THE ECB'S MONETARY POLICY NORMALISATION*

* English translation from the original in Spanish.

ASOCIACIÓN DE MERCADOS FINANCIEROS CONFERENCE

16 DECEMBER 2024

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THE THREE STAGES OF THE RECENT MONETARY POLICY CYCLE

TIGHTENING

December 2021 - September 2023

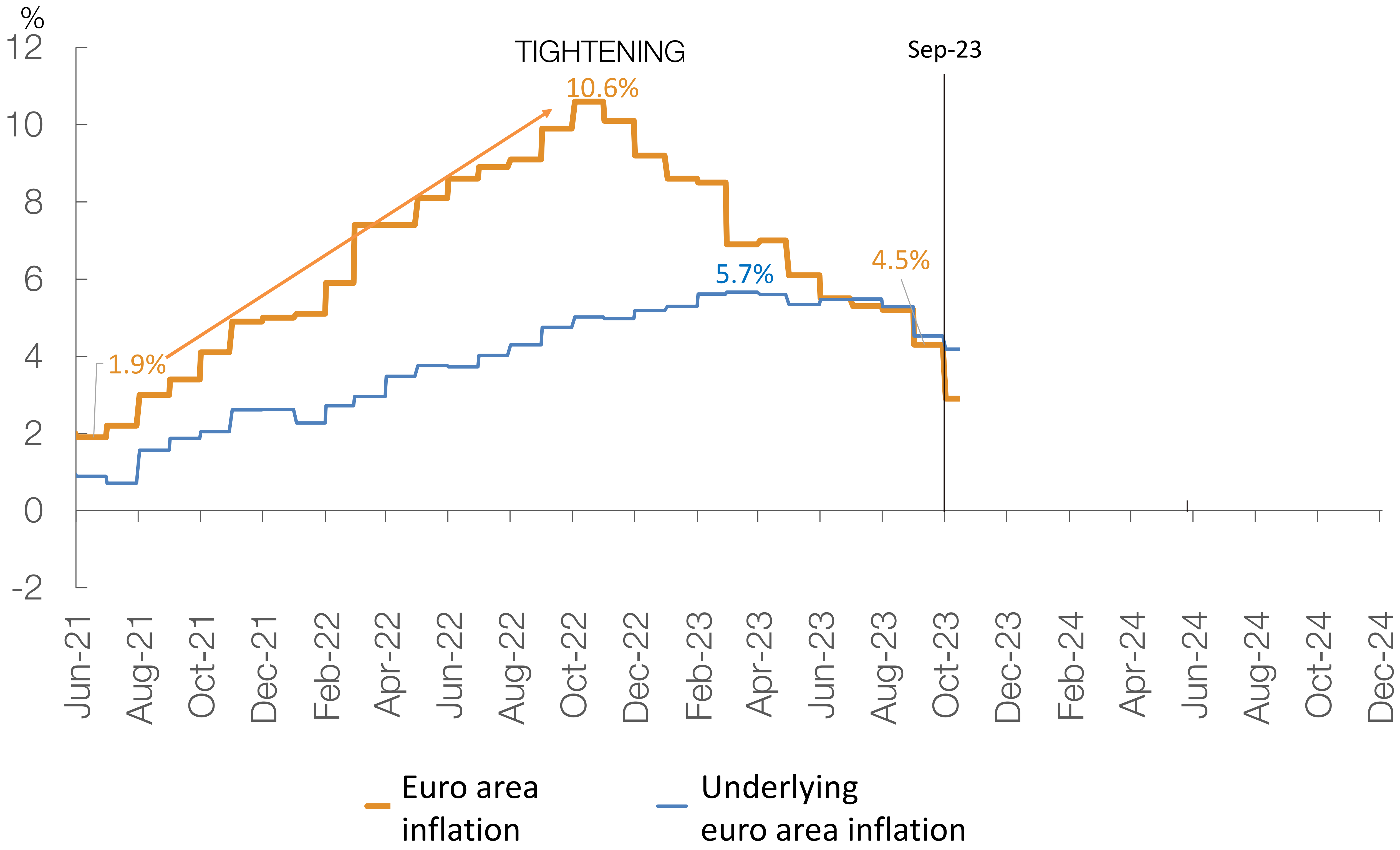
HOLDING

October 2023 - April 2024

NORMALISATION

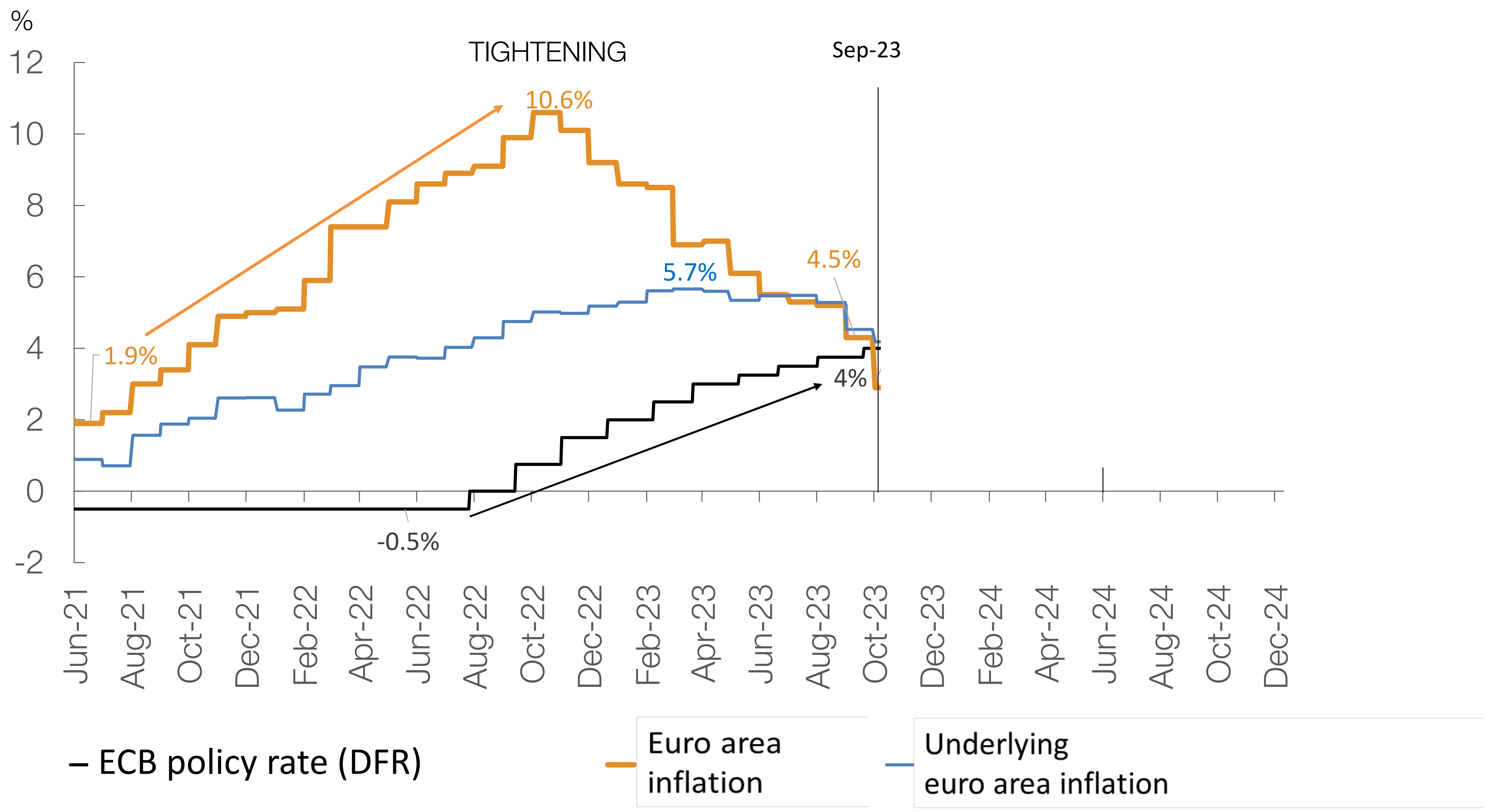
Since June 2024

MONETARY POLICY TIGHTENING WITH HIGH INFLATION



Source: Refinitiv Datastream. Latest observation: November 2024 for euro area inflation (measured using the harmonised index of consumer prices (HICP)) and 12 December 2024 for the deposit facility rate (DFR). NOTES: The HICP data for November 2024 are the Eurostat's flash estimate. The latest ECB policy rate change decided by the Governing Council on 12 December will have effect from 18 December.

