



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Current challenges for the conduct of monetary policy in the euro area

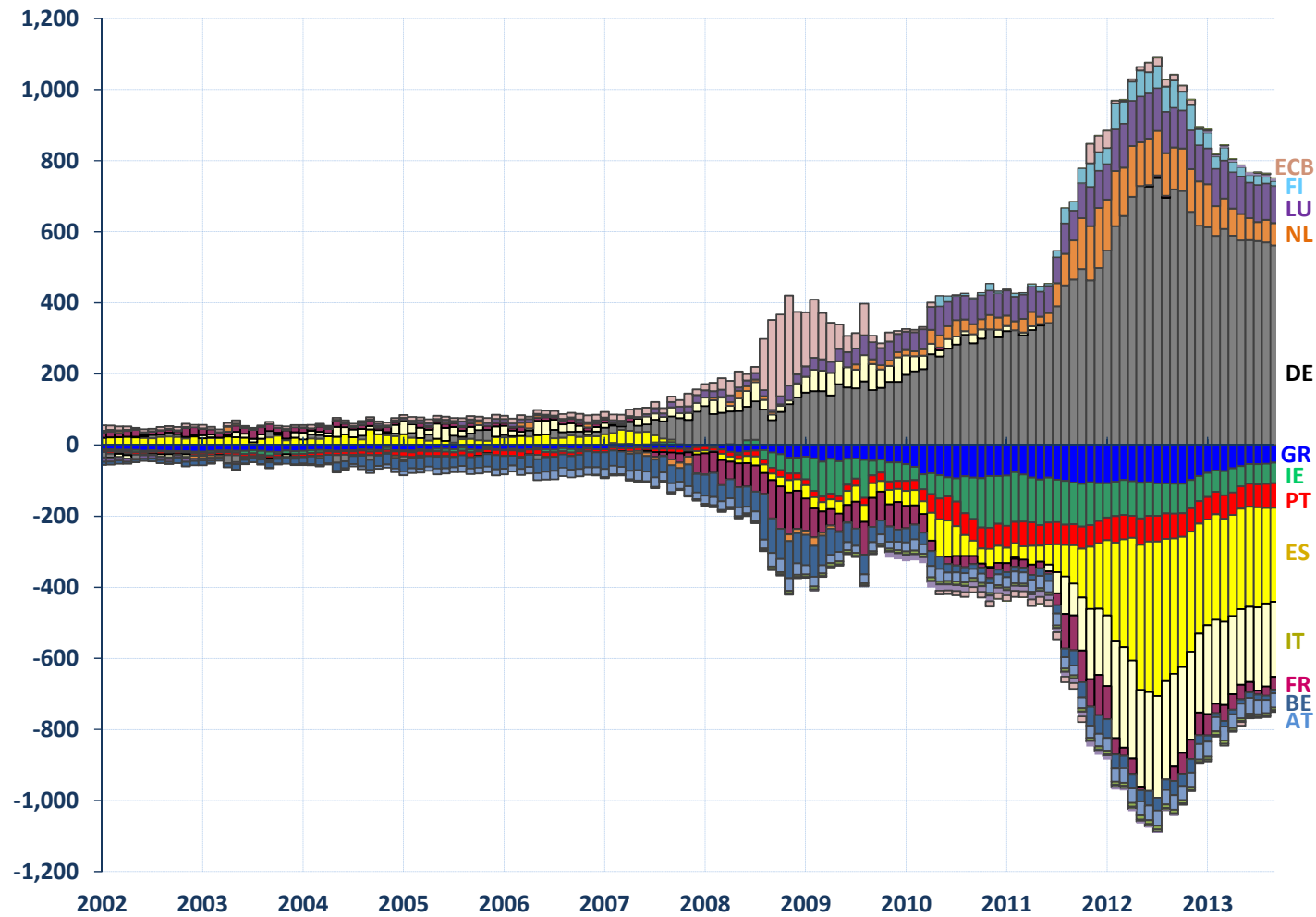
The ECB and its Watchers

Does economic heterogeneity pose a problem for the ECB?

- A certain level of heterogeneity, for example in GDP growth or inflation rates, is normal in a currency area.
- Financial fragmentation is different because it has threatened to compromise the effectiveness of monetary policy.
- Operating within its mandate, the ECB acted to repair the monetary transmission mechanism.

