



EUROPEAN CENTRAL BANK

EUROSYSTEM

Peter Praet

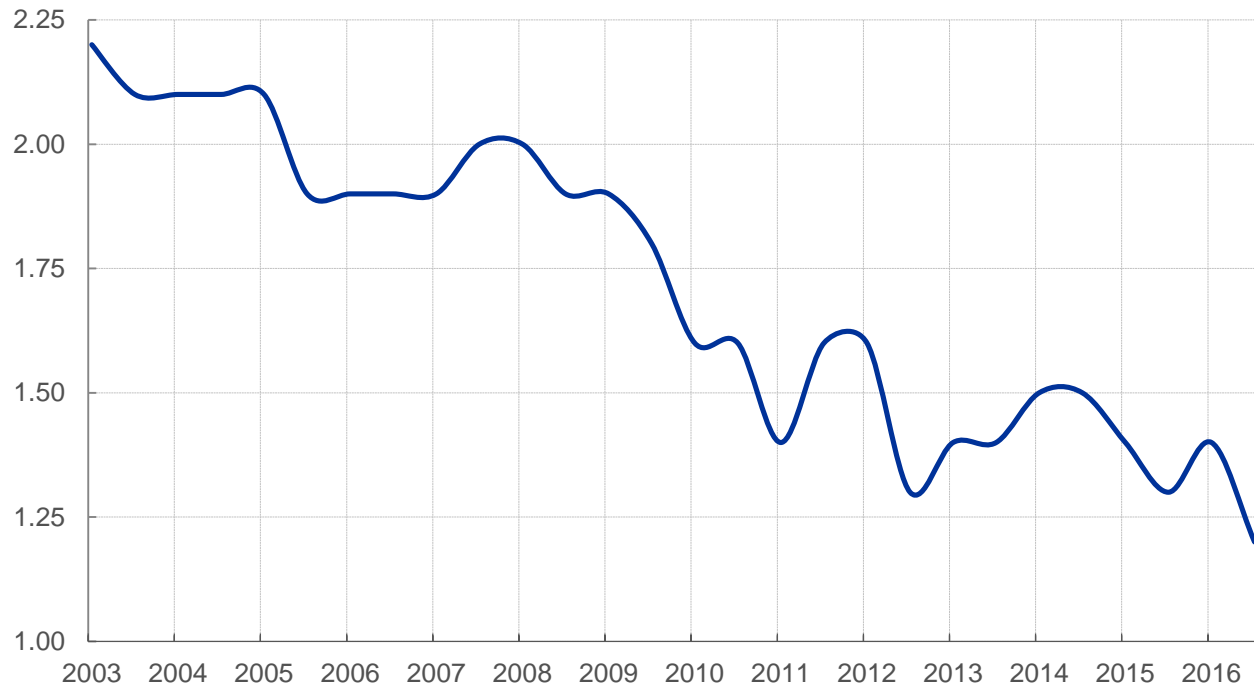
Member of the Executive Board of the ECB

European Monetary and Financial Outlook

**26th Annual Hyman P. Minsky
Conference on the State of the US
and World Economies**

19 April 2017

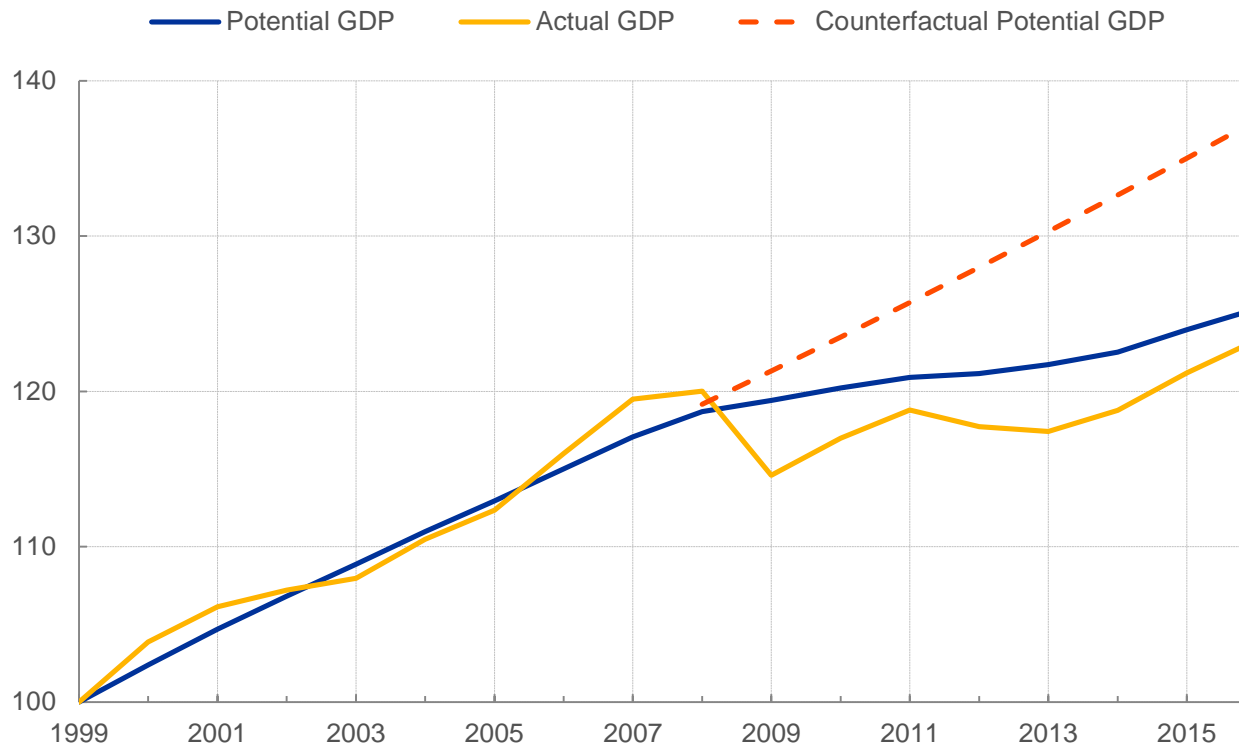
Real GDP growth (percentage per annum)



Source: Consensus Economics.
Latest observation: October 2016.