MONETARY POLICY TIGHTENING WITH HIGH INFLATION



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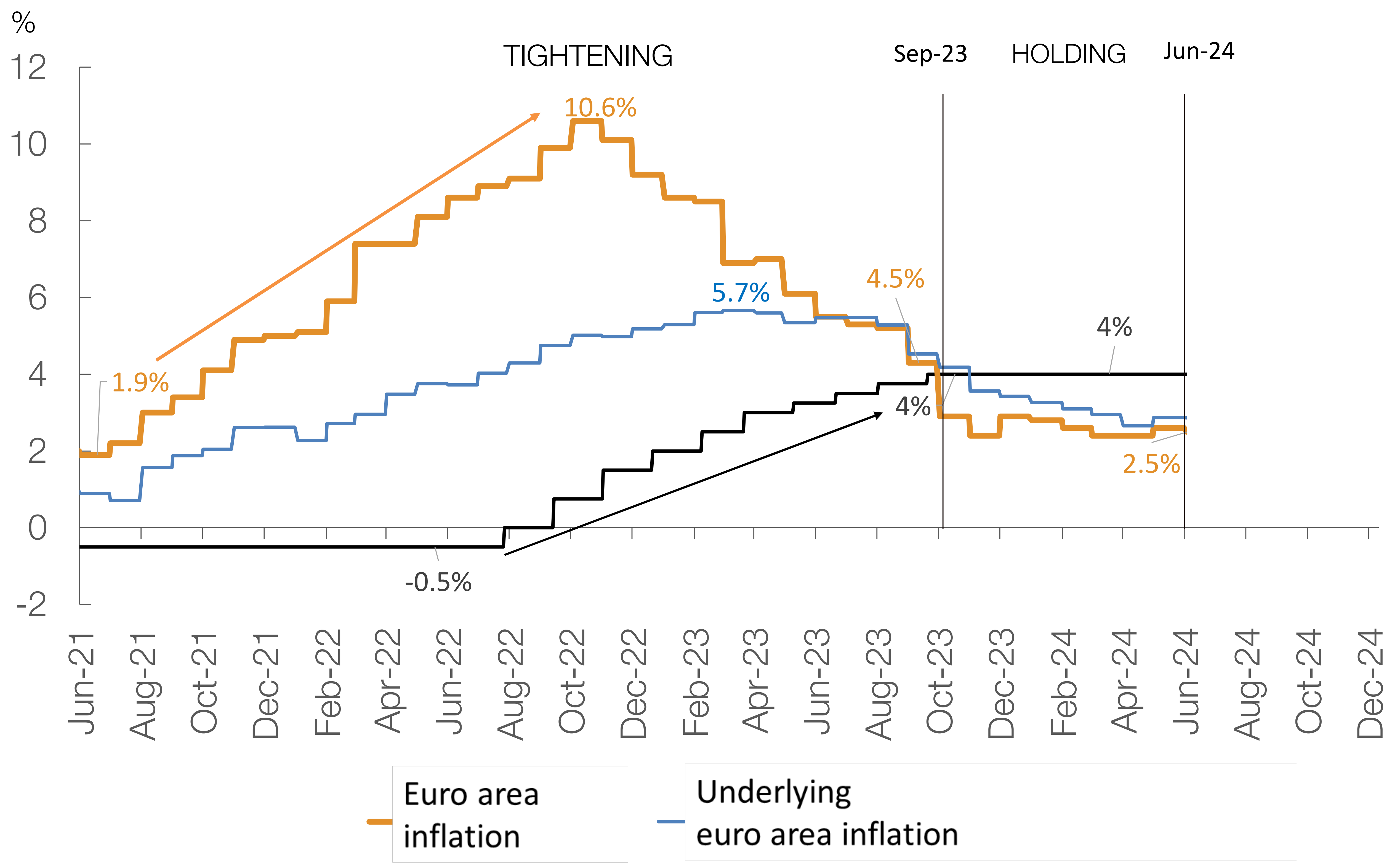
MONETARY POLICY HOLDING AS INFLATION DECLINED



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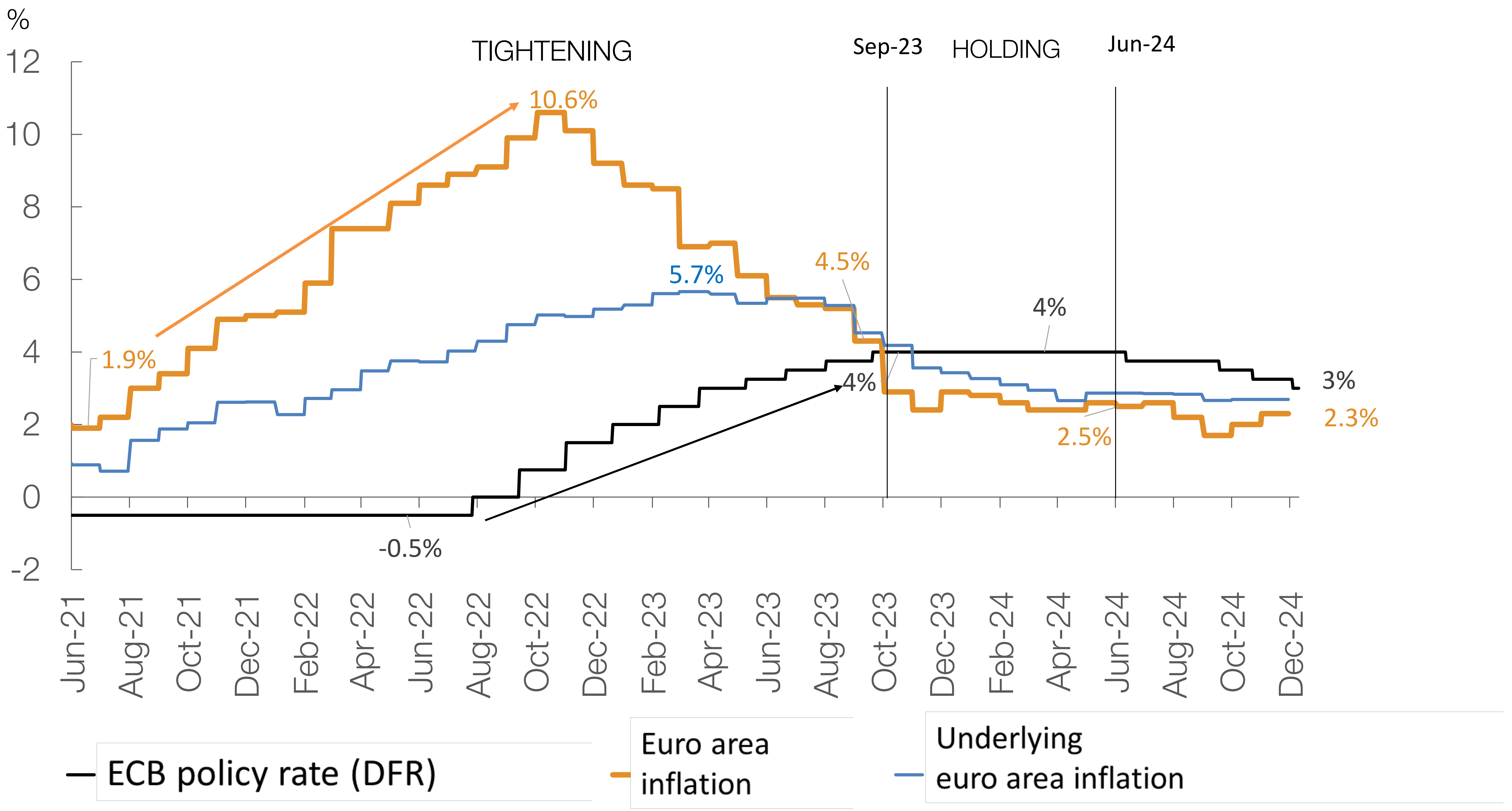
GRADUAL EASING OF MONETARY POLICY STANCE



