HIGH LEVEL PANEL: FUTURE OF EMU AND MONETARY POLICY

KEY CHALLENGES OF THE INSTITUTIONAL SETUP OF EMU. – KEY REFORMS NEEDED

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1. Future of EMU
2. Monetary policy issues
KEY SPECIFIC EURO AREA REFORMS NEEDED

Need to increase financial integration

- Reinforcing the Banking Union
- Reinforcing the Capital Markets Union

Need to achieve a more comprehensive fiscal stabilisation capacity

- Creating a centralised fiscal capacity
FINANCIAL INTEGRATION IN THE EURO AREA REMAINS LIMITED

INDICATORS OF FINANCIAL INTEGRATION IN THE EURO AREA

PRICE-BASED
QUANTITY BASED

SOURCE: ECB
PRIVATE RISK SHARING CHANNELS IN THE UEM REMAIN VERY MODERATE AND THE PUBLIC CHANNEL IS NON-EXISTENT

STRENGTH OF RISK SHARING CHANNELS. INTERNATIONAL COMPARISON

IN THE EURO AREA GOVERNMENTS, FIRMS AND HOUSEHOLDS ARE HIGHLY DEPENDENT ON DOMESTIC BANKS

SOURCE: ECB

EURO AREA. HOLDINGS OF SECURITIES BY MONETARY FINANCIAL INSTITUTIONS (% OF TOTAL)

EURO AREA. LOANS FROM MFIs TO NON-MFIs (% OF TOTAL)

SOURCE: ECB
CAPITAL MARKETS DEVELOPMENT IN THE EU IS LIMITED

TOTAL MARKET CAPITALISATION

% GDP

SOURCE: Federal Reserve Bank of St. Louis
MOVING TOWARDS A CAPITAL MARKETS UNION

- Harmonising legal framework (insolvency)
- Strengthening European regulators
- More consistent capital taxation

Truly pan-European capital markets
A CENTRAL FISCAL CAPACITY FOR THE EURO AREA COULD CONTRIBUTE TO SMOOTH AGGREGATE AND COUNTRY-SPECIFIC SHOCKS

SOURCE: Banco de España
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THERE HAS BEEN A NOTABLE DETERIORATION IN THE INFLATION OUTLOOK IN 2019

- Market-based medium-term inflation expectations are at historical minima

- Risks are tilted downwards reflecting persistent global geopolitical uncertainty

IN THE ABSENCE OF IMPROVEMENT IN THE PATH OF INFLATION, ADDITIONAL MONETARY STIMULUS MAY BE REQUIRED

• The ECB is willing to use all of its instruments to ensure that inflation continues to adjust towards its medium-term target in a sustained manner.

• One possibility would be to consider further reductions in the Discount Facility Rate (DFR).
  • If necessary,mitigating measures could be introduced to preserve the positive net effects of our negative interest rate policy.

• Another possibility is to engage in a new round of net purchases under the Asset Purchase Program (APP).

• We could also enhance our forward guidance.