Declining expectations of long-term growth

Potential euro area output reduction due to crisis (index 1999 = 100)



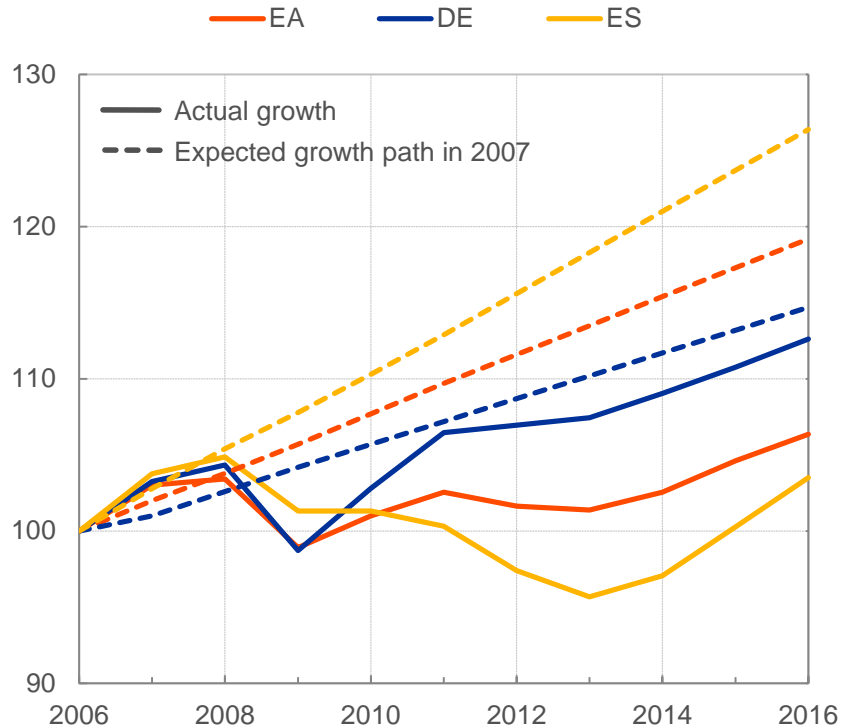
Sources: European Commission.

Note: The counterfactual potential GDP path assumes that potential GDP continued to grow at its 2007 growth rate.

Latest observation: 2016.

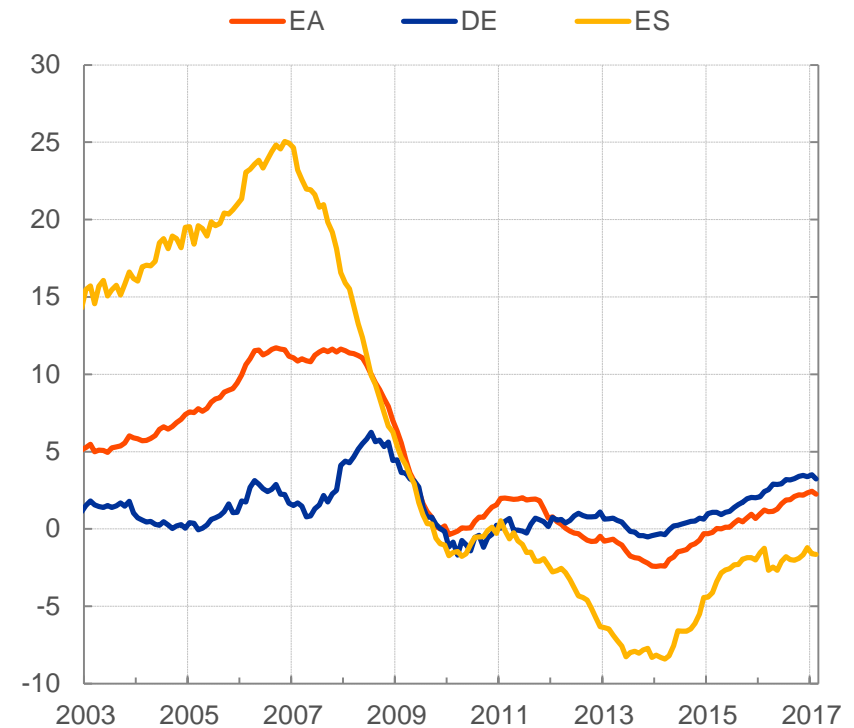
Conditions for a balance sheet recession

Real GDP and pre-crisis expected path (index 2007 = 100)



Source: ECB, Consensus Economics, ECB calculations
Note: Dotted lines represent evolution of GDP based on private sector expectations in October 2007.
Latest observation: 2016.

