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.

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EUROSYSTEM BALANCE SHEET

- 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 ...

<table>
<thead>
<tr>
<th>Type of security</th>
<th>CBPP3</th>
<th>ABSPP</th>
<th>PSPP</th>
<th>CSPP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Covered bond purchase programme</td>
<td>Asset-backed securities purchase programme</td>
<td>Public sector purchase programme</td>
<td>Corporate sector purchase programme</td>
</tr>
<tr>
<td>Private debt</td>
<td>Covered bonds</td>
<td>Simple transparent securitisations whose underlying assets are loans to the non-financial private sector</td>
<td>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</td>
<td>Non-bank corporate bonds</td>
</tr>
<tr>
<td>Covered bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market</th>
<th>CBPP3</th>
<th>ABSPP</th>
<th>PSPP</th>
<th>CSPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Running to</td>
<td>March 2017 at least (extended in December 2015 relative to the initial date of September 2016)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume of purchases</td>
<td>€60 bn monthly from March 2015 to March 2016, €80 bn from April 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinvestment policy</td>
<td>Redeemed amounts are re-invested for as long as is necessary</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

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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

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

Quarters

2009-
2013-
AVERAGE PREVIOUS RECOVERIES (a)

Cyclical trough = 100


PRIVATE CONSUMPTION
GROSS FIXED CAPITAL FORMATION
CHANGES IN INVENTORIES
NET EXTERNAL BALANCE

GOVERNMENT CONSUMPTION

0 2 4 6 8 10 12 14 16 18 20 22 24

% -6 -4 -2 0 2 4

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

- 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 EUROSYSTEM'S ASSET PURCHASE PROGRAMME (a) (b)

- 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 × 1 + percentage of institutions indicating that it has contributed or will contribute to some extent × 1/2.
- 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.
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)

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**GDP Y-O-Y GROWTH**

- 2010: 2.5%
- 2011: 0.5%
- 2012: 1.0%
- 2013: 1.5%
- 2014: 2.0%
- 2015: 1.5%
- 2016: 1.0%

**INFLATION**

- 2010: 3.0%
- 2011: 2.5%
- 2012: 2.0%
- 2013: 1.5%
- 2014: 0.5%
- 2015: 0.0%
- 2016: -0.5%

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