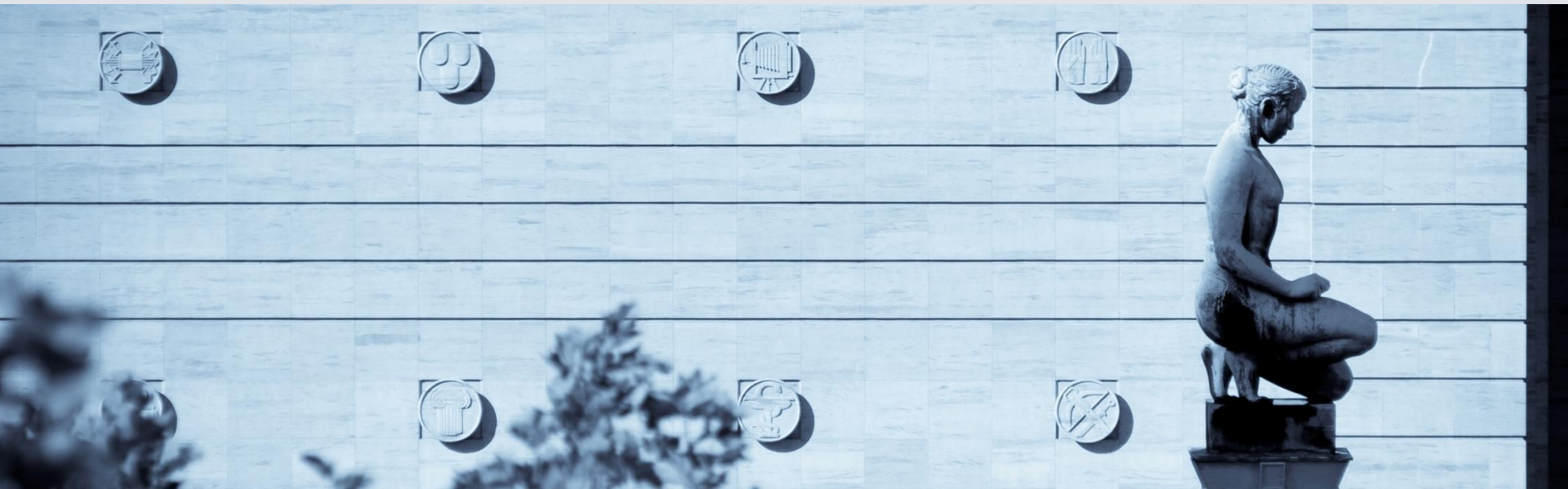


The impact of monetary policy on the macroeconomy and European banks

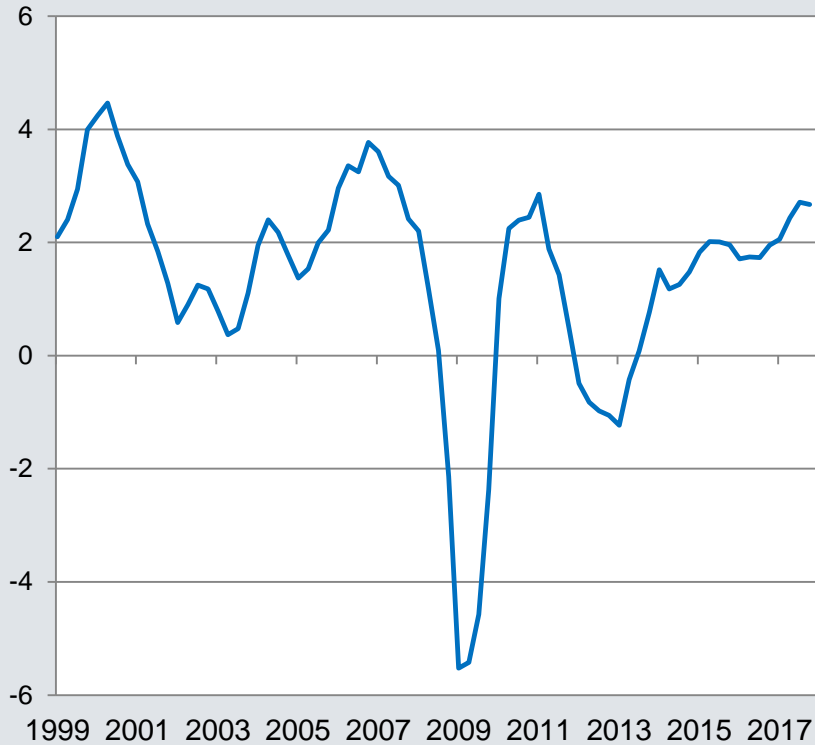
Brussels, 20 March 2018

Jan Smets