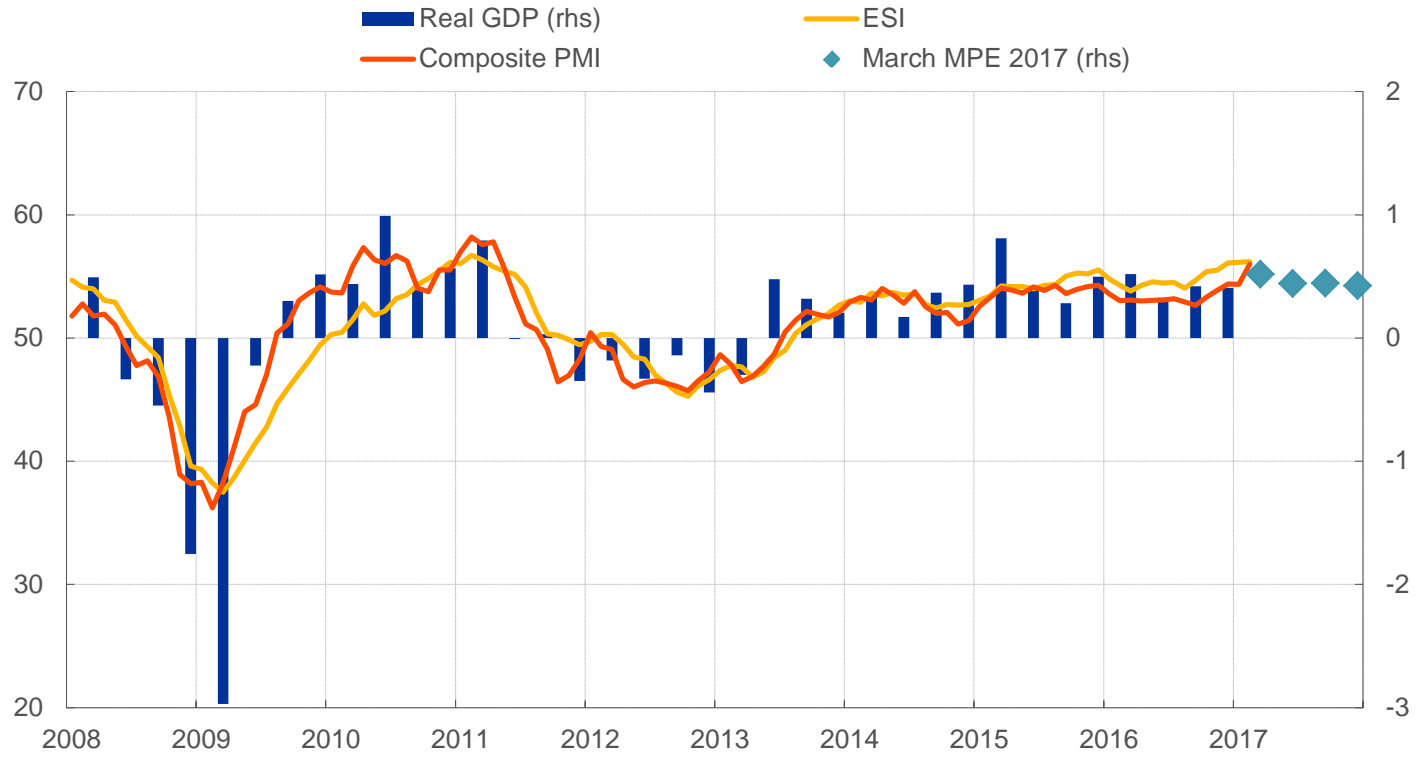
Bank loans to private sector (annual percentage change)



Source: ECB.
Latest observation: February 2017.

Recent developments and short-term outlook

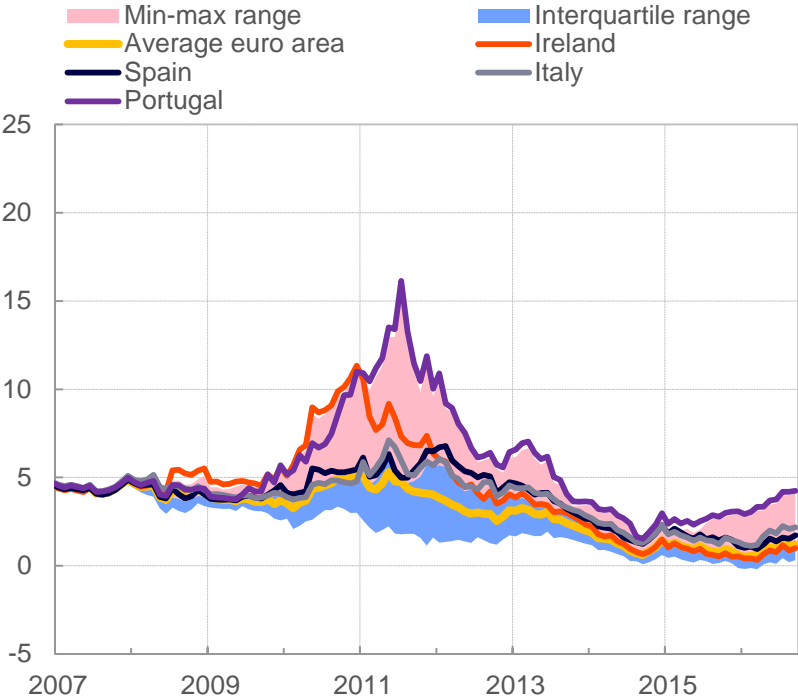
Euro area real GDP growth, composite PMI and ESI (q-o-q % change, index and percentage balance)



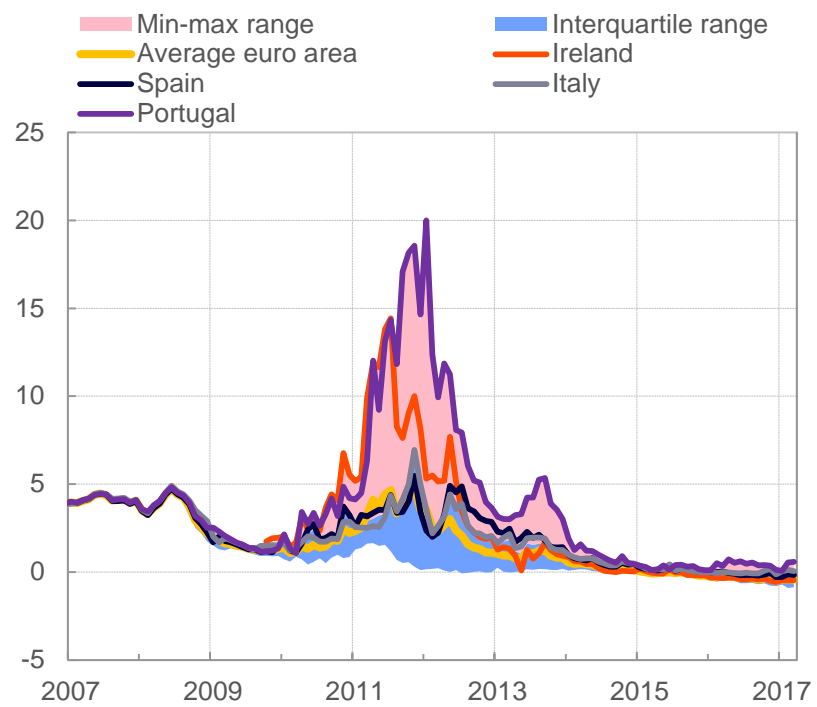
Source: Markit, DG-ECFIN, Eurostat, ECB and MPE.
Note: ESI is rescaled using the PMI standard deviation.
Latest observations: 2016Q4 (GDP), February 2017 (ESI and PMI), 2017Q4 (March MPE 2017).

