

ANNUAL REPORT 2015

CHAPTER 3

THE EFFECT OF THE ECB'S MONETARY POLICIES IN THE RECENT PERIOD

THE NEW PHASE IN EUROPEAN CENTRAL BANK ACTIONS



Since 2014, the ECB has increased the expansionary stance of its monetary policy, combining conventional measures cutting its official interest rates and non-conventional measures expanding its balance sheet, given that the margin for manoeuvre of conventional measures is limited.

- I. Cuts in official interest rates to:
 - Marginal lending facility: 0.25%
 - Main refinancing operations: 0%
 - Deposit facility: -0.40%
- II. Long-term financing to the banking system (TLTRO and TLTRO II).
- III. Asset Purchase Programme: CBPP3, ABSPP, PSPP, CSPP.
- IV. Forward guidance.

EUROSYSTEM BALANCE SHEET



a For balance sheet extrapolation procedure, see footnote to Chart 3.1.2.

THE NEW PHASE IN EUROPEAN CENTRAL BANK ACTIONS



In 2015, the extension of the Asset Purchase Programme to include purchases of public securities on secondary markets marked a qualitative leap in the ECB's actions ...

	CBPP3	ABSPP	PSPP	CSPP
	Covered bond purchase programme	Asset-backed securities purchase programme	Public sector purchase programme	Corporate sector purchase programme
	Private debt	Private debt	Public debt	Private debt
Type of security	Covered bonds	Simple transparent securitisations whose underlying assets are loans to the non-financial private sector	Bonds issued by central government and by supranational agencies and institutions in the euro area. Programme extended in December 2015 to regional and local government issues in the euro area	Non-bank corporate bonds
Market	Primary/secondary		Secondary	Primary/secondary
Announcement/start	September/October 2014	September/December 2014	January/March 2015	March/June 2016
Running to	March 2017 at least (extended in December 2015 relative to the initial date of September 2016)			
Volume of purchases	€60 bn monthly from March 2015 to March 2016, €80 bn from April 2016			
Reinvestment policy	Redeemed amounts are re-invested for as long as is necessary			

THE NEW PHASE IN EUROPEAN CENTRAL BANK ACTIONS

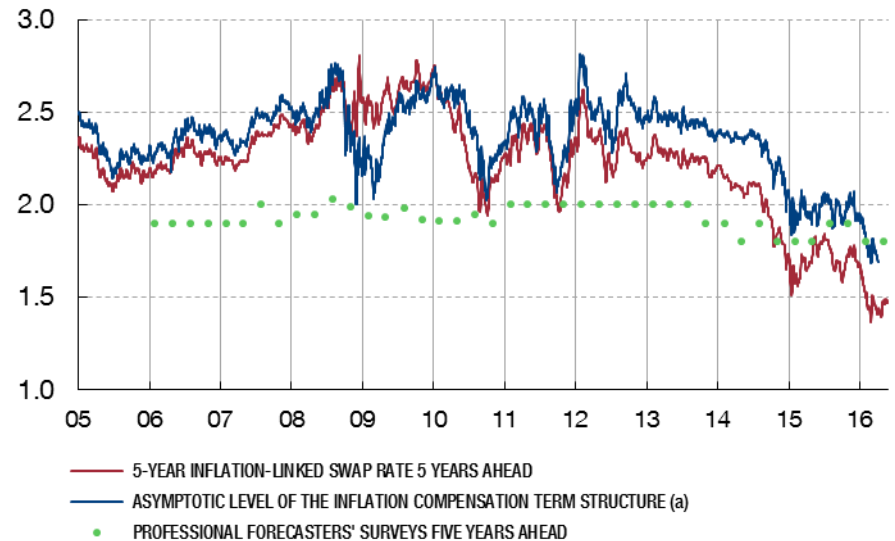


... responding to an inflation scenario far removed from the 2% reference, with growing signs of de-anchoring of medium-term expectations ...