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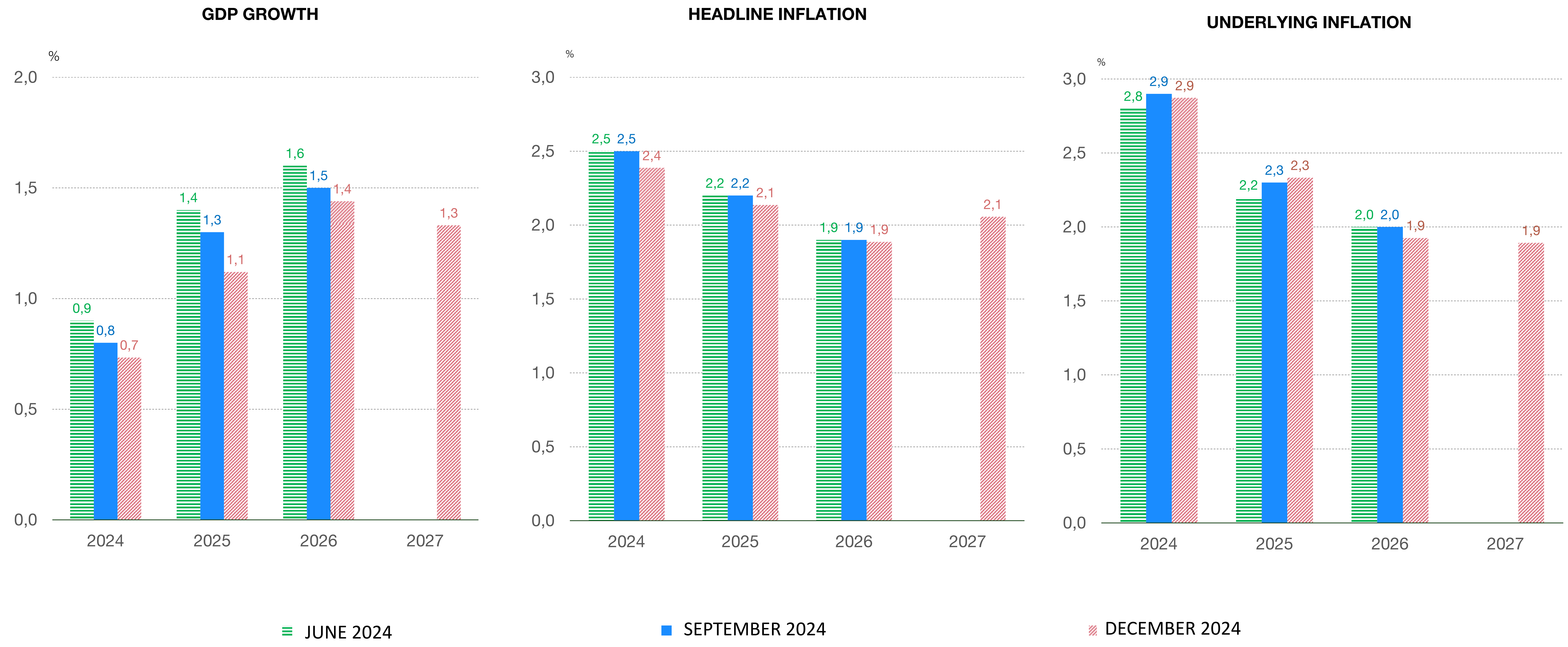
AT THE DECEMBER MEETING WE REDUCED RATES AGAIN

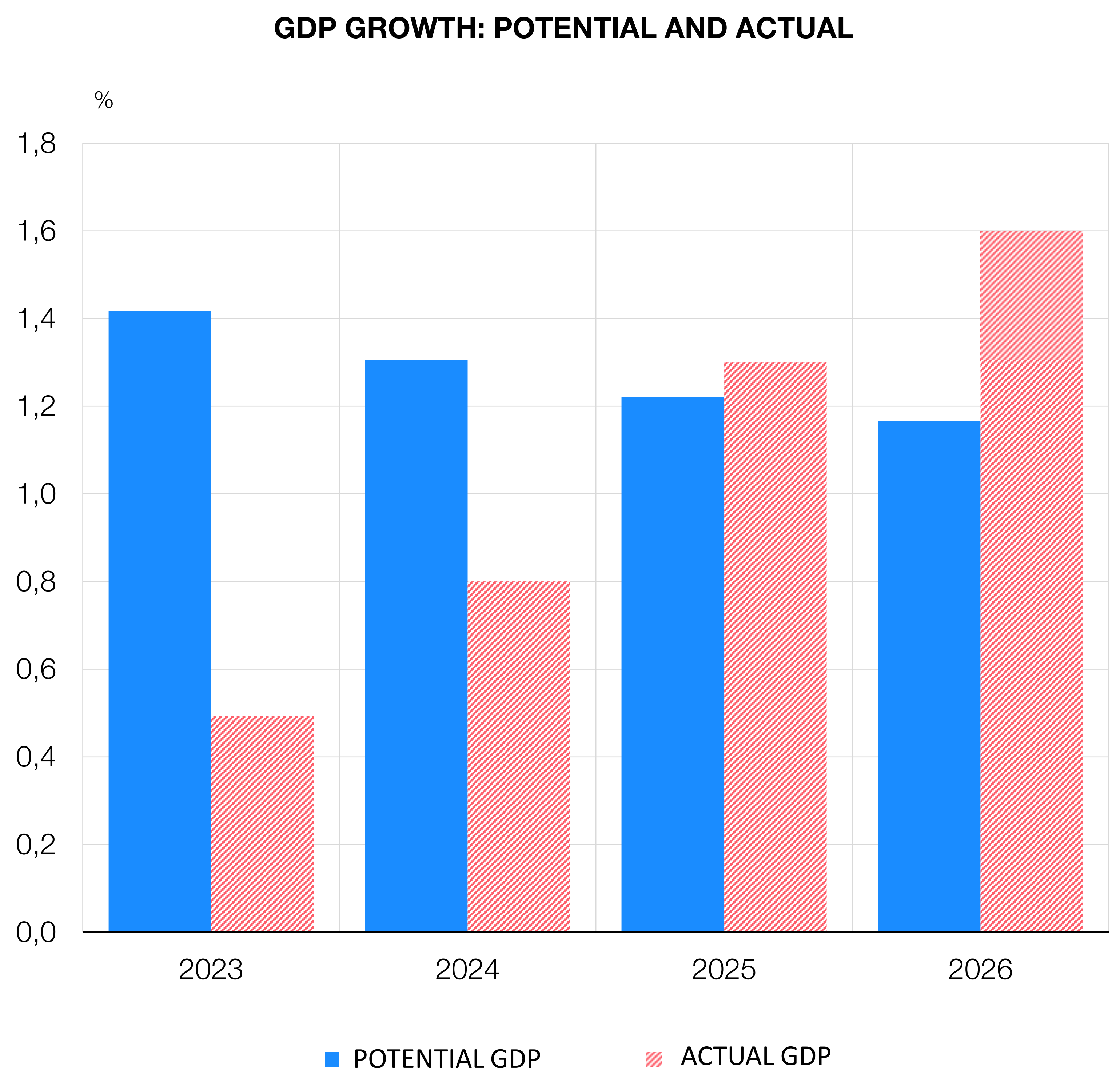
- Why are we cutting rates gradually? (four 25 bp rate cuts)
- Why are interest rate decisions data dependent?
- Why do we no longer say we will keep rates sufficiently restrictive?
- Why are the risks to growth tilted slightly to the downside?
- Why, in my opinion, are the risks to the baseline inflation scenario tilted slightly to the upside?