Dispersion of euro area sovereign bond yields (percentage per annum)

2-year maturity

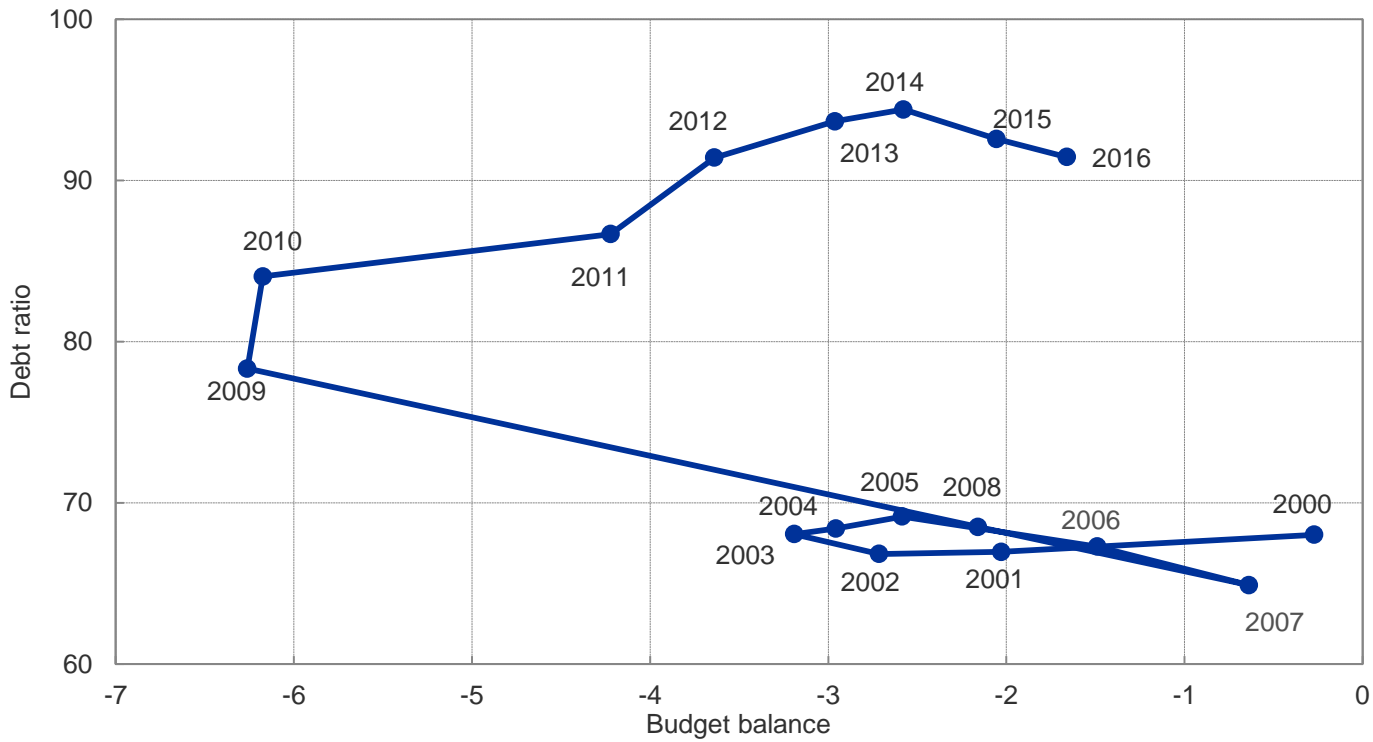


10-year maturity



Sources: Thomson Reuters and ECB calculations.
 Note: The data used is based on euro area country composition as in 2011. The yields for Greece, Cyprus, Estonia, Luxembourg, Malta and Slovenia are excluded owing to infrequent or a lack of observations.
 Latest observation: 3 March 2017.

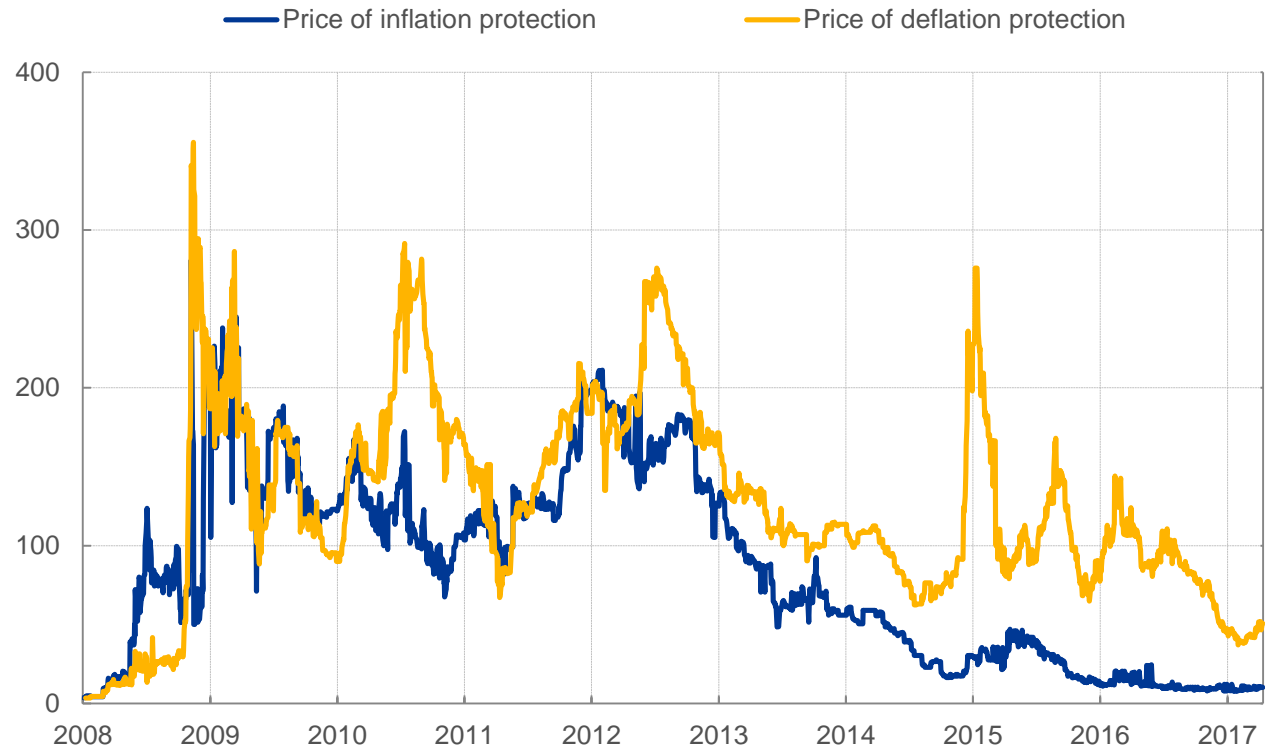
Euro area government debt and deficit (% of GDP)



