Federal Reserve System, and Bank of England respectively. For the Bank of England, reserve balances are used as a proxy for the total balance sheet. The latest observations are for 12 February 2025.

Chart 4

Headline inflation

(annual percentage changes)



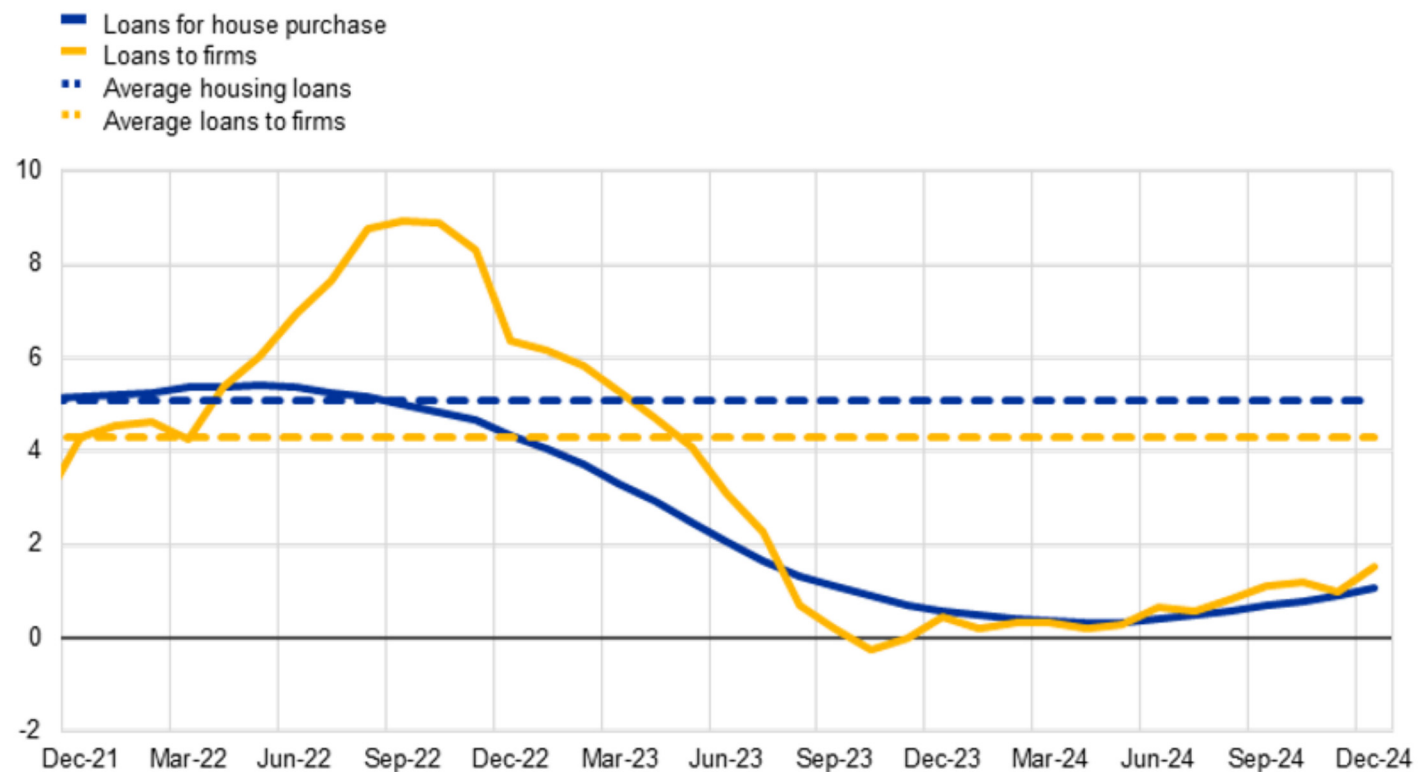
Source: Eurostat.

Note: The latest observation is for January 2025 (flash estimate).

Chart 5

Loans to firms and households

(percentage points)