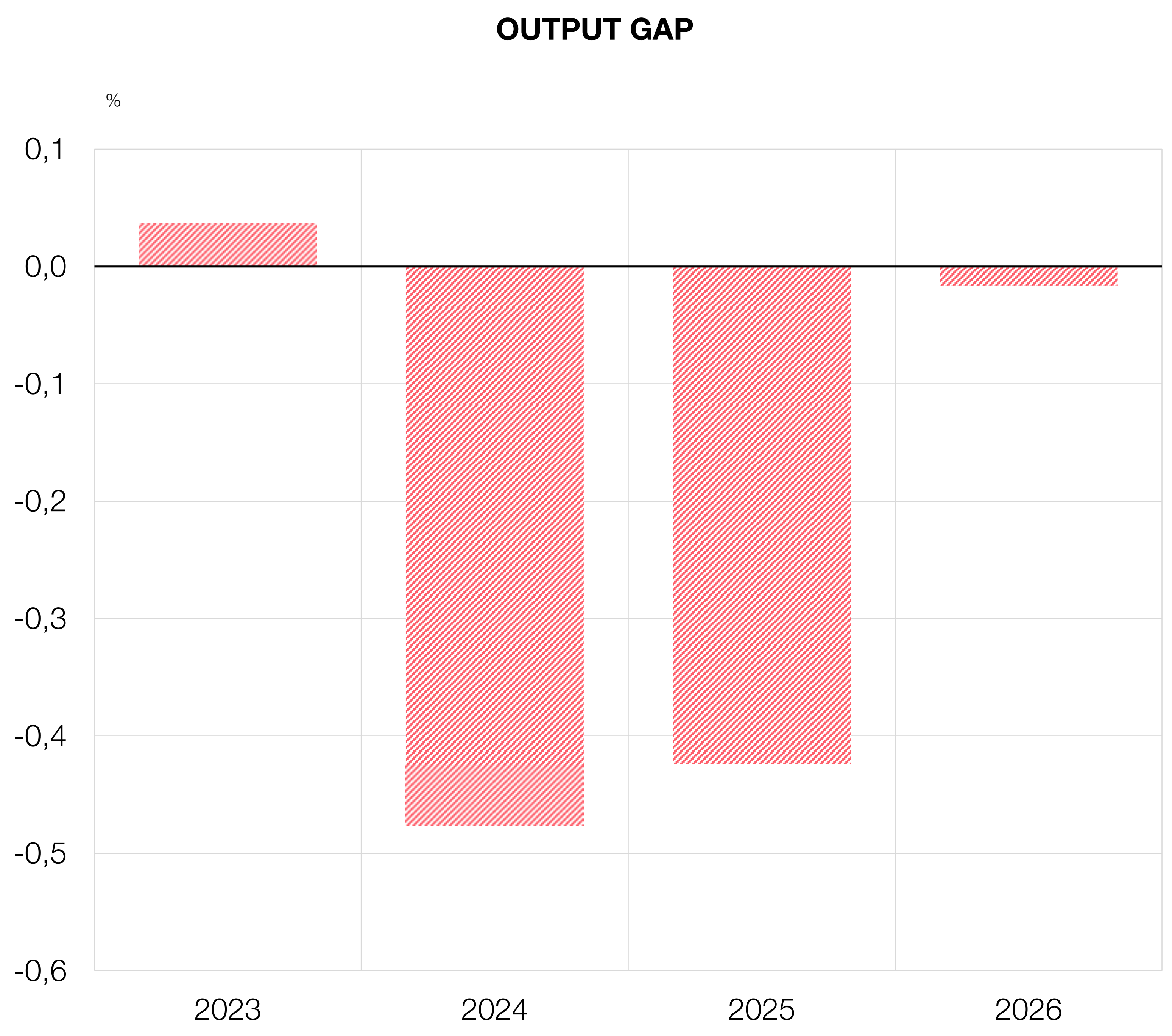
THE INFLATION FORECASTS HAVE BARELY CHANGED IN THE LAST PROJECTION EXERCISES AND POINT TO A VERY GRADUAL DECLINE



Source: Eurosystem projections.