Governor

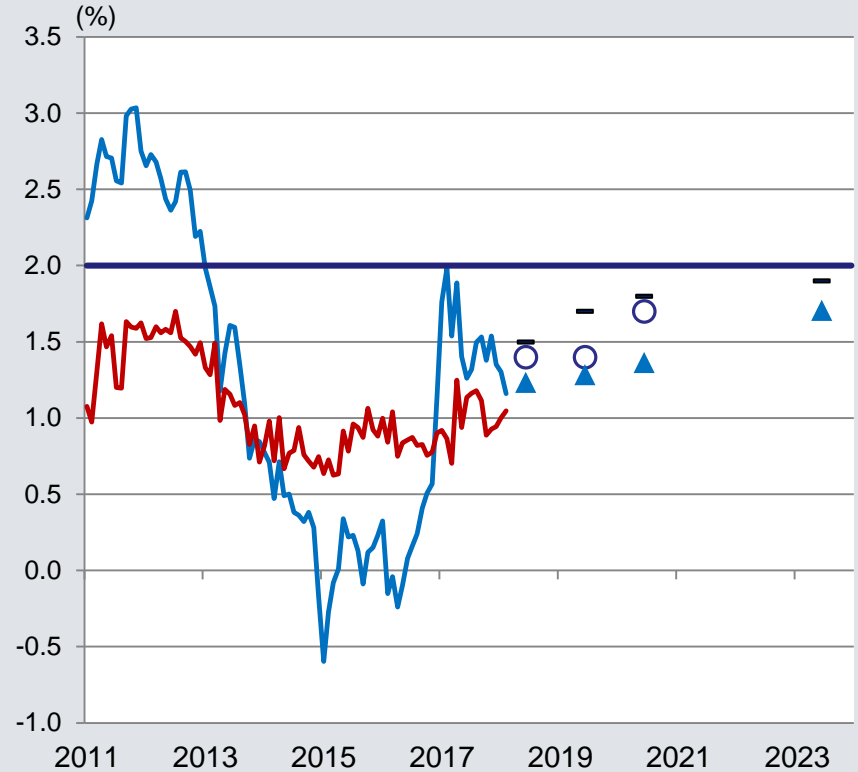


A recovery with low inflation

Euro area annual real GDP growth (%)



Inflation rates and forecasts for headline inflation (%)