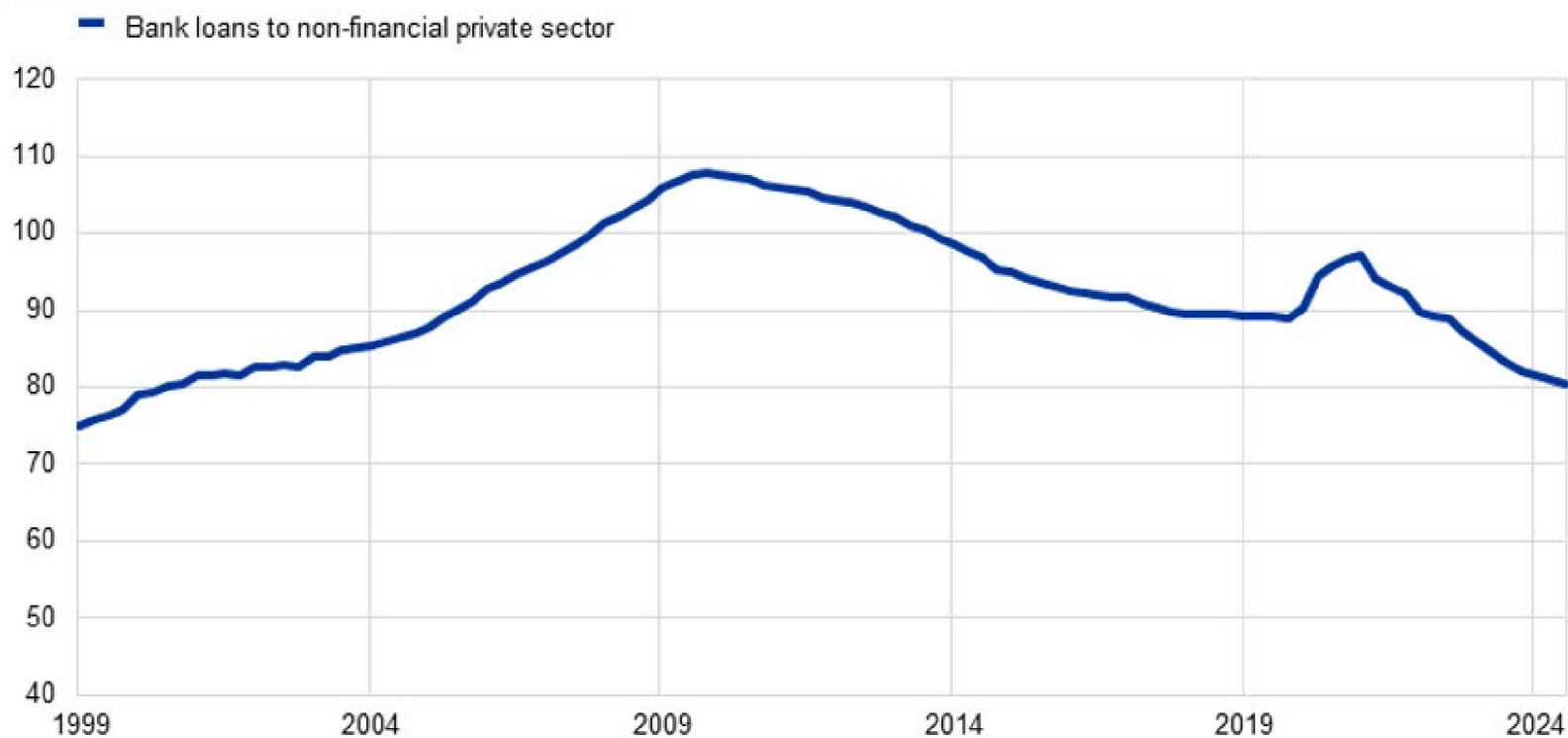
Sources: ECB (BSI) and ECB staff calculations.

Note: The latest observations are for December 2024.

Chart 6

Ratio of bank loans to GDP

(percentages)