GROWTH IS LIMITED BECAUSE GROWTH POTENTIAL IS LIMITED

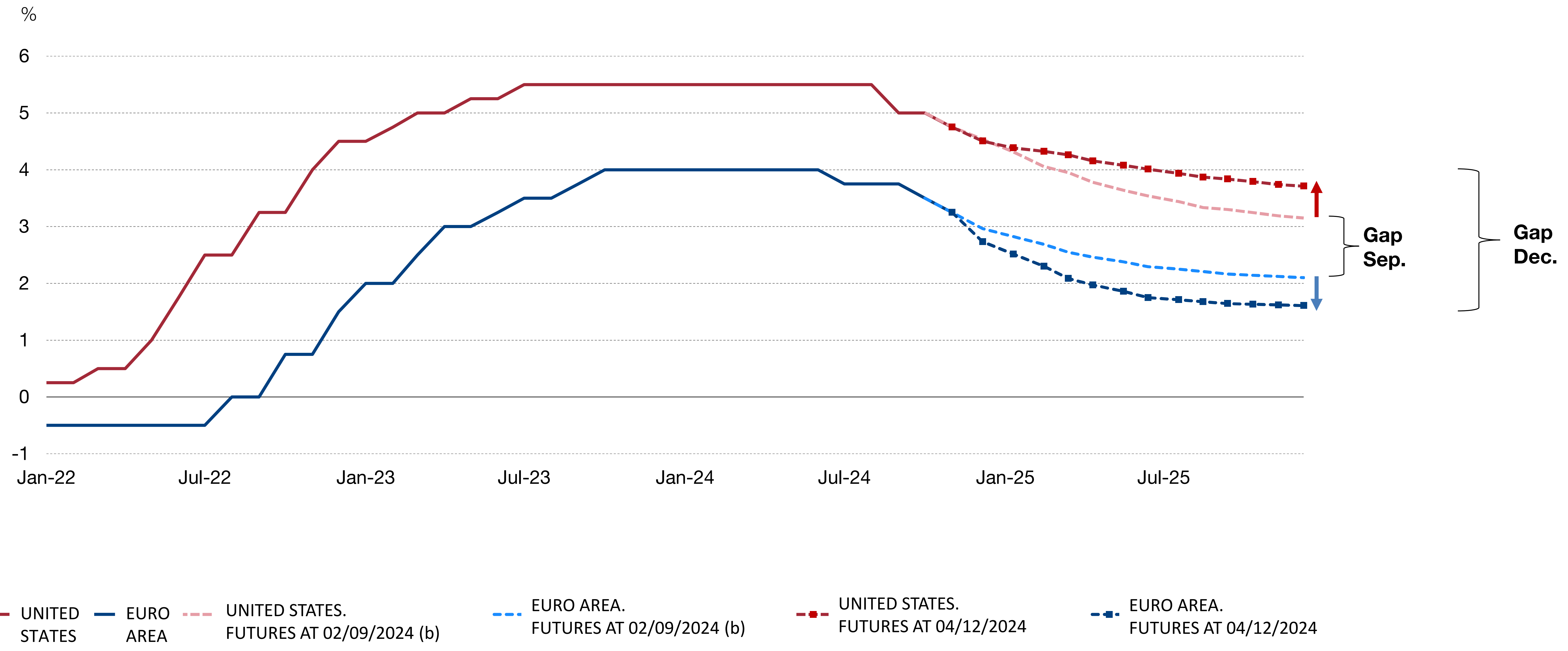




Source: European Commission.

THE DIVERGENCE BETWEEN INTEREST RATE EXPECTATIONS FOR THE EURO AREA AND FOR THE UNITED STATES IS WIDENING

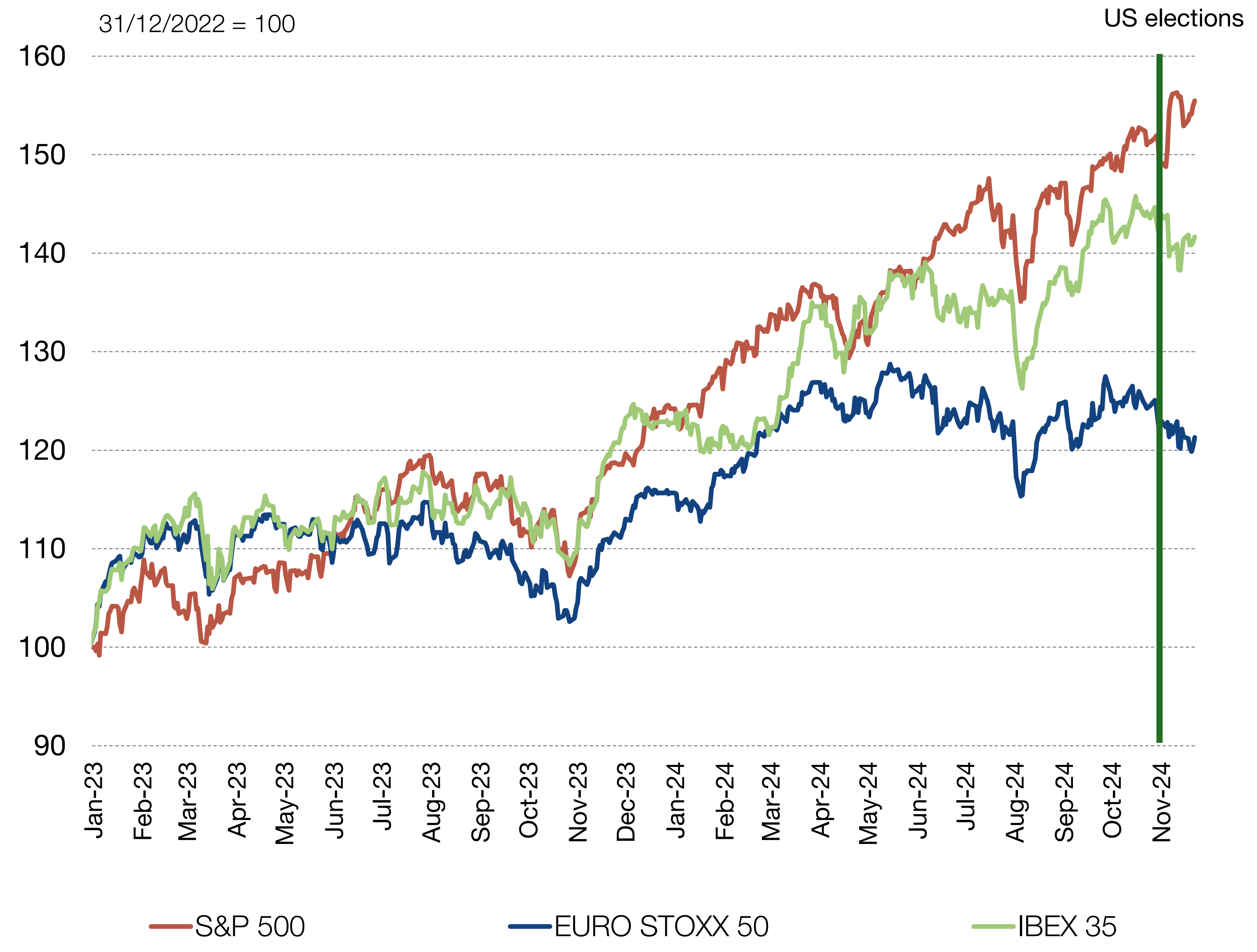
POLICY INTEREST RATES: ACTUAL AND FUTURE (a)



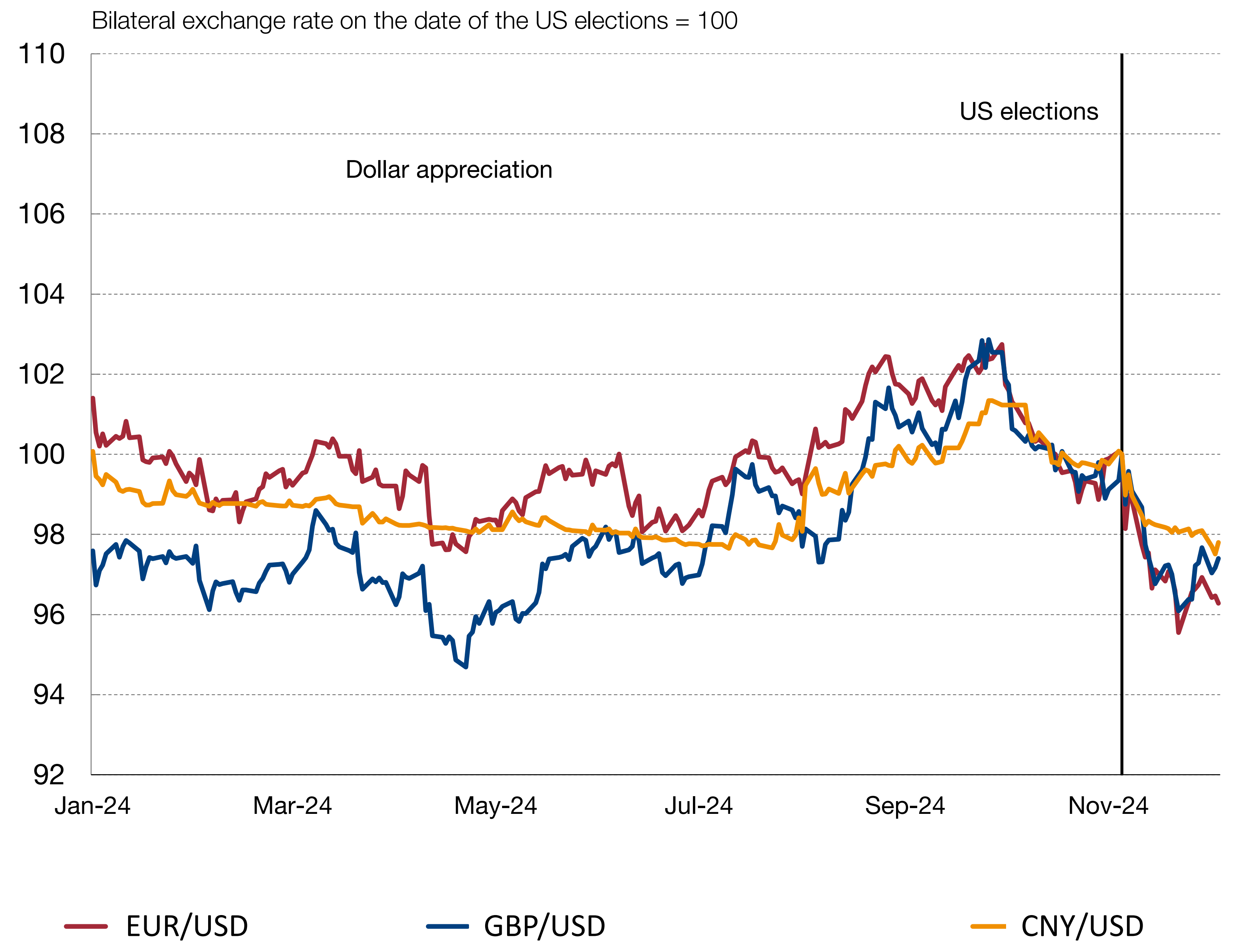
Sources: Refinitiv and Banco de España.
(a) Interest rates priced in by the respective futures markets (30 day Federal Funds futures and euro area overnight index swap futures).
(b) 2 September is the cut-off date for the Banco de España's September 2024 projection exercise.