Target balances of the euro area central banks

(EUR billion)

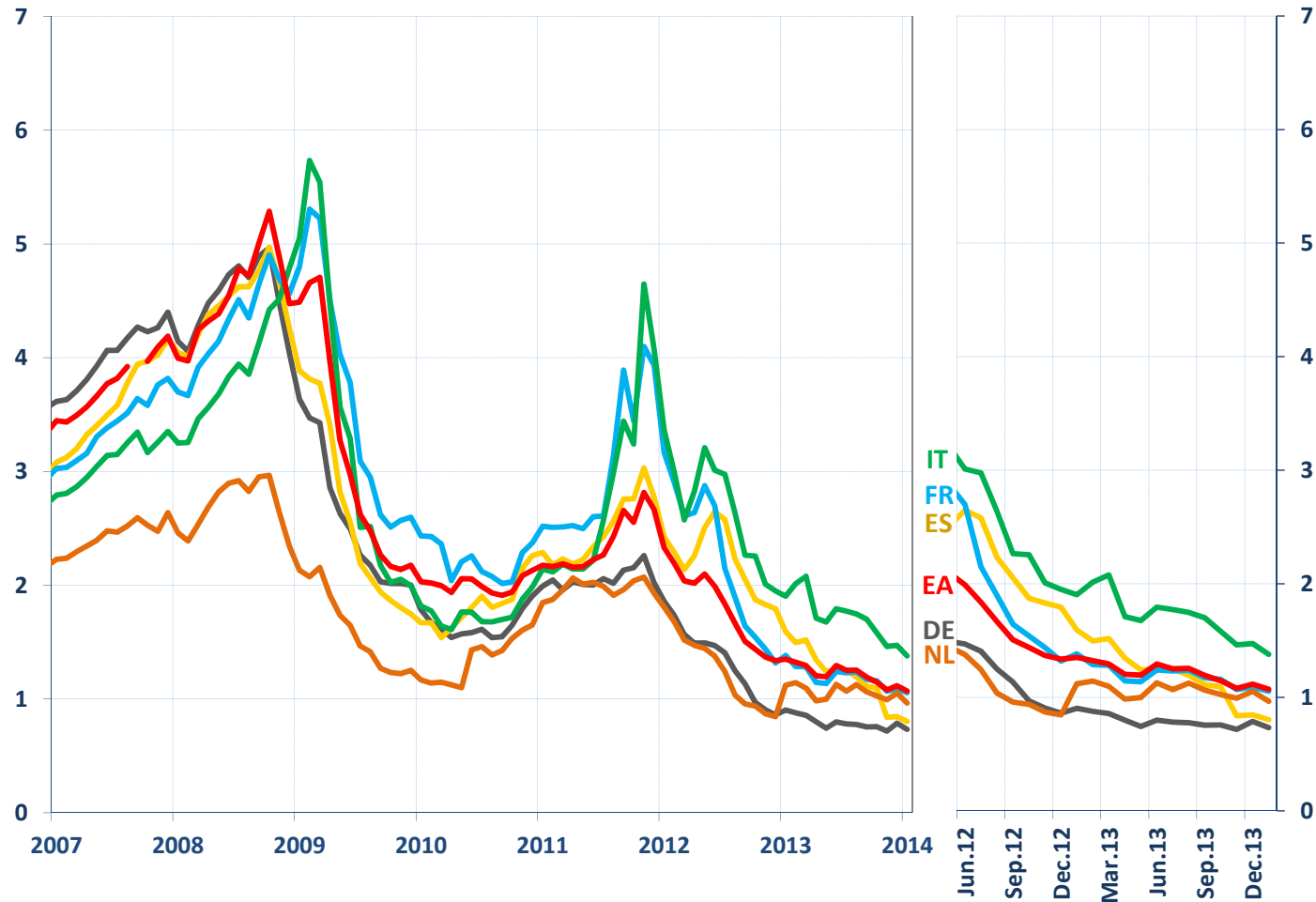


Source: P. Cour-Thimann, "Target balances and the crisis in the euro area", CESifo Forum 14, Special issue, April 2013 (updated).

Notes: Balances are vis-à-vis the ECB and add up to 0. Last observations: end-November 2013.