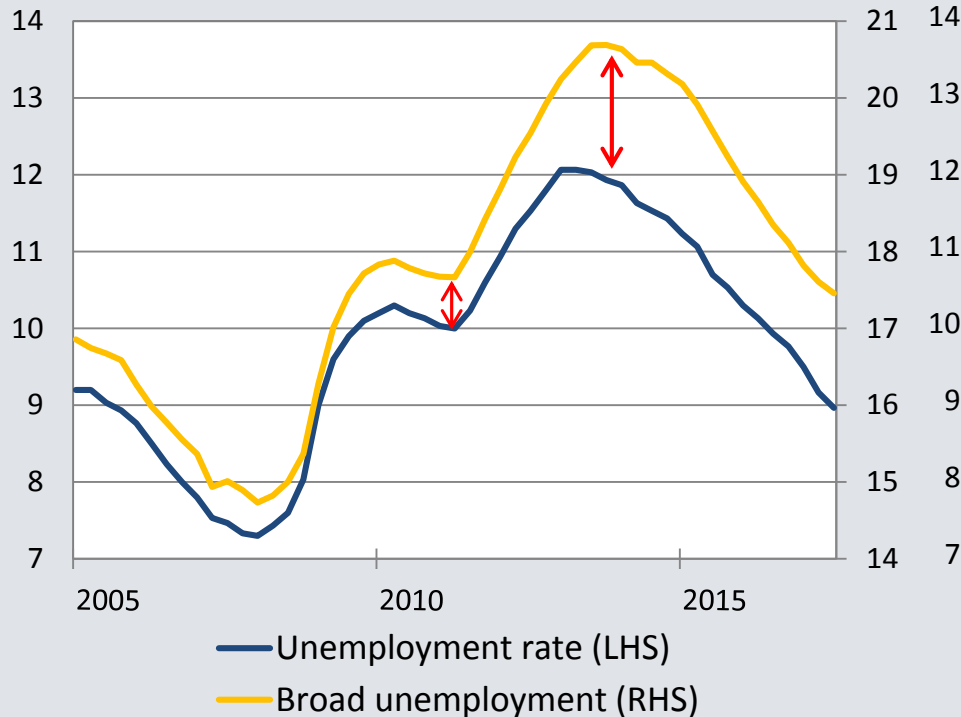


- Headline inflation
- Core inflation
- ECB Projection March
- Private forecasters
- ▲ Markets



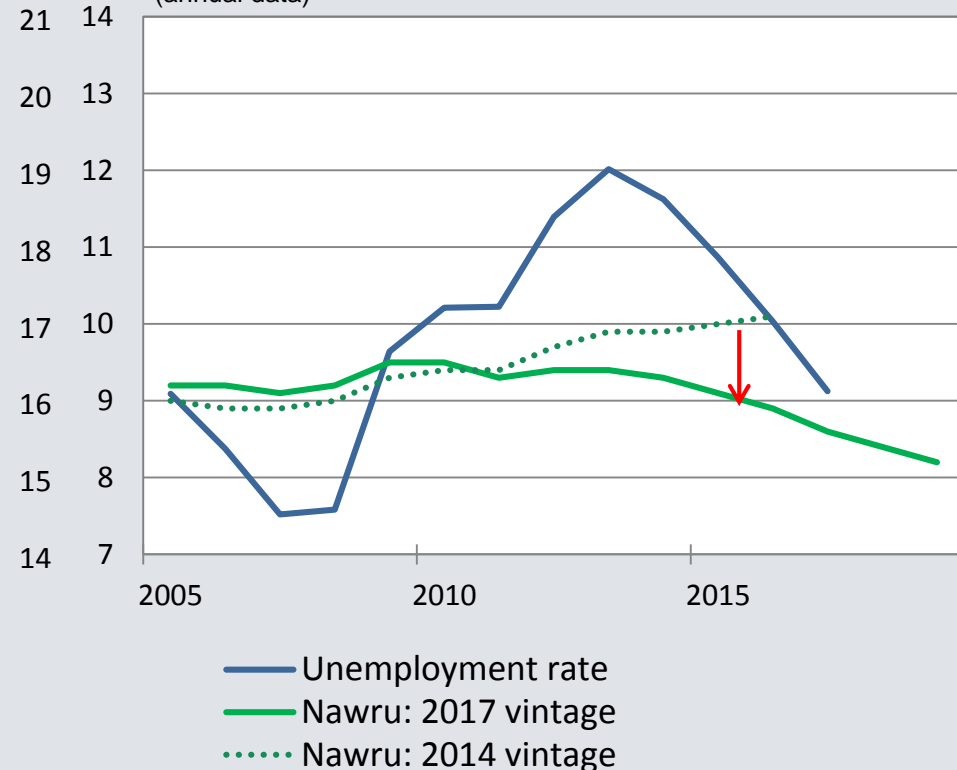
Despite strong growth, slack might be larger than presumed