THIS DIVERGENCE IS ALSO EVIDENT IN STOCK MARKETS AND EXCHANGE RATES

STOCK MARKET INDICES

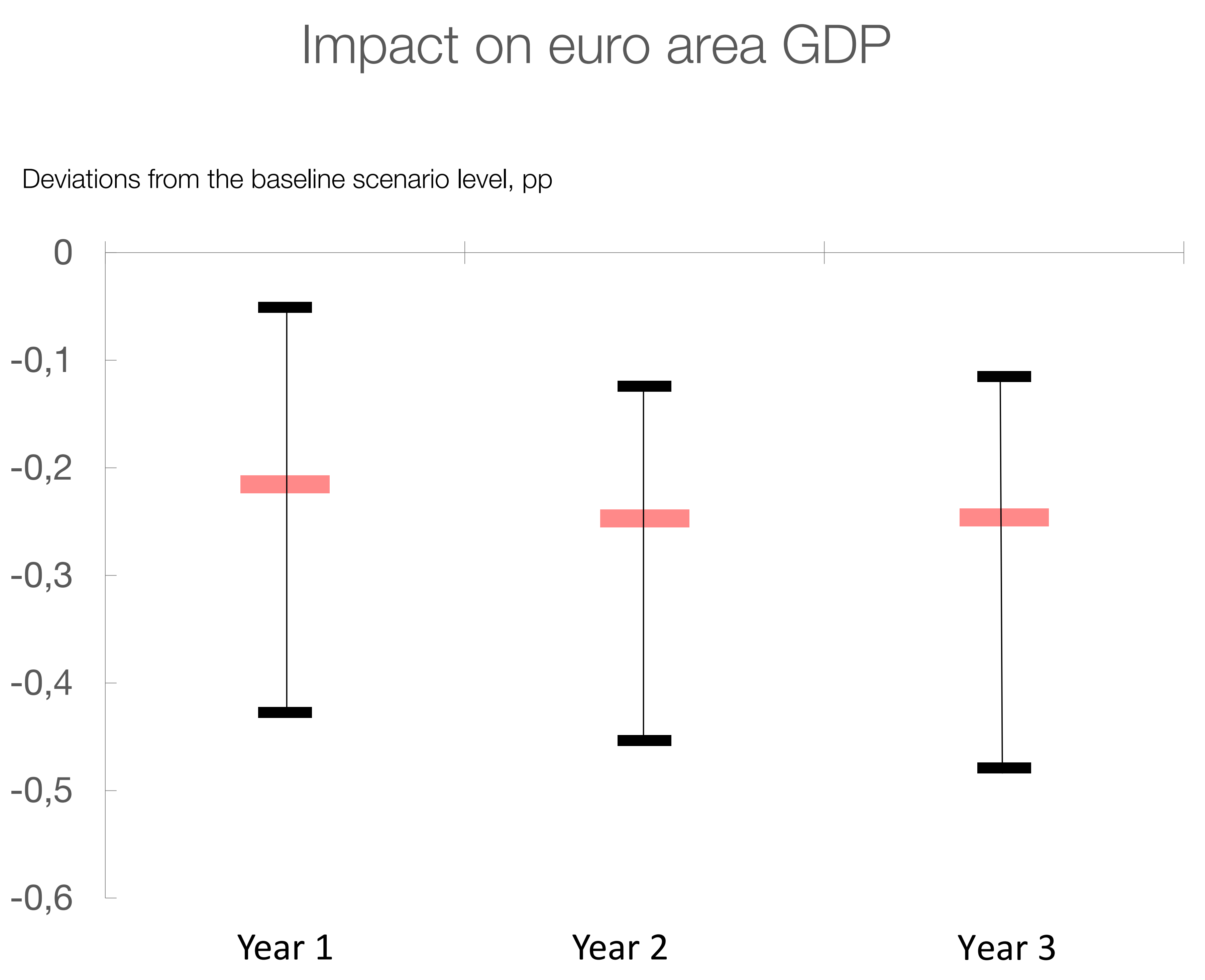


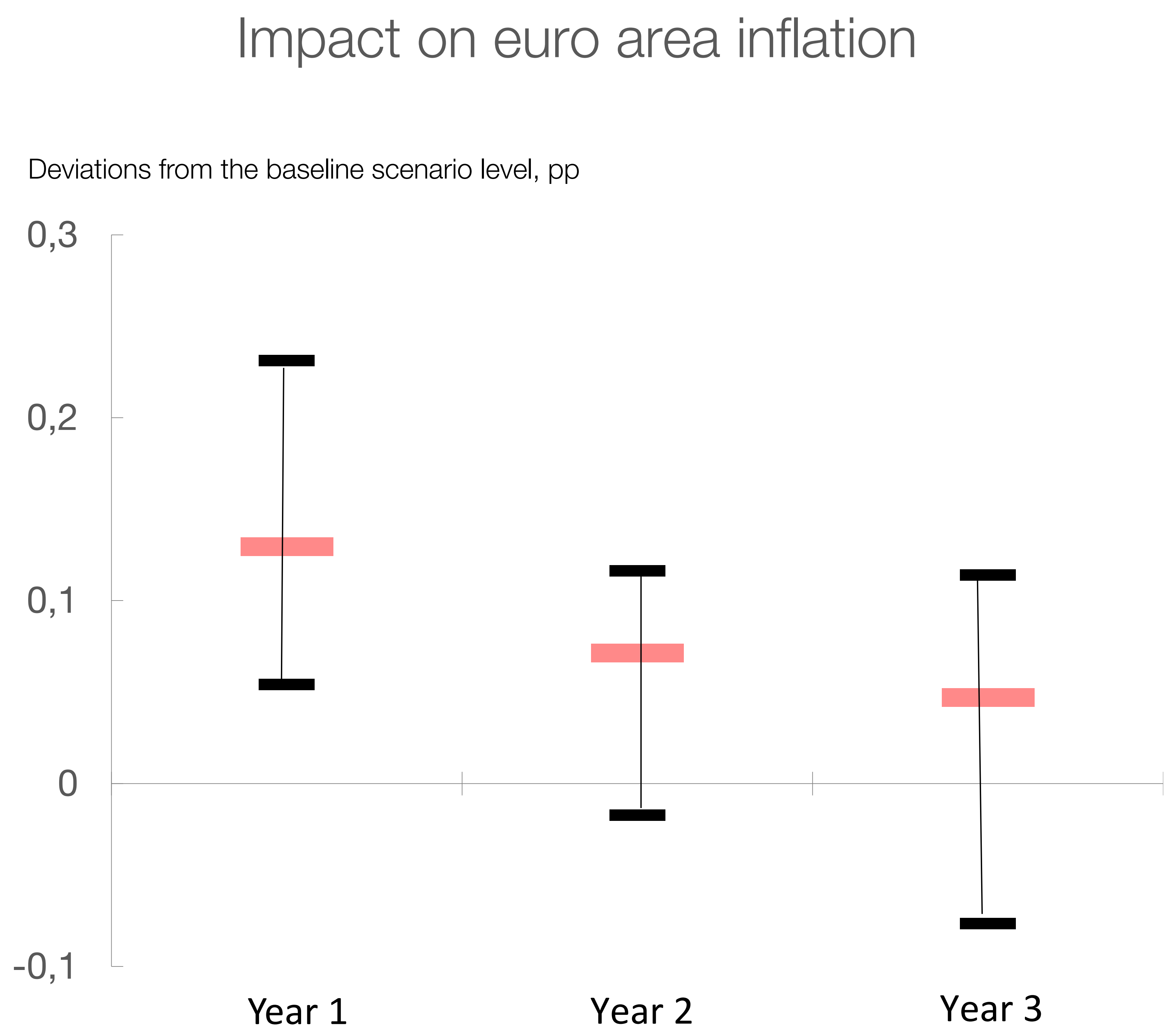
BILATERAL DOLLAR EXCHANGE RATE



Sources: Refinitiv and Banco de España.

RISK SCENARIO: US TARIFFS (AND THE RESPONSE FROM IMPACTED COUNTRIES) WOULD REDUCE GDP AND SOMEWHAT INCREASE INFLATION