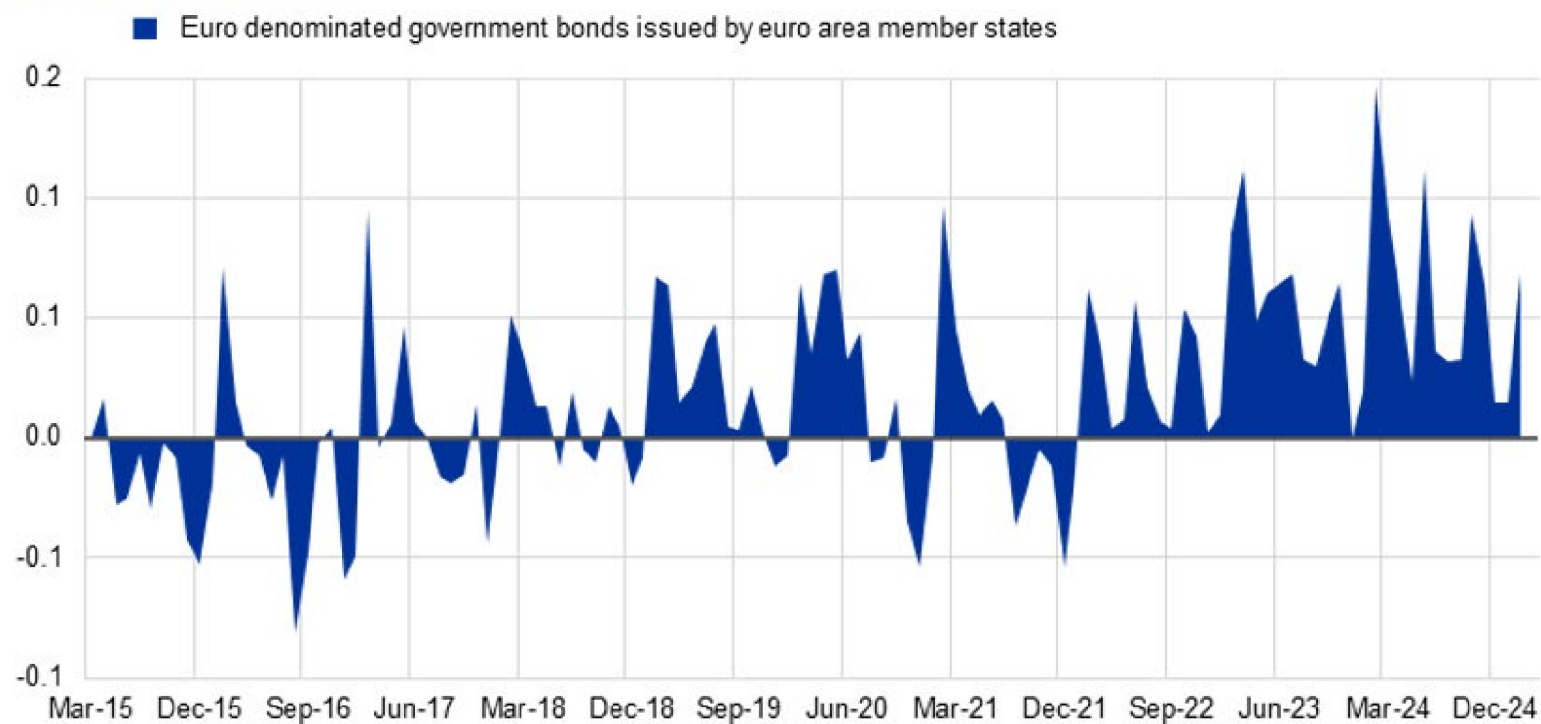


Sources: ECB (BSI), Eurostat and ECB staff calculations.
Note: The latest observation is for the third quarter of 2024.

Chart 7

New duration risk absorbed by private investors

(EUR billions per basis point)



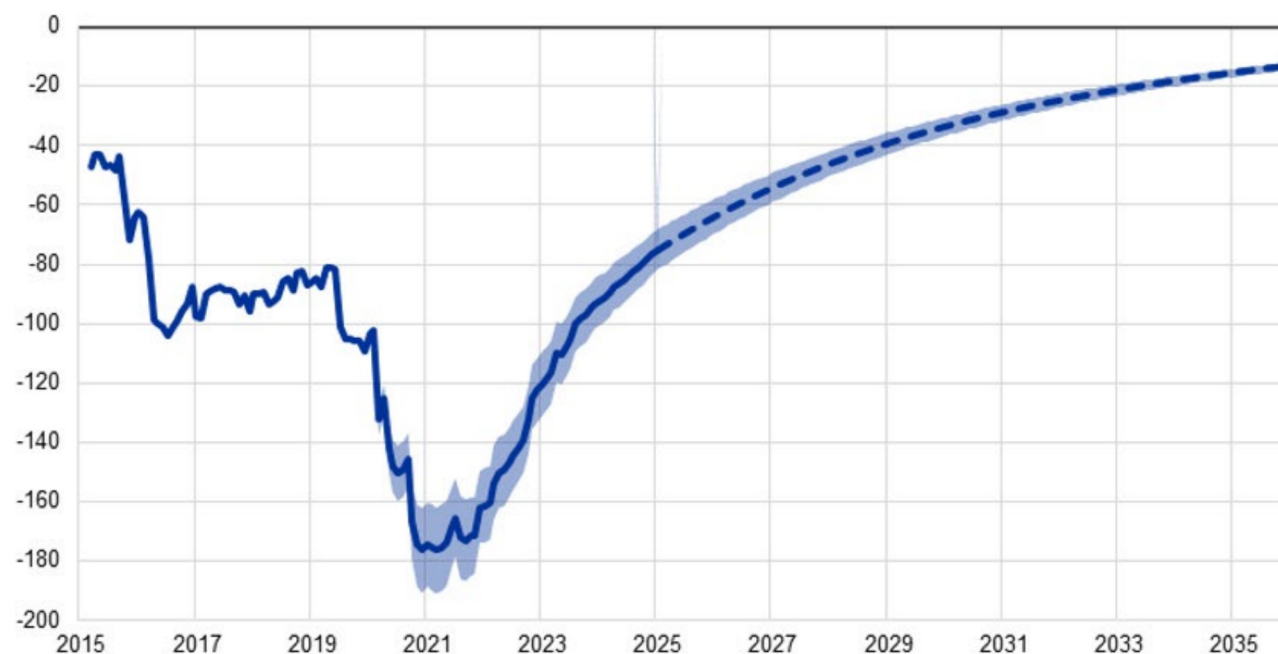
Sources: Bloomberg and ECB.