HARMONISED INDICES OF CONSUMER PRICES (HICP)
Year-on-year rate of change



MEDIUM- AND LONG-TERM INFLATION EXPECTATIONS



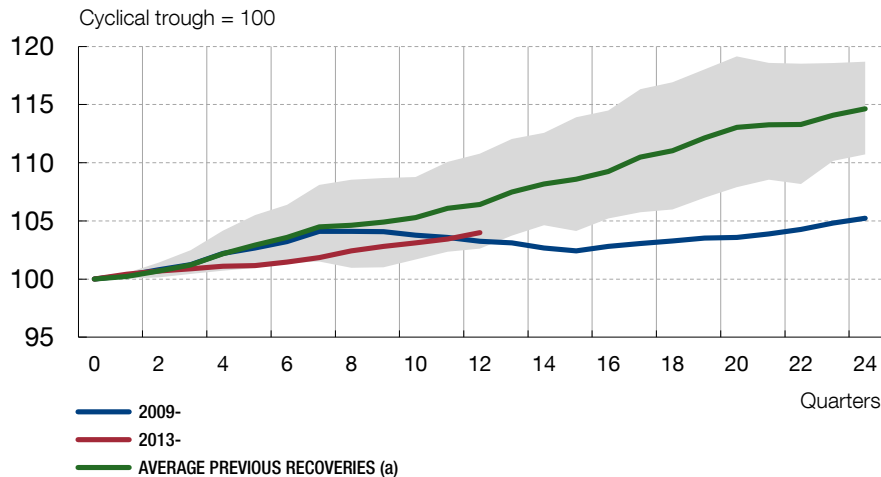
a Estimate by R. Gimeno and E. Ortega (2016), *The Evolution of Inflation Expectations in Euro Area Markets*, Working Paper, Banco de España, forthcoming.

THE NEW PHASE IN EUROPEAN CENTRAL BANK ACTIONS



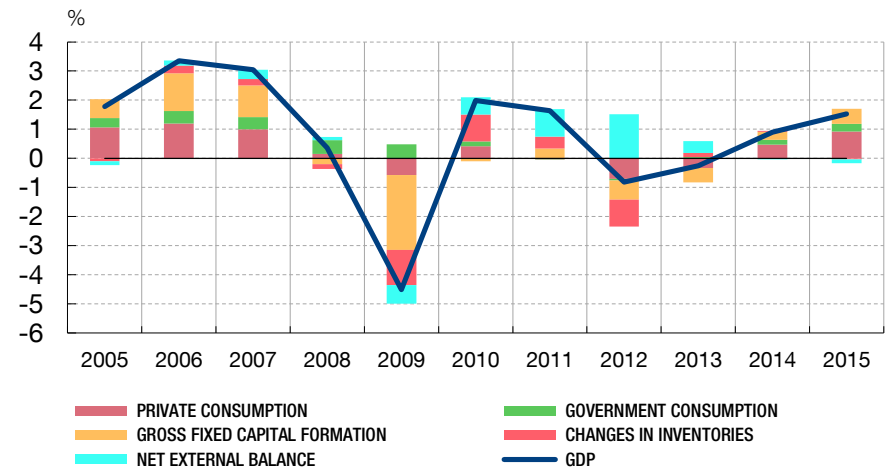
... and to a setting of weak recovery, in which the contribution of the external sector was slowing and the weight of domestic demand was increasing.

REAL GDP. DEVELOPMENTS RECENTLY AND IN PREVIOUS RECOVERIES



a Average for recoveries initiated in 1975, 1980 and 1993. The shaded area denotes the GDP low and high attained in these recoveries.