Euro area unemployment measures



Unemployment rate and EC revisions of natural rate

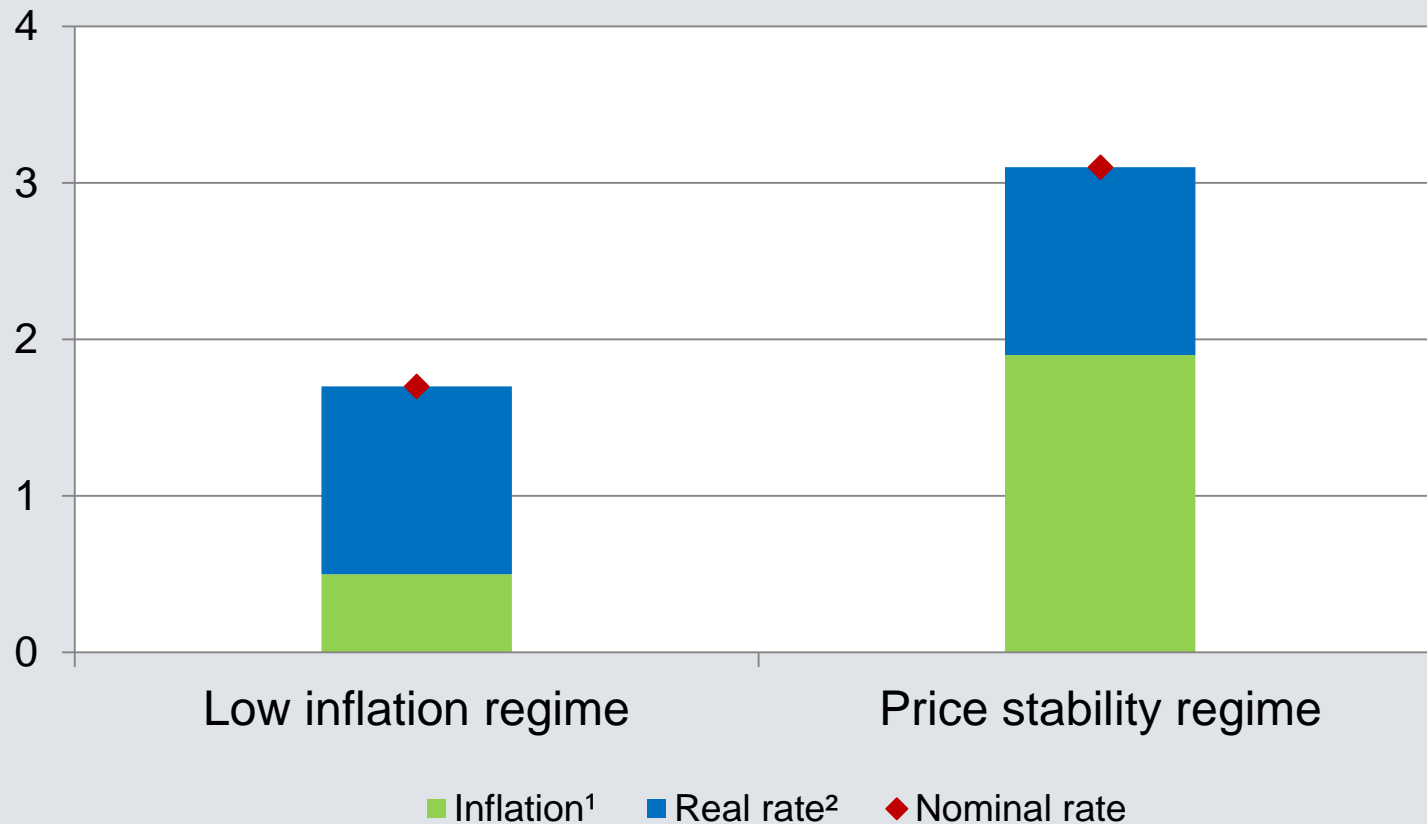
(annual data)



- ▶ Widening gap between broad and regular unemployment rates
- ▶ Systematic downward revisions of natural rate → more slack



The importance of getting inflation back towards 2%



➔ Low trend inflation would imply low nominal interest rates in steady state and limit the scope to use standard monetary policy measures

¹The inflation rate in the low inflation regime equals the average headline inflation since 2014. In the price stability regime, it converges to 1.9%.