Notes: The chart shows the month-on-month change in the duration of government bonds held by private investors (i.e. investors other than the domestic central bank). Rates are approximated by weighted average maturity.

Chart 8

Impact of APP and PEPP sovereign bond holdings on ten-year sovereign risk premia

(basis points)



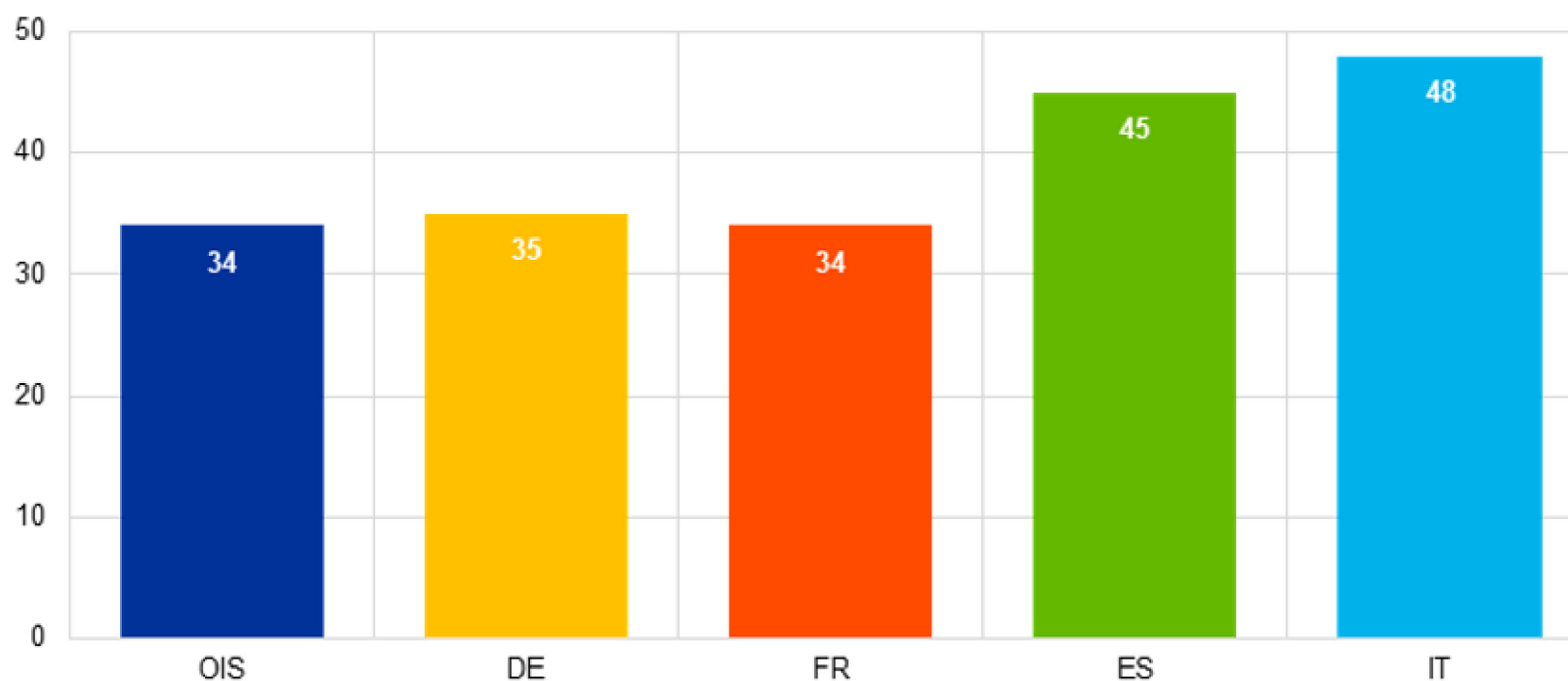
Source: ECB calculations.