Source: European Commission's winter 2017 economic forecast.
Latest observation: 2016.

Price of inflation and deflation protection

Price of inflation and deflation protection (basis points)



Sources: Bloomberg.
Latest observation: 12 April 2017.

LTROs

Post-Lehmann phase: Elastic provision of long-term liquidity to banks under full allotment

- Placed ceiling on money market rates, safeguarded access to funding for banks in liquidity deficits
- Large endogenous expansion of balance sheet contained fragmentation, restored confidence.

But: expansion of Eurosystem balance sheet was only temporary and non-discretionary ...

... so that measures lost traction as banks started actively contracting their exposures and reimbursing ECB loans, leading to a contraction of money

SMP and OMT

Debt crisis: Targeted interventions in securities markets (SMP) and conditional commitment to stamp out break-up risk compensation from bonds of stressed jurisdictions (OMT)

- OMT acted as potent circuit breaker and restored financial stability

But: confidence crisis had undermined banks' willingness and capacity to keep credit flowing in vast portion of the euro area

... and tightening borrowing conditions amplified renewed slump, jeopardizing macroeconomic and price stability

TLTROs, neg. DFR, APP

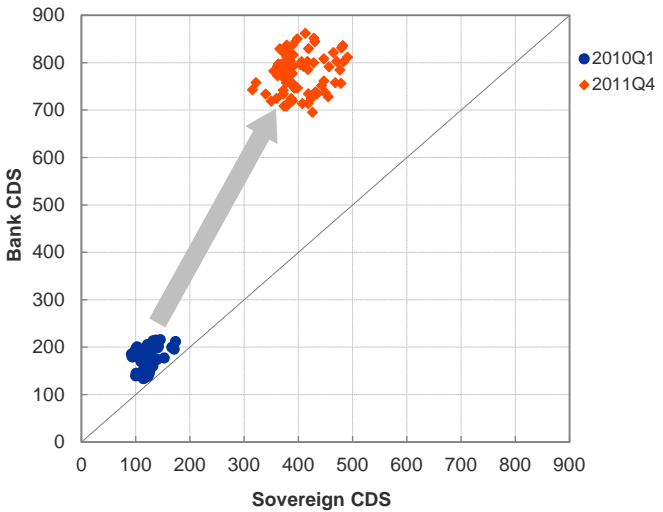
Transmission and deflation risks:

- TLTROs give banks incentives to increase loan supply and reduce borrowing costs for the real economy
- Asset purchases compress term spreads on securities encouraging portfolio rebalancing towards assets with a higher risk-adjusted return
- Negative DFR discourages liquidity hoarding and speeds up asset reallocation

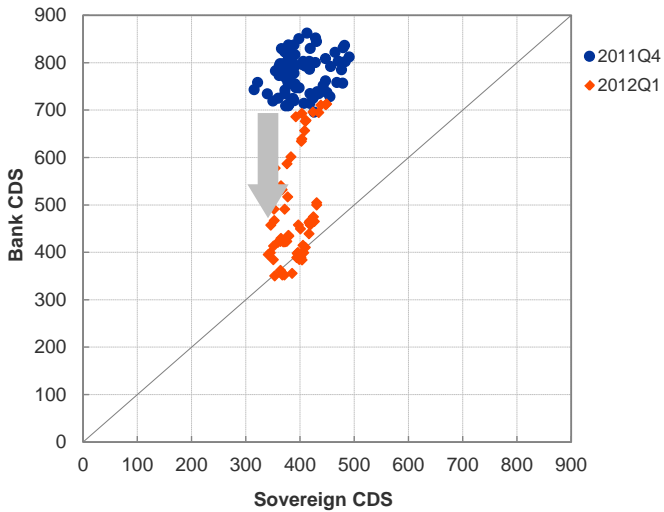
Impact of VLTROs and OMT in Spain

Banks' vs. sovereign CDS premia (basis points)