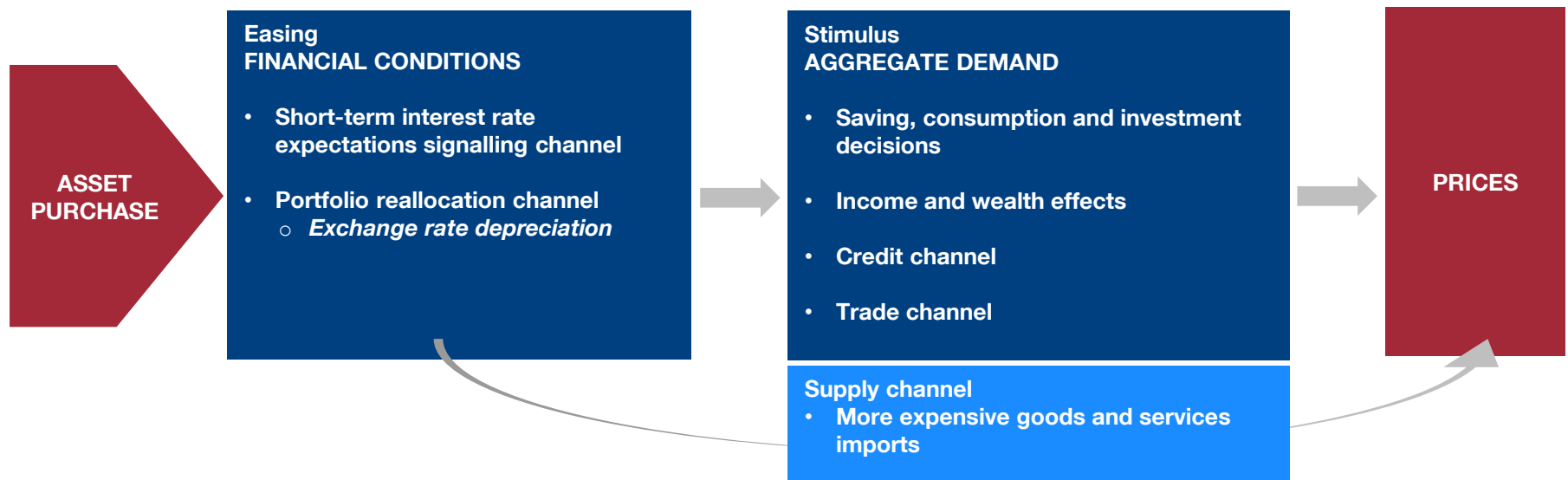
GDP AND CONTRIBUTION OF ITS COMPONENTS Year-on-year growth



THE IMPULSE THROUGH THE ASSET PURCHASE PROGRAMMES

With only limited room for the downward course of short-term nominal interest rates, the asset purchase programmes influence long-term rates.

The reduction in the deposit facility rate to negative levels has served to amplify the effects.

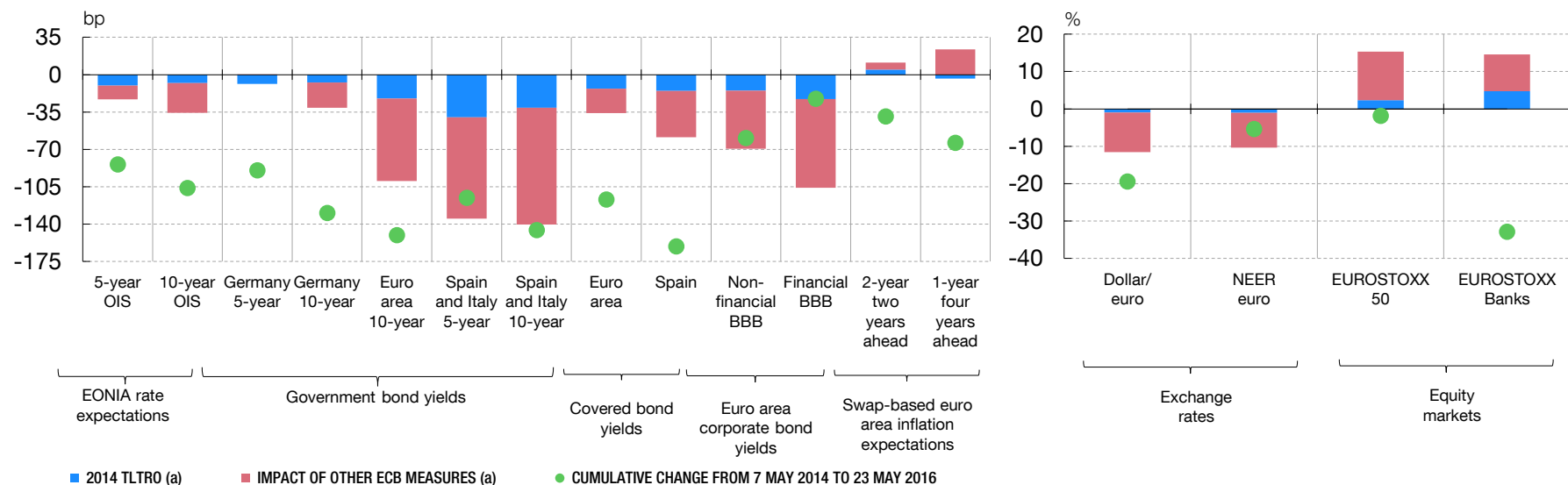


EFFECTS ON FINANCIAL CONDITIONS IN THE EURO AREA AND IN SPAIN



Analysis of the response of asset prices to the announced ECB measures indicates that monetary policy has contributed appreciably to easing financial conditions since May 2014 ...