Composite cost of bank debt

(percentages per annum)

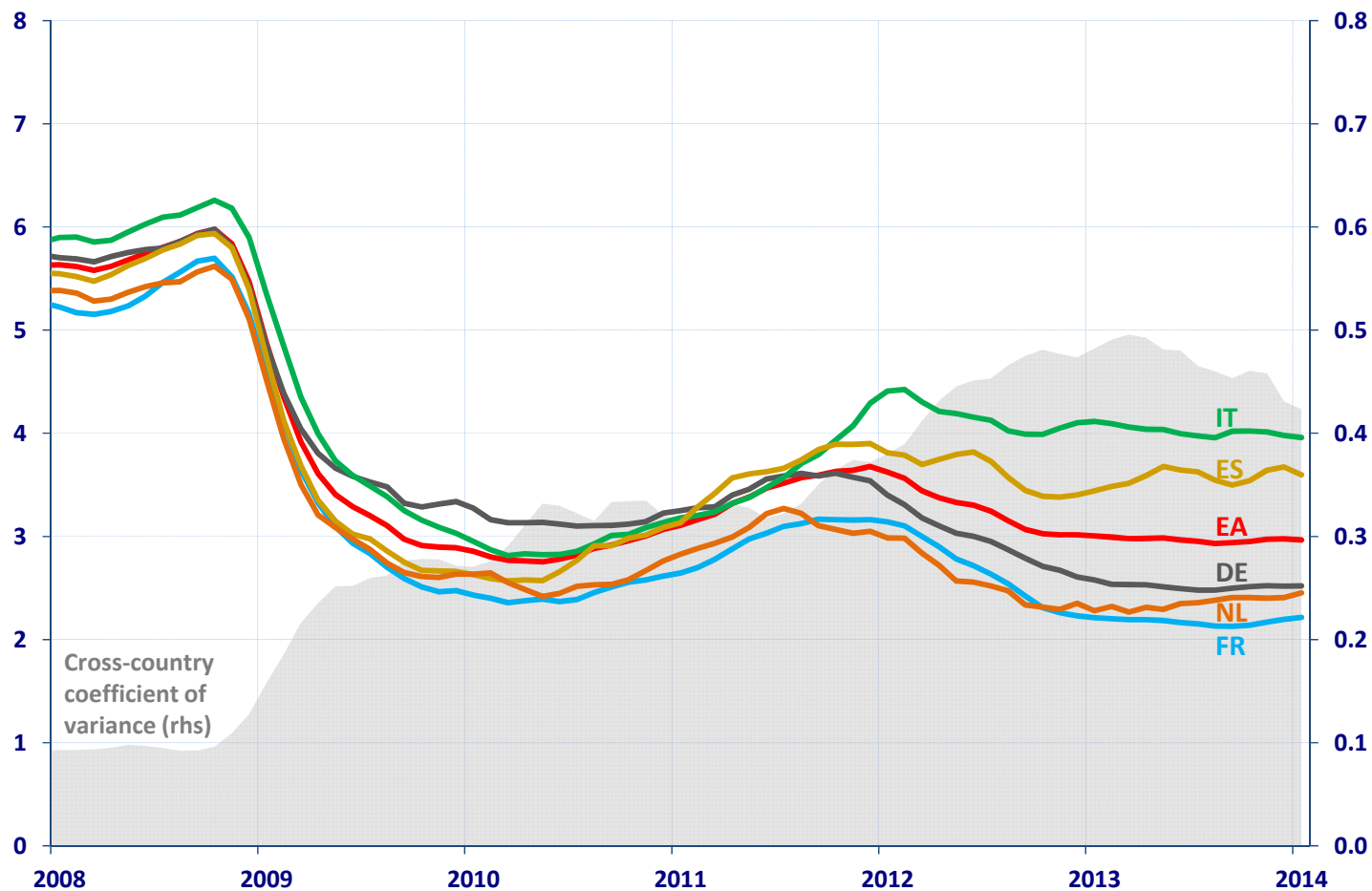


Sources: ECB, Merrill Lynch Global Index, ECB calculations.

Notes: Weighted average of deposit rates on new business and cost of market debt funding. Outlier (2008/09) smoothed out.