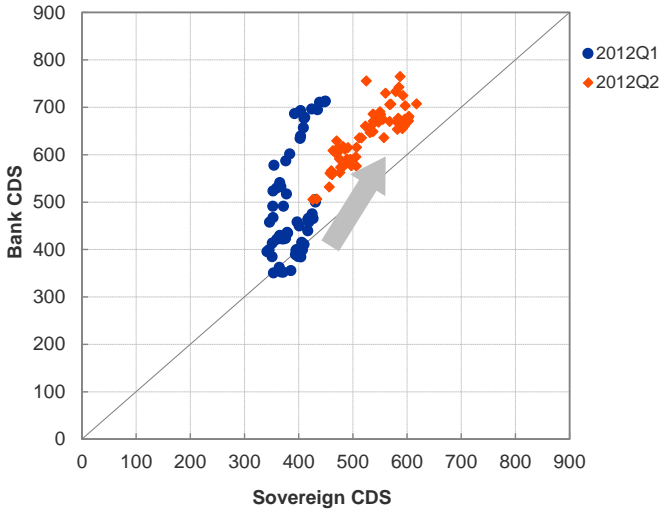
Deterioration in banking sector



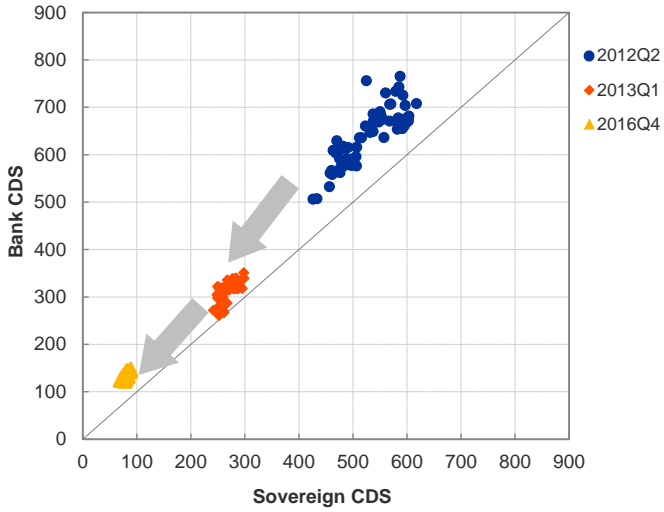
Impact of VLTROs



Summer 2012 intensification of crisis



Impact of OMT announcement and current levels

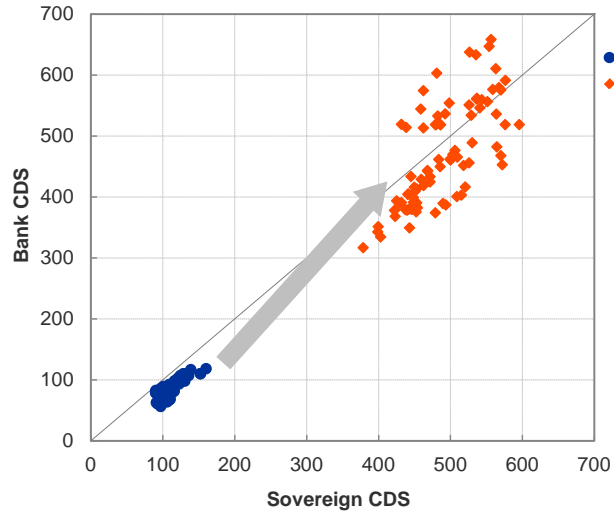


Source: Thomson Reuters, ECB calculations.
Notes: Charts show daily observations during a given quarter.
Last observation: 30 December 2016.

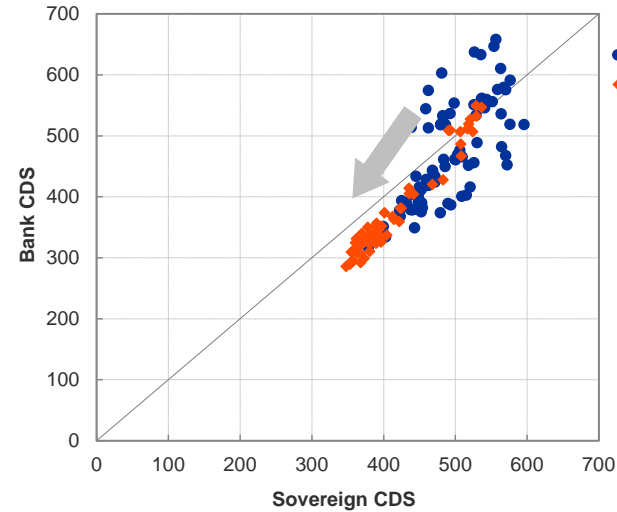
Impact of VLTROs and OMT in Italy

Banks' vs. sovereign CDS premia (basis points)