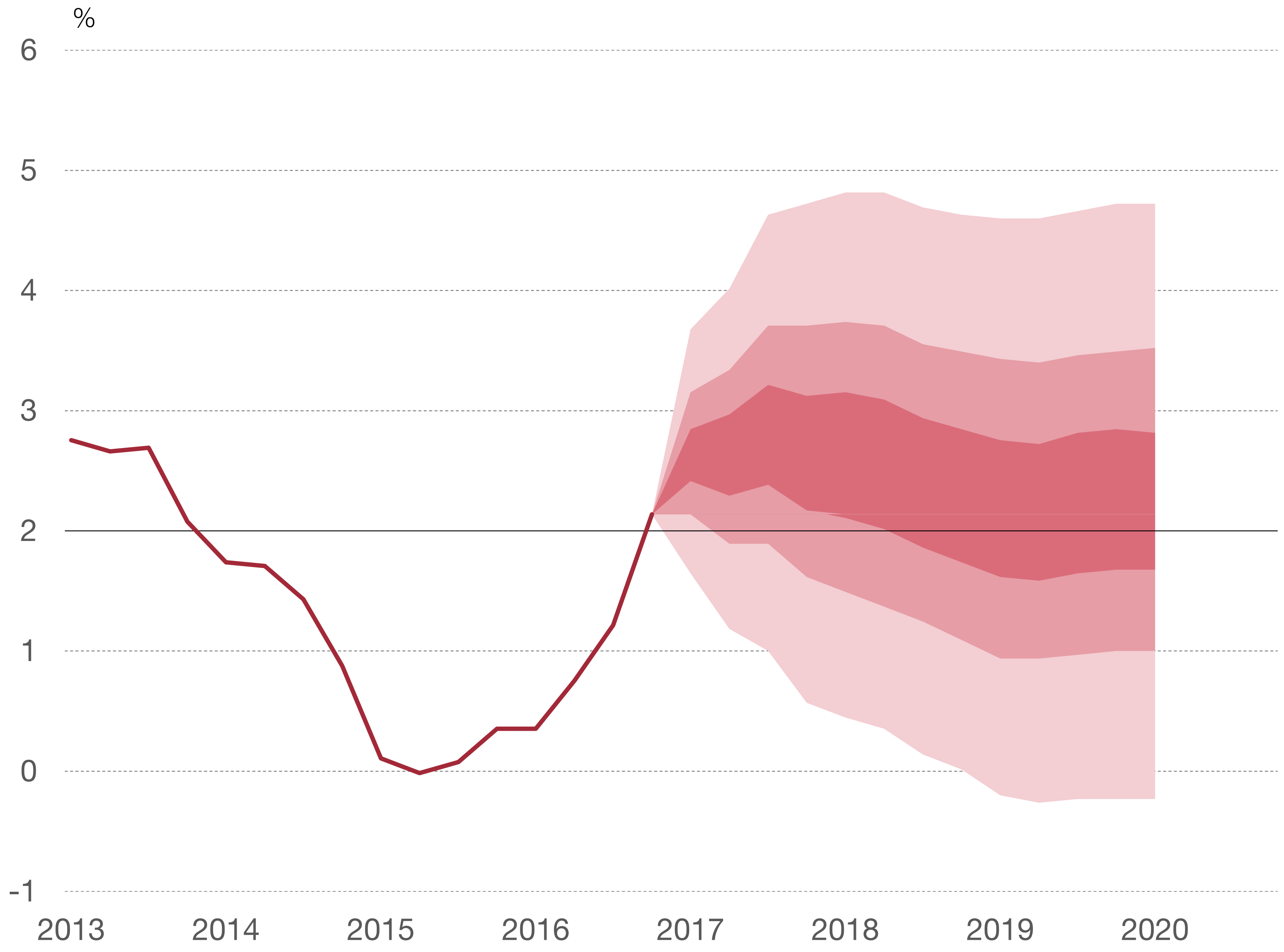


Note: Scenarios developed by the Banco de España, simulating the impact of an increase in US tariffs of 10 pp on all imports and of 60 pp on those from China, with a symmetrical response from the affected countries, based on the NiGEM, ONKIO and Quintana (2025) models.

How do central banks manage uncertainty?