Composite indicator of the cost of borrowing for NFCs

(percentage changes per annum; three-month moving averages)

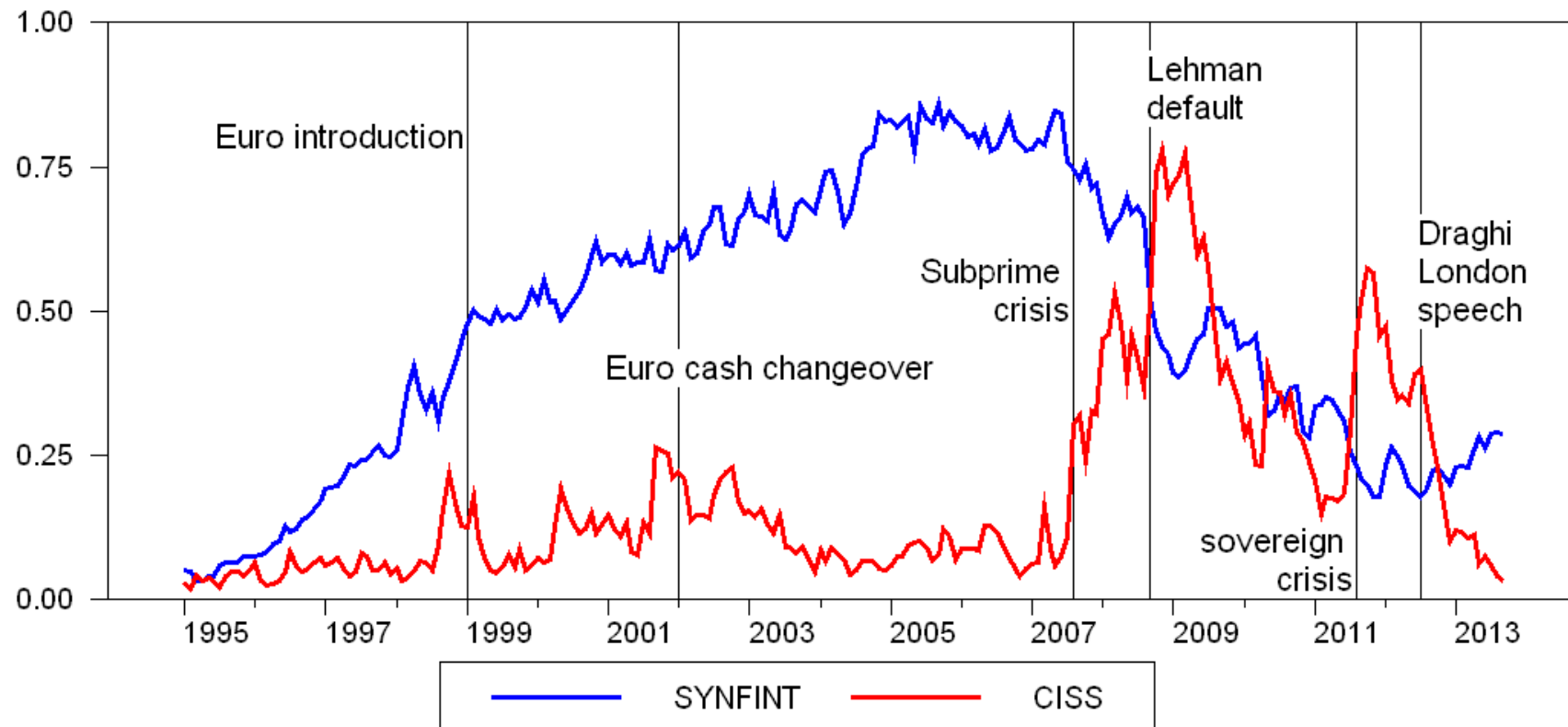


Source: ECB

Note: The composite indicator of the cost of borrowing is calculated by aggregating short- and long-term rates using a 24-month moving average of new business volumes. The cross country coefficient of variation is calculated over a fixed sample of 12 euro area countries.

Composite indicators of financial integration (SYNFINT) and systemic financial stress (CISS)

(monthly data; January 1995 to September 2013)