Notes: The impacts are derived from an affine arbitrage-free model of the term structure with a quantity factor (see Eser et al., op. cit.) and an alternative version of the model recalibrated so that the model-implied yield reactions to the March PEPP announcement match the two-day yield changes observed after 18 March 2020. The model results are derived using GDP-weighted averages of the zero-coupon yields of the big-four sovereign issuers (DE, FR, IT and ES). The continuous line represents estimates based on real-time survey expectations. The dashed line is based on projections of the Eurosystem's holdings of big-four sovereign bonds in the APP and PEPP as informed by the ECB's December 2024 Survey of Monetary Analysts. The model abstracts from any potential holdings in a structural portfolio of securities. The latest observations are for January 2025 (monthly data).

Chart 9

Expected term premium impact from running down the asset portfolio by €1 trillion

(basis points)



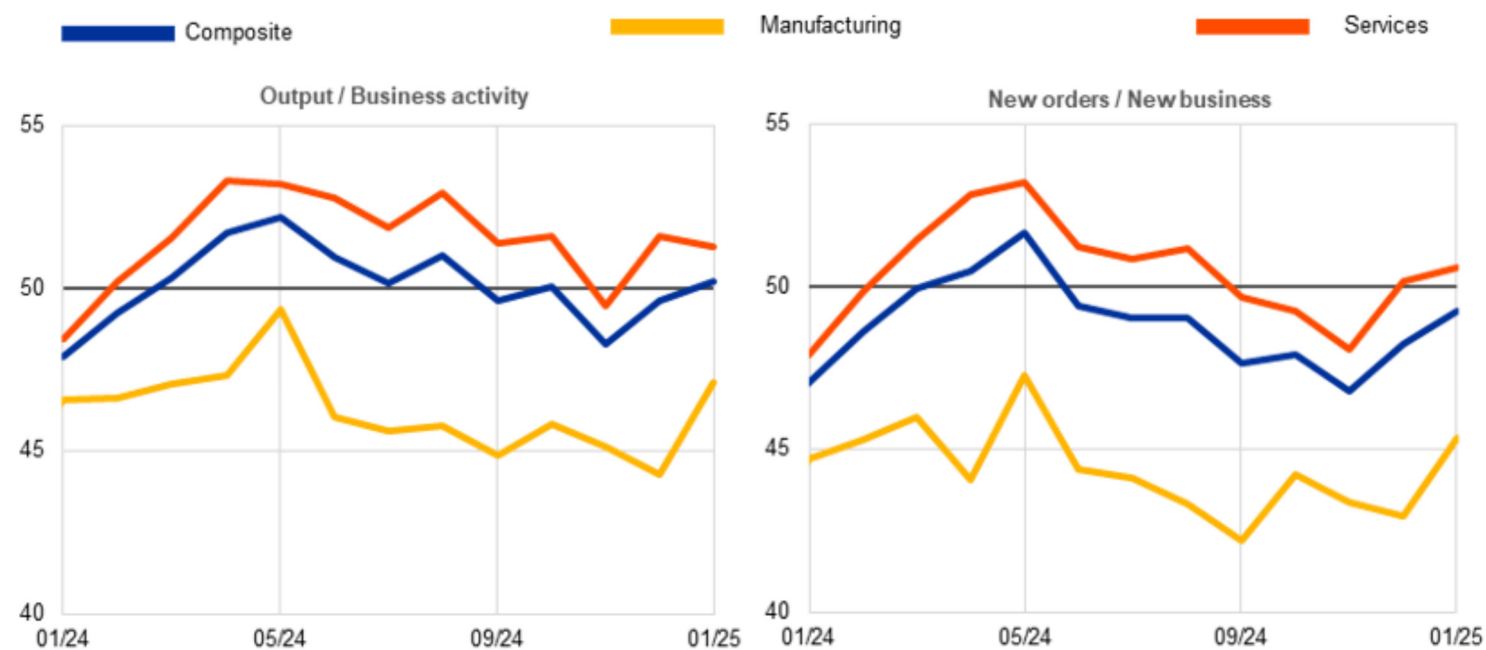
Sources: ECB December 2024 Survey of Monetary Analysts (SMA) and Akkaya, Y. et al., op.cit.

Notes: The chart depicts the expected effect on the term premium of various assets with a ten-year maturity resulting from an expected €1 trillion decrease in the ECB's bond holdings. Results are based on individual SMA responses from December 2022 until December 2023.