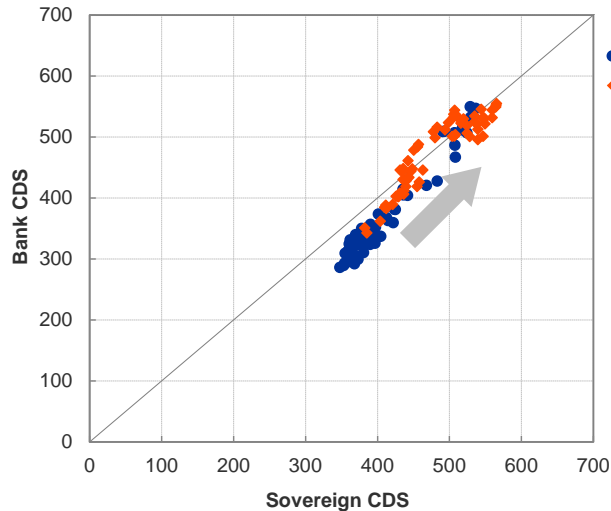
Deterioration
in banking
sector



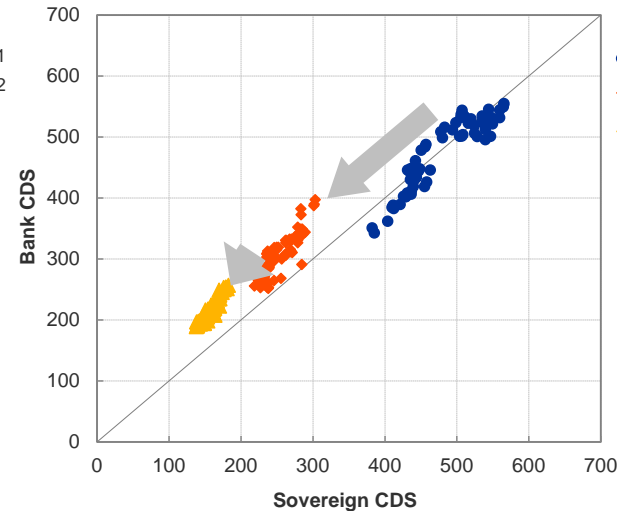
Impact of
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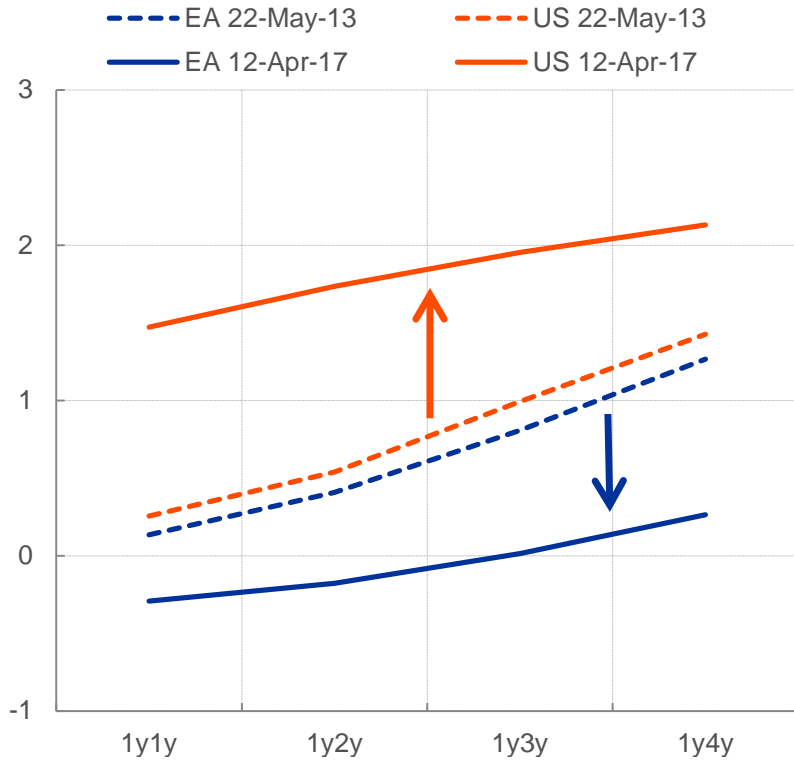
Impact of OMT
announcement
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Source: Thomson Reuters, ECB calculations.
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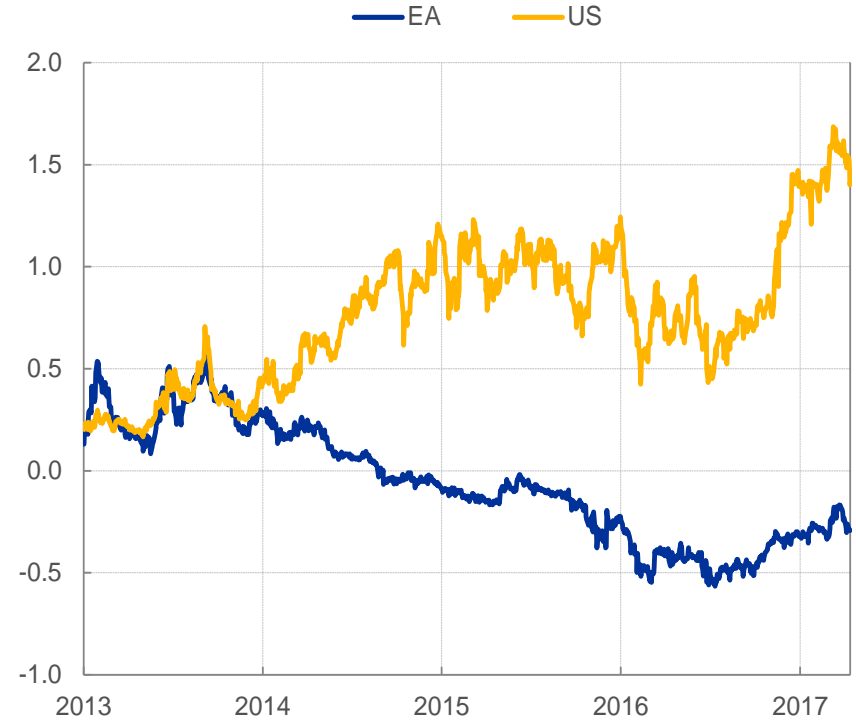
Euro area and US forward rates

1y OIS forward rates
(percentage per annum)



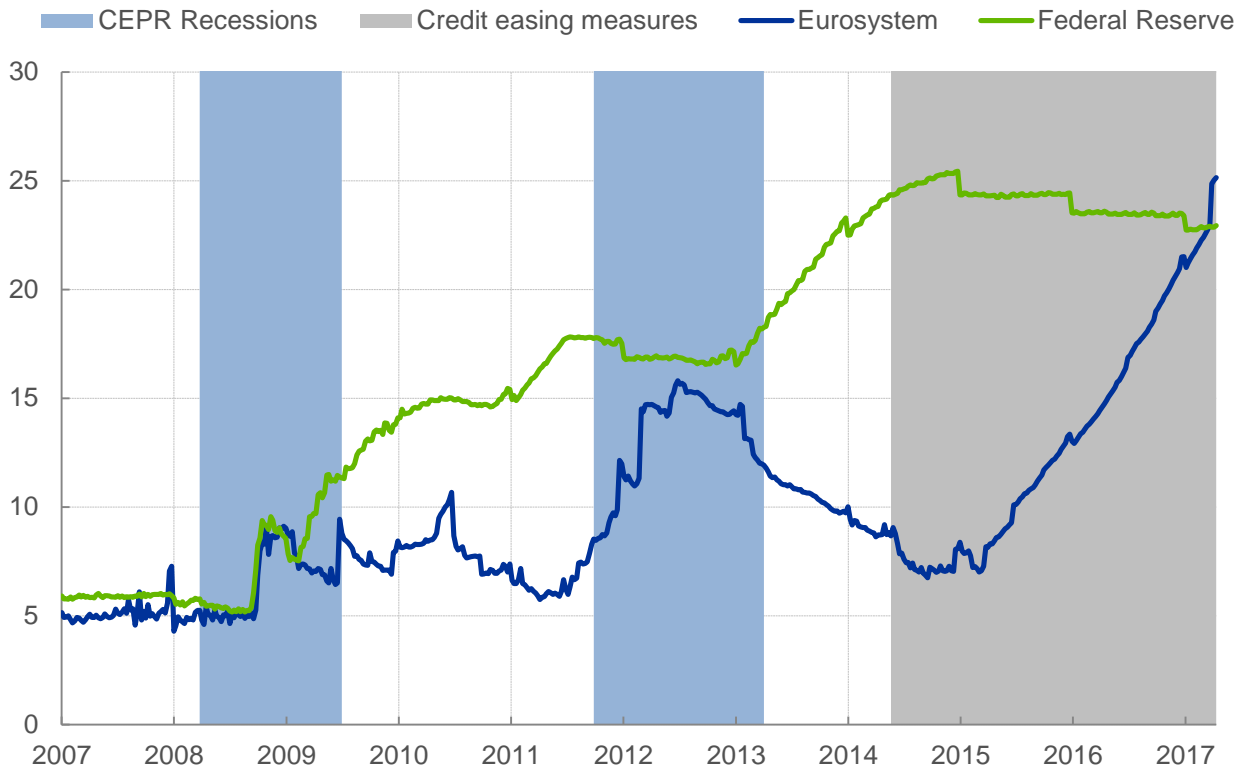
Source: ECB calculations.
Latest observation: 12 April 2017.