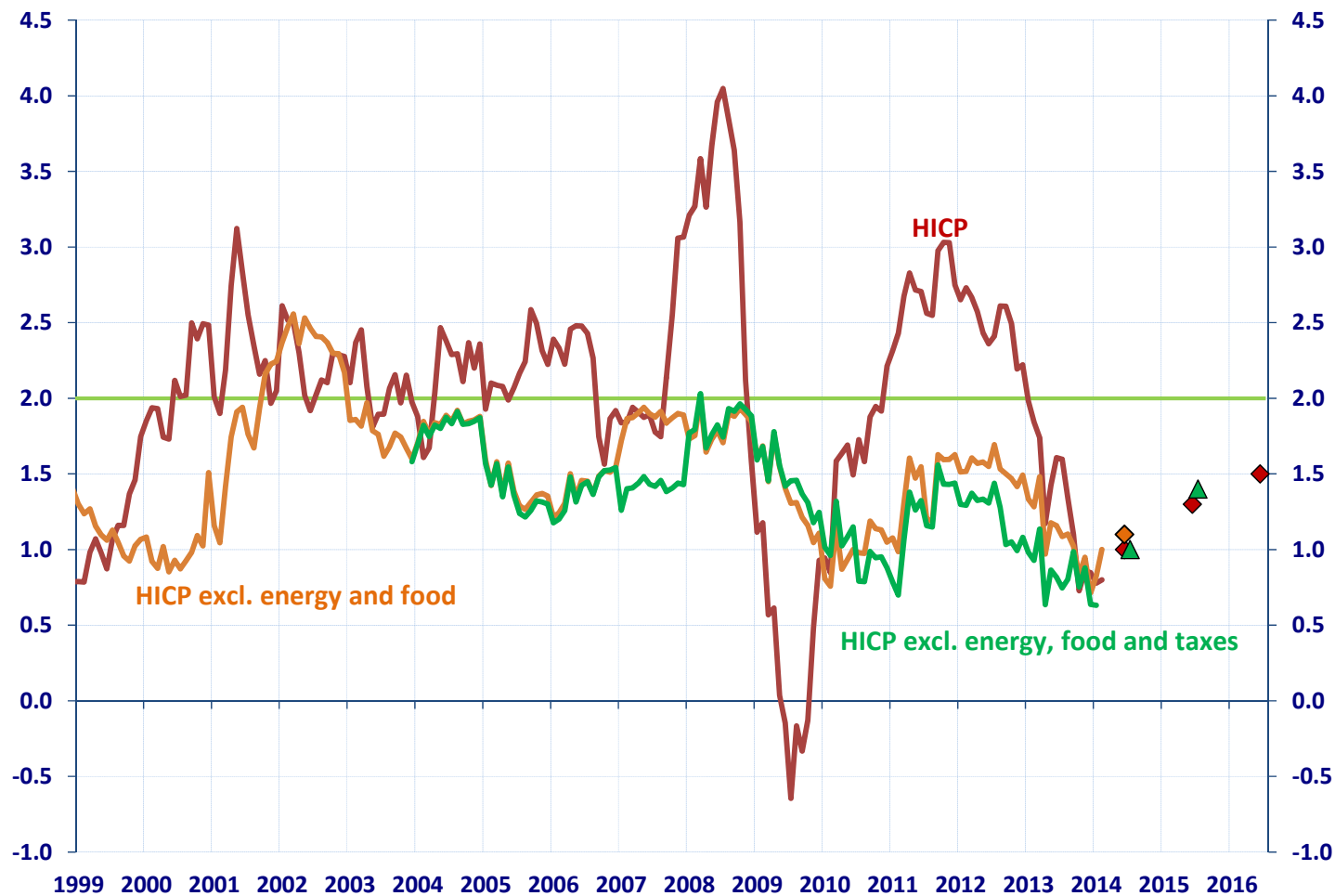


Source: ECB

Note: The Synthetic Financial Integration Indicator (SYNFINT) is based on measures of cross-country price dispersion in the money, bond, equity and banking markets in euro area countries. The Composite Indicator of Systemic Stress (CISS) measures financial stress in money, bond, equity, banking and foreign exchange markets (see Hollo, Kremer and Lo Duca, ECB Working Paper No. 1426, 2012).

HICP inflation: overall and exclusion-based measures

(annual percentage changes)



Sources: Eurostat and ECB calculations.

Latest observations: February 2014 (flash) for HICP and HICP excluding energy and food; January 2014 for HICP excluding energy, food and taxes. Diamonds denote ECB March MPE for 2014, 2015 and 2016.

How to exit?

- Non-standard measures are not part of a new normal. They remain an exceptional response to exceptional circumstances.
- Our system of liquidity provisions has built-in incentives for banks to reduce borrowing once extraordinary liquidity needs are no longer present (example: early repayment of LTROs).
- But there might be a rationale to design NSMs in such a way that the question of exit remains a policy choice.
- The increase in flexibility comes with a cost, as the recent discussion on the US tapering has demonstrated.