Chart 10

Purchasing Managers' Index

(diffusion indices)



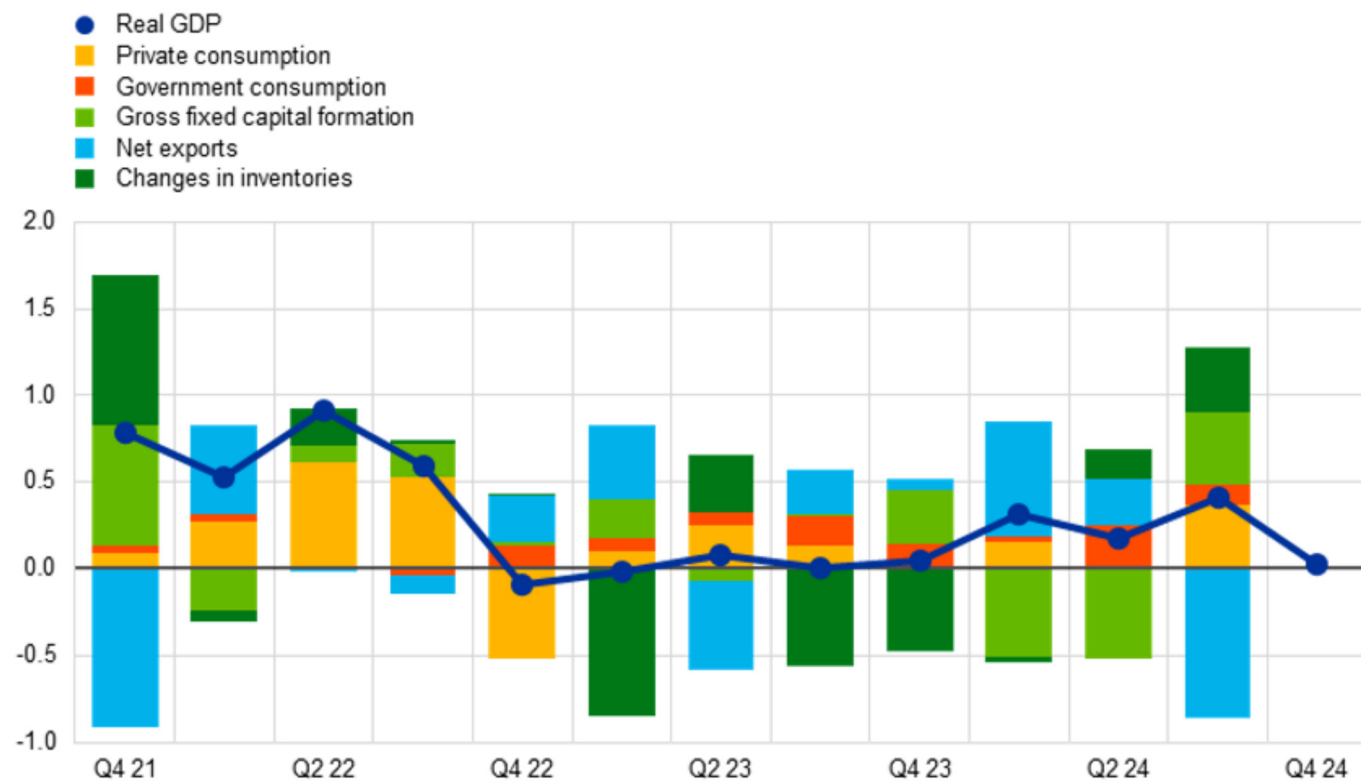
Source: S&P Global.

Notes: "Output" and "New orders" correspond to the manufacturing and composite indices, and "Business activity" and "New business" to the services index. The latest observations are for January 2025.

Chart 11

Detailed decomposition of euro area real GDP

(quarter-on-quarter percentage changes and percentage point contributions)