CHANGES IN SELECTED FINANCIAL VARIABLES SINCE MAY 2014 AND CONTRIBUTION OF MONETARY POLICY DECISIONS



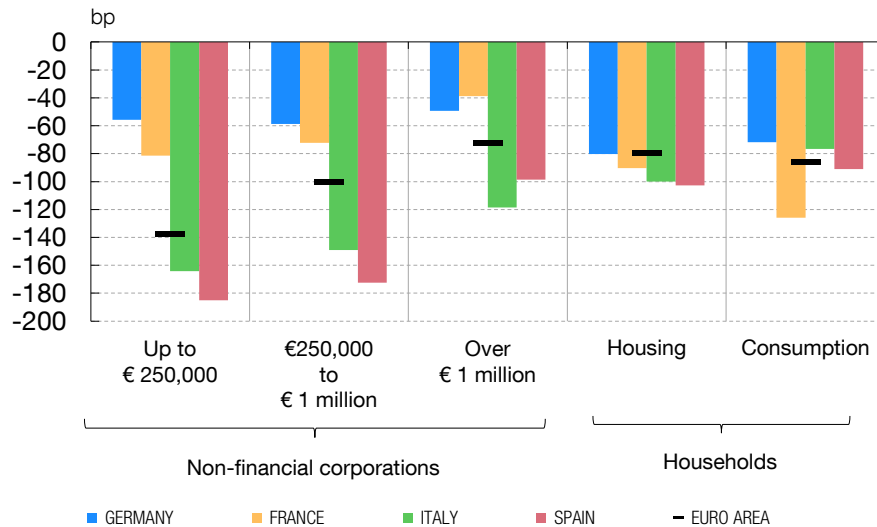
a Event study considering the change in prices with a two-day window around a selection of dates related to the adoption of monetary policy measures. See footnote to Chart 3.4.

EFFECTS ON FINANCIAL CONDITIONS IN THE EURO AREA AND IN SPAIN

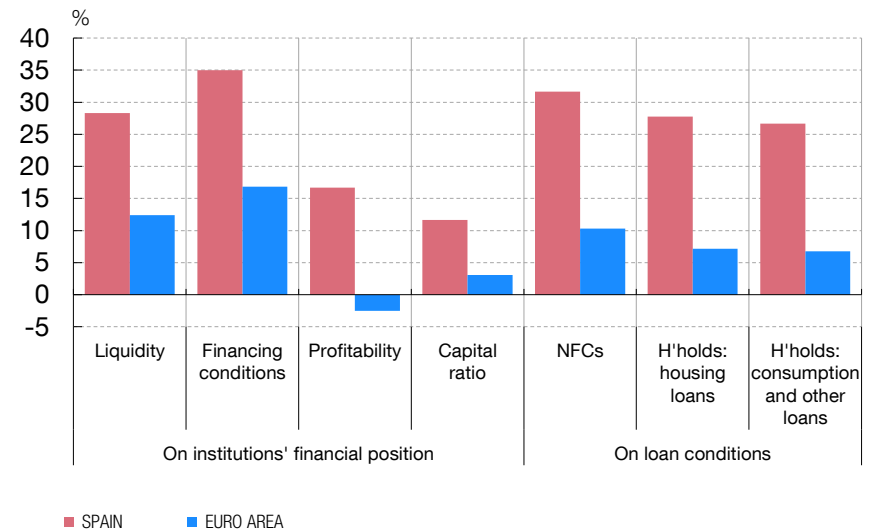


... which has also had a bearing on the improved conditions of access to and cost of bank loans.

CHANGE IN INTEREST RATES ON BANK LOANS (MAY 2014 TO MARCH 2016)



IMPACT OF THE EUROSISTEM'S ASSET PURCHASE PROGRAMME (a) (b)



a Indicator: percentage of institutions indicating that the Eurosystem's TLTROs or asset purchase programme have contributed or will contribute considerable to improving financial position or to easing loan conditions \times 1 + percentage of institutions indicating that it has contributed or will contribute to some extent \times 1/2.
b Calculated on the basis of the average responses to an ad hoc question in the Bank Lending Survey of April 2015, October 2015 and April 2016.