Forward interest rates: 1-year 1 year ahead
(percentage per annum)



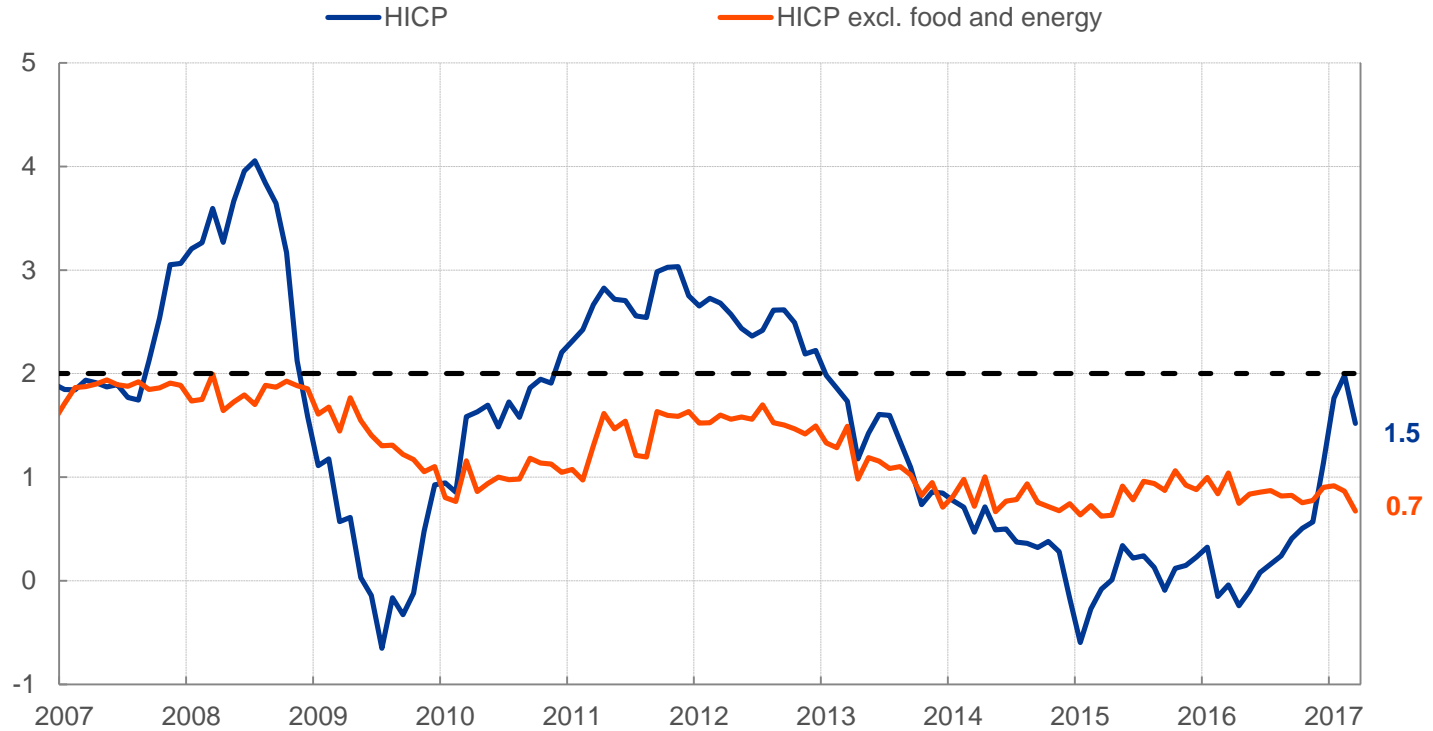
Source: ECB.
Notes: The forward rates correspond to the OIS rate of the euro area and the US respectively.
Latest observation: 12 April 2017.

Central bank balance sheets (Monetary policy instruments as percent of GDP)



Source: ECB, Federal Reserve.
Latest observation: 14 April 2017.

HICP and HICP excluding food and energy (annual percentage changes)



Source: Eurostat.
Last observation: March 2017.

Regulatory initiatives towards a European banking union

SSM Regulation

- Establishes SSM
- Supervision of all banks in participating Member States by ECB and NCAs

- In force since 3 Nov 2013
- SSM operational since 4 Nov 2014

BRRD

- Framework for resolution of credit institutions and investment firms
- Harmonised tools and powers relating to prevention, early intervention and resolution for all EU Member States

- In force since 2 Jul 2014
- Applies to MS since 1 Jan 2015
- Bail-in provisions applicable as of 1 Jan 2016

SRM Regulation

- Establishes single system for efficient and harmonised resolution of banks within the SSM
- Single Resolution Board (SRB) and Single Resolution Fund (SRF)

- In force since 19 Aug 2014
- SRF applicable as of 1 Jan 2016