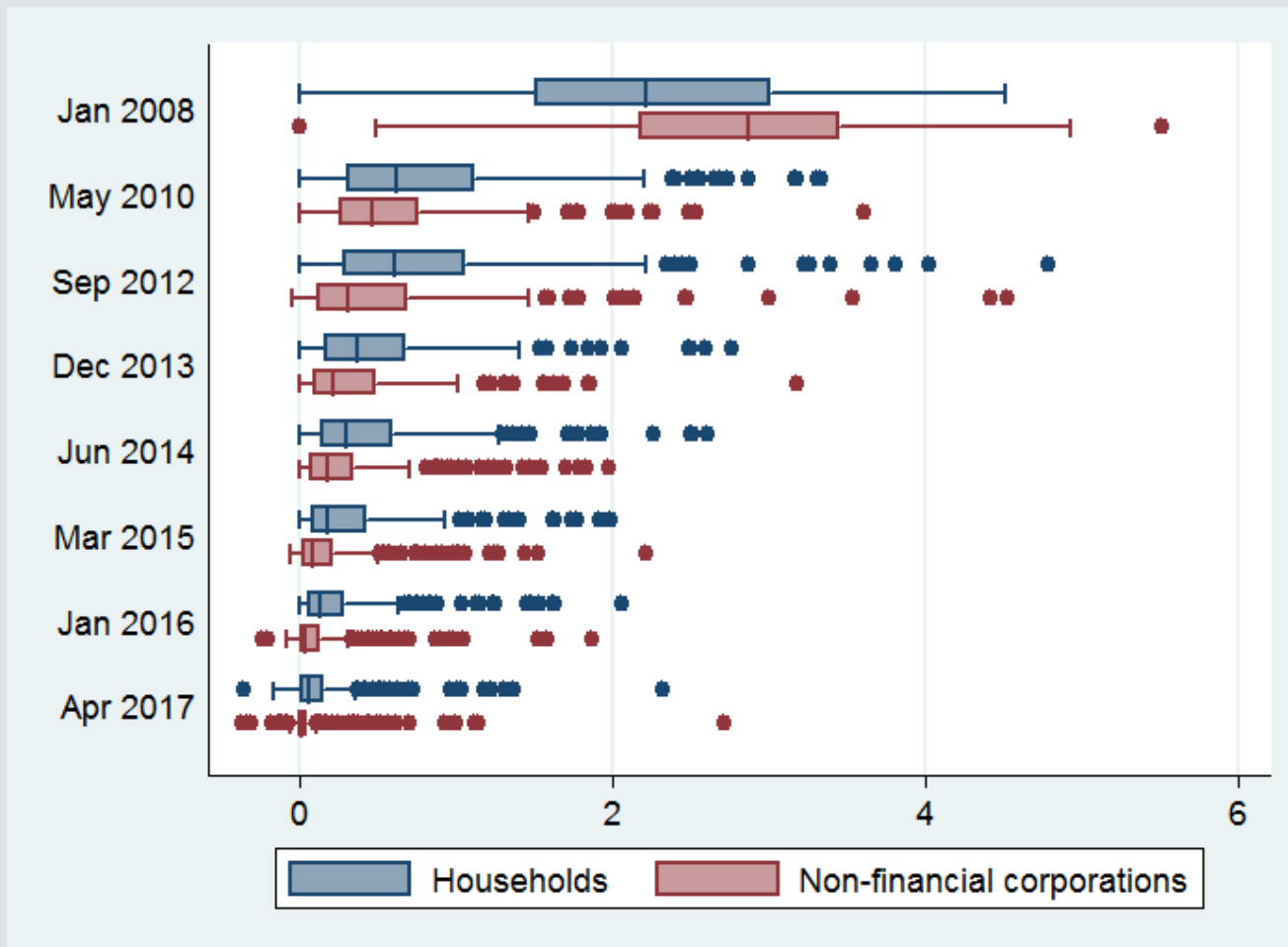
²The real rate equals the European Commission's potential growth rate estimate for the euro area for 2018.



Retail deposit rates in the euro area

Distribution of retail deposit rates applied by banks in the euro area¹

(rates on deposits of households and of non-financial corporations, percentages)



Sources: ECB, own calculations.

Note: The box includes values between the 25th and the 75th percentile, with the median is shown by a line. The whiskers include values up to 1.5 interquartile ranges above the 75th or below the 25th percentile. The dots indicate outside values (beyond the limits of the whiskers).



Diversity of channels with different dynamic profiles

- ▶ Persistent (negative) impact on net interest income

- ▶ But also:
 - One-off capital gains due to asset revaluation

 - Persistent (positive) effect of economic improvement
 - Lower borrower risk
 - Stronger loan demand

 - Lower debt servicing cost → higher loan quality



Banks' characteristics matter

- ▶ Volume of retail deposits
- ▶ Maturity of loan and bond portfolio
- ▶ Share of marketable assets
- ▶ Higher initial capital or margin to lower costs



Final thoughts

- ▶ Increase banks' resilience through (macro)prudential policies
- ▶ Despite reaching 2% inflation, rates may settle at lower levels than before the crisis because of lower real rates – a job for other policymakers
- ▶ Structural challenges for banks will remain after 'normalisation'



Thank you for your attention