MACROECONOMIC EFFECTS IN THE EURO AREA



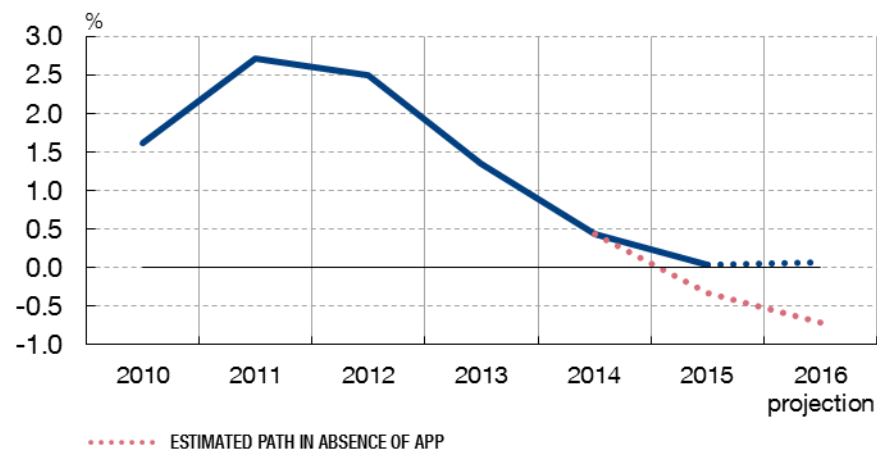
Estimates suggest that the expansion of the ECB balance sheet has had positive effects on euro area-wide activity and prices, possibly somewhat unevenly across the different countries.

IMPACT OF THE ASSET PURCHASE PROGRAMME (APP) ON EURO AREA GDP AND INFLATION (a)

GDP Y-O-Y GROWTH



INFLATION



a Estimation based on Burriel and Galesi (2016), "Unconventional monetary policies in the euro area: a global VAR analysis", mimeo. See footnote to Chart 3.6.

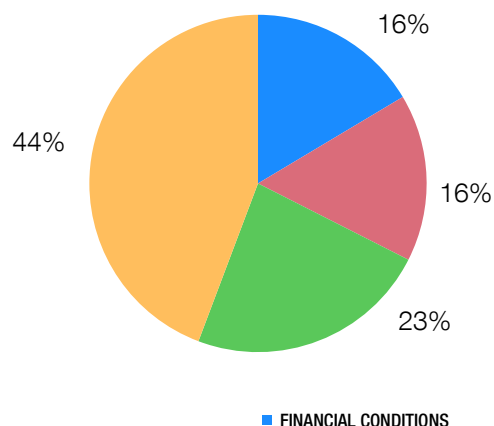
MACROECONOMIC EFFECTS IN SPAIN



For the Spanish economy, the contribution of monetary policy to GDP is estimated to be 1.2 pp in 2015-2016, and of 0.9 pp in respect of prices. The trade channel and the exchange rate play a key role.

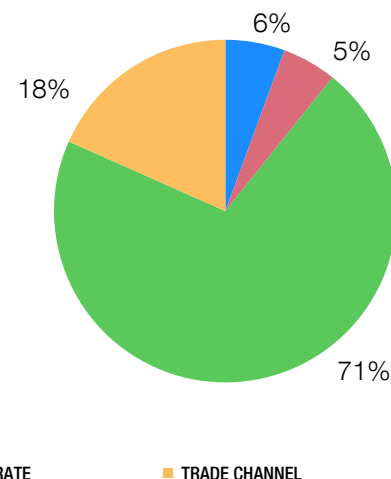
EFFECT ON THE CUMULATIVE CHANGE IN GDP IN 2015-2016

% of total



EFFECT ON THE CUMULATIVE CHANGE IN THE HICP IN 2015-2016

% of total



CONCLUSIONS AND CHALLENGES



In compliance with its mandate to preserve price stability in the euro area, the ECB Governing Council has, since mid-2014, adopted a broad range of conventional and non-conventional measures.

Its measures have proven effective as regards providing the necessary monetary stimulus and it has shown that, despite the institutional particularities of the euro area, it has a toolset on a par with that of other central banks.

Nonetheless, the euro area economy remains immersed in a very moderate recovery, with inflation levels still far off the medium-term objective.

Ensuring the return of inflation to figures close to the 2% reference is the main monetary policy challenge.

The complexity of the macroeconomic setting will nevertheless call for other economic policies to contribute in the structural, fiscal and macroprudential areas and in terms of strengthening the institutional framework of the euro area.