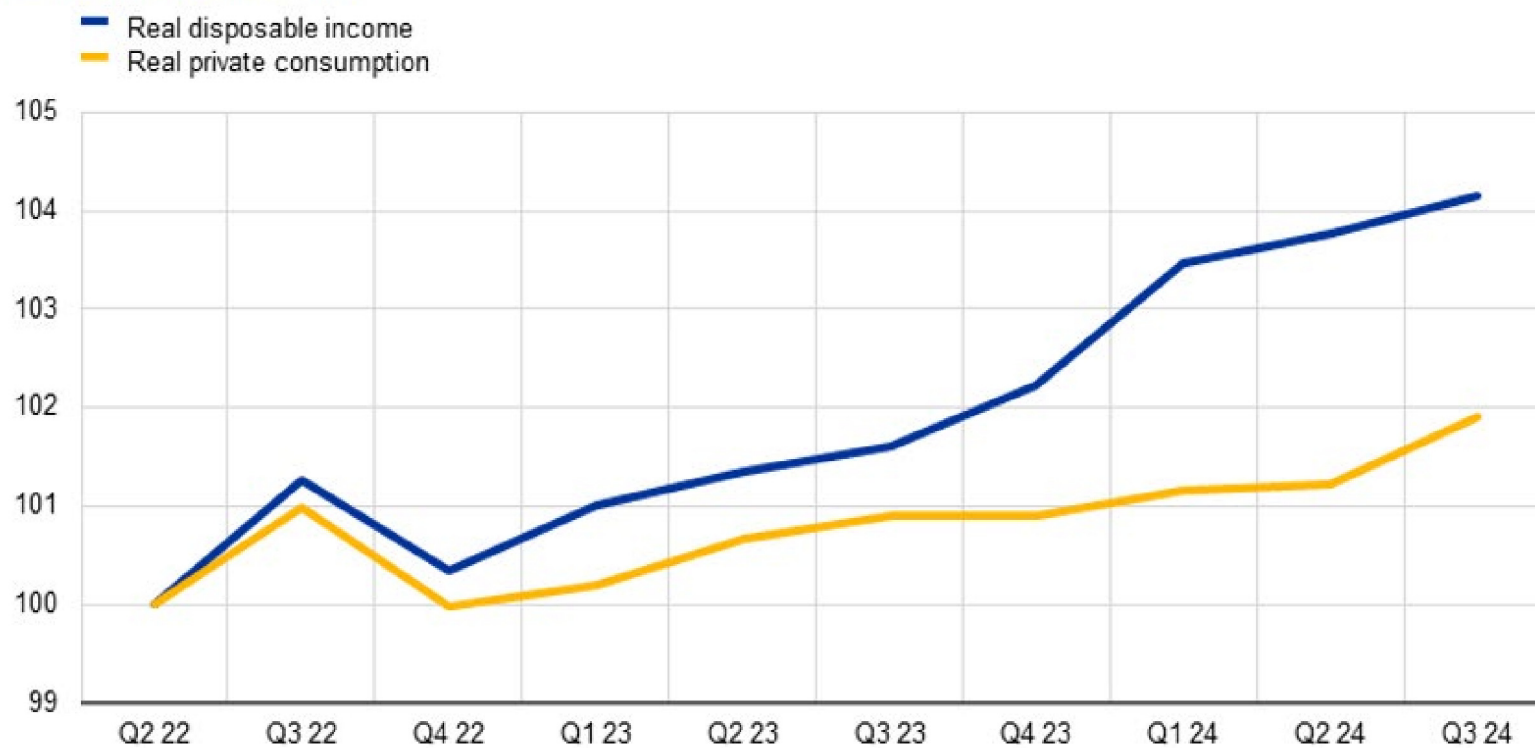
Sources: Eurostat and ECB staff calculations.

Note: The latest observations are for the fourth quarter of 2024 for real GDP, and for the third quarter of 2024 for the other components.

Chart 12

Real household disposable income and consumption

(second quarter of 2022 = 100)



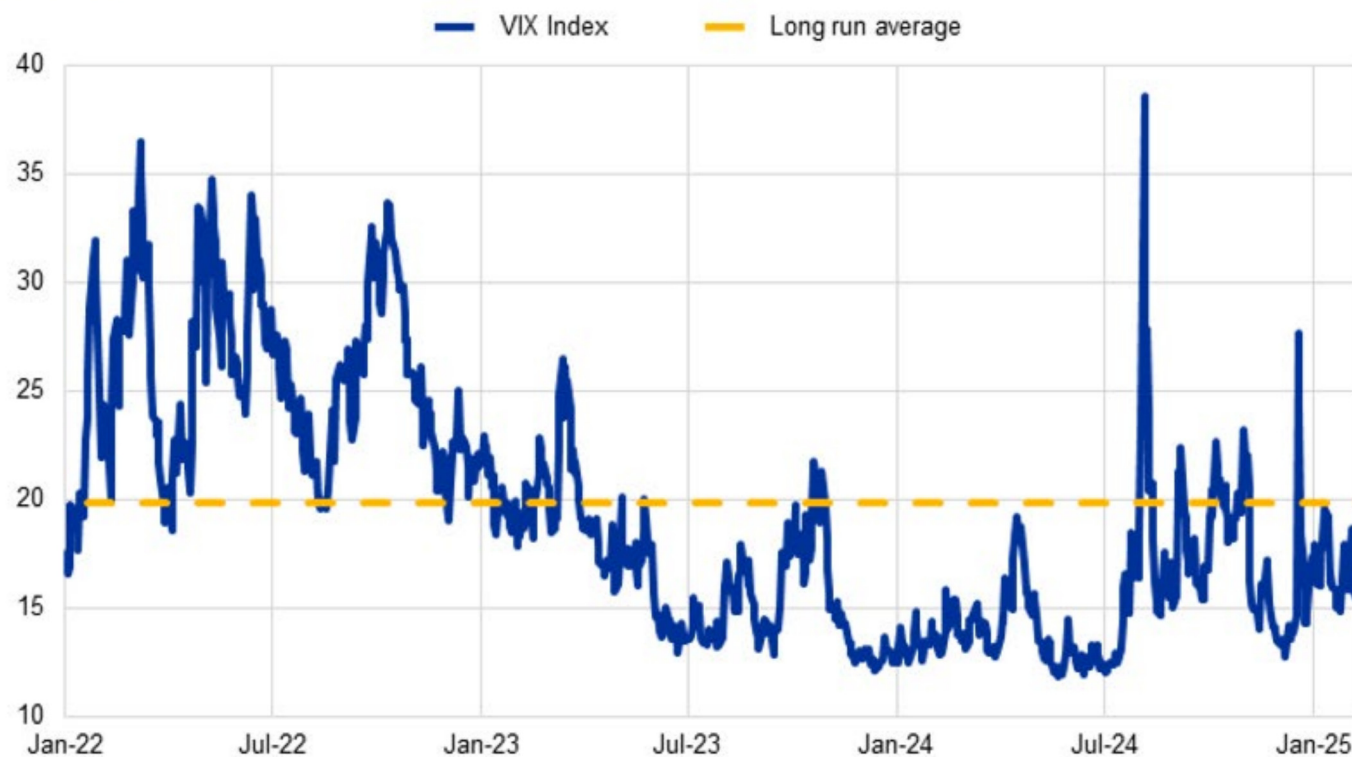
Sources: Eurostat and ECB staff calculations.