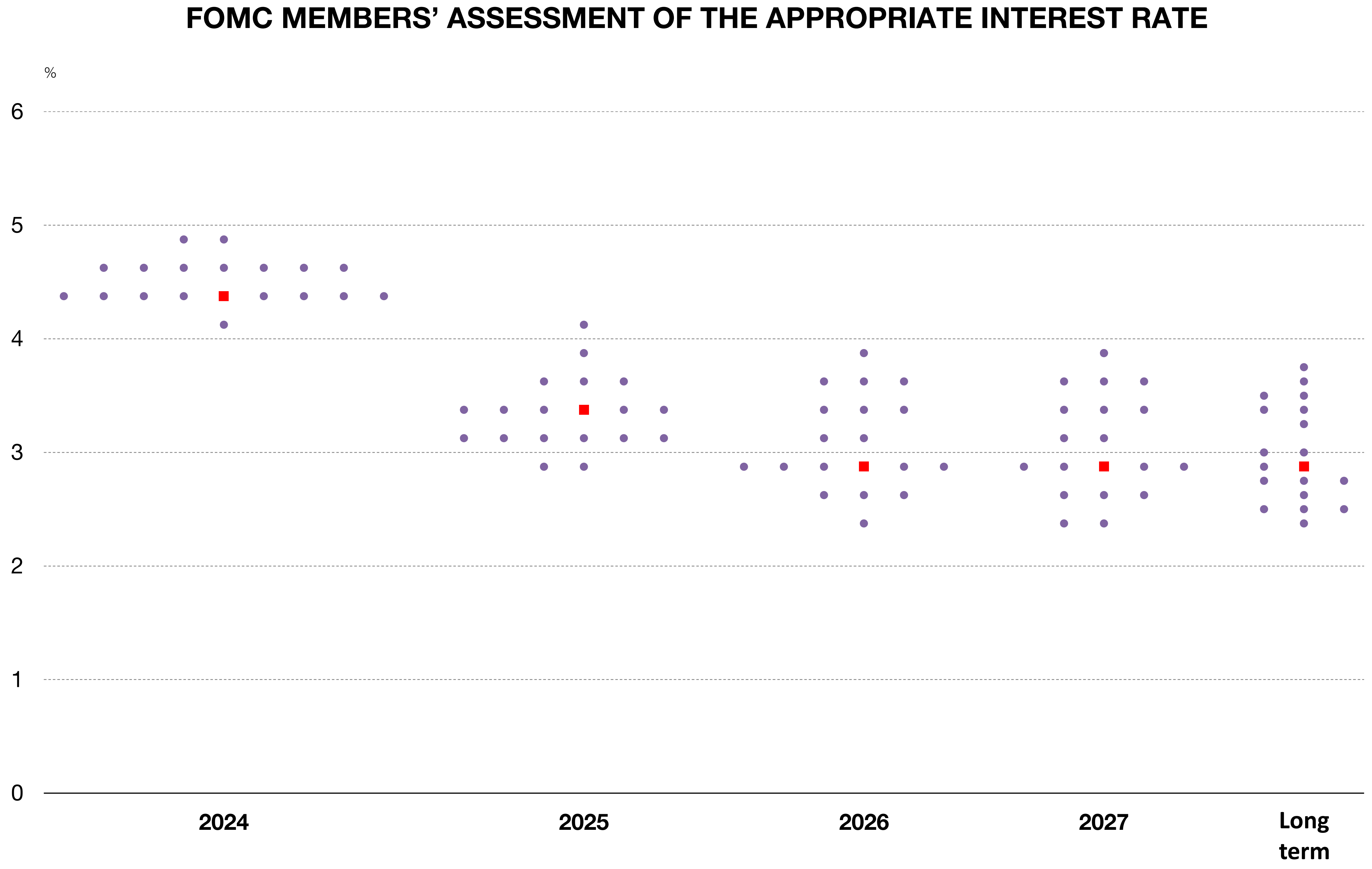
HOW TO MANAGE UNCERTAINTY?
FAN CHARTS WERE THE TRADITIONAL APPROACH

INFLATION IN THE UNITED KINGDOM: ACTUAL AND EXPECTED



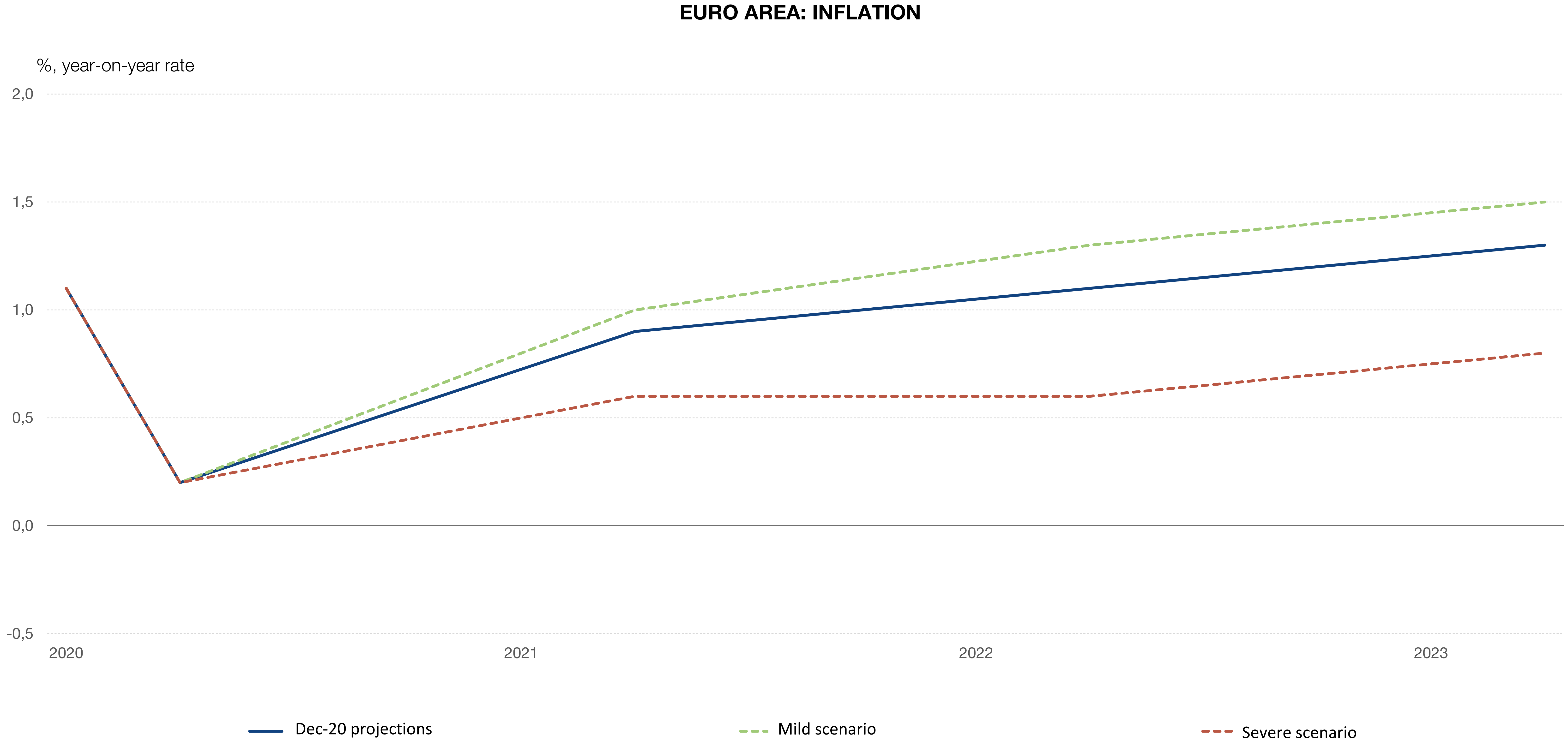
Source: Bank of England. Inflation Report – August 2017. The shading indicates the probability of inflation falling within each band during the forecast period: 30% for the darkest band, 60% for the next darkest bands and 90% for the lightest bands.

US FEDERAL RESERVE: DOT PLOTS INDICATE THE MONETARY POLICY STANCE PROPOSED BY EACH MEMBER



Source: The Federal Reserve System. The blue dots indicate each FOMC member's (rounded) assessment of the appropriate Fed funds rate. September 2024. The red dots indicate the median assessment.

ANOTHER OPTION IS TO PRESENT ALTERNATIVE SCENARIOS



Source: ECB. December 2020 Eurosystem staff projections.