Note: The latest observations are for the third quarter of 2024.

Chart 13

VIX index

(percentages)



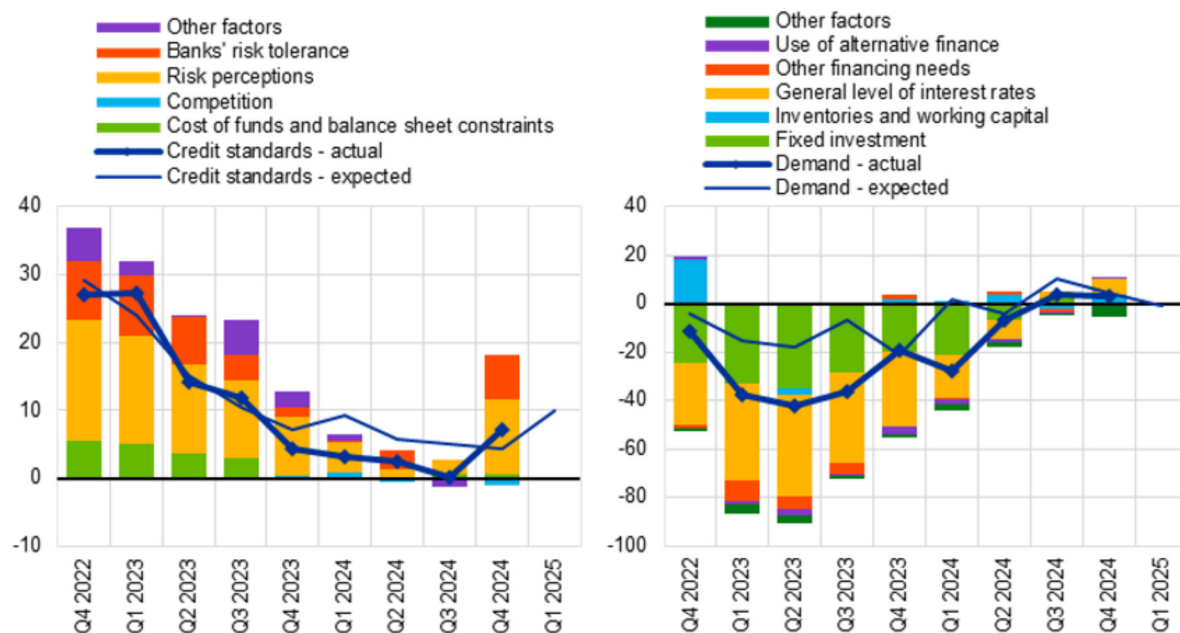
Source: ECB staff calculations.

Notes: Long run average calculated since January 2000. The latest observations are for 7 February 2025.

Chart 14

Credit standards, demand for loans to firms and contributing factors

(net percentages)



Source: ECB (bank lending survey).

Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages for the questions on credit standards for loans 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". Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding "decreased somewhat" and "decreased considerably". "Other financing needs" as unweighted average of "M&A and corporate restructuring" and "debt refinancing/restructuring and renegotiation"; "Use of alternative finance" as unweighted average of "internal financing", "loans from other banks", "loans from non-banks", "issuance/redemption of debt securities" and "issuance/redemption of equity". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in credit standards or changes in loan demand, respectively. The latest observations are for the fourth quarter of 2024 (January 2025 bank lending survey).

Thank you for your attention!