

# Monetary policy in changing conditions

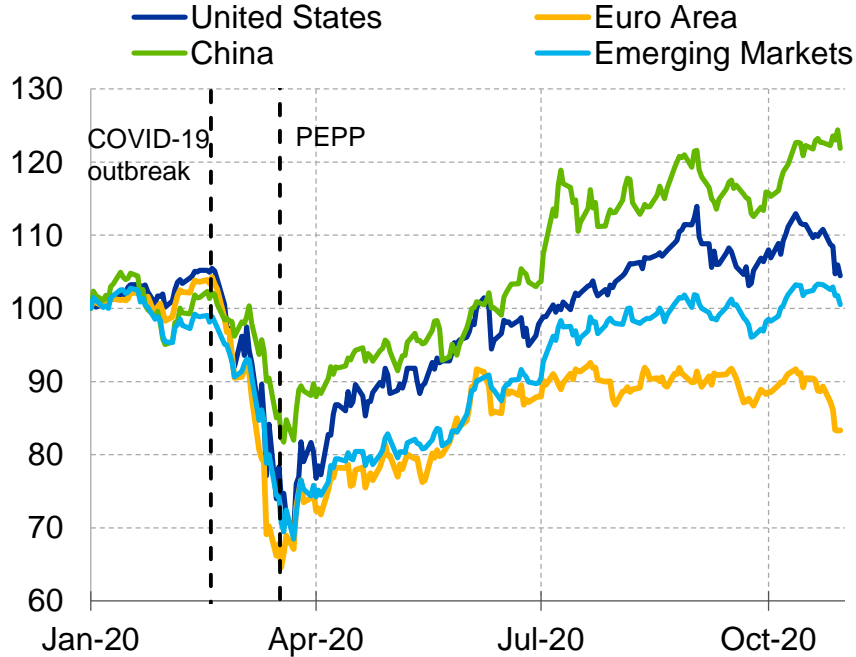
**Isabel Schnabel**

Second EBI Policy Conference on  
“Europe and the Covid-19 Crisis – Looking  
back and looking forward”, 4 November 2020

# Significant tightening of euro area financial conditions in the first wave

## Global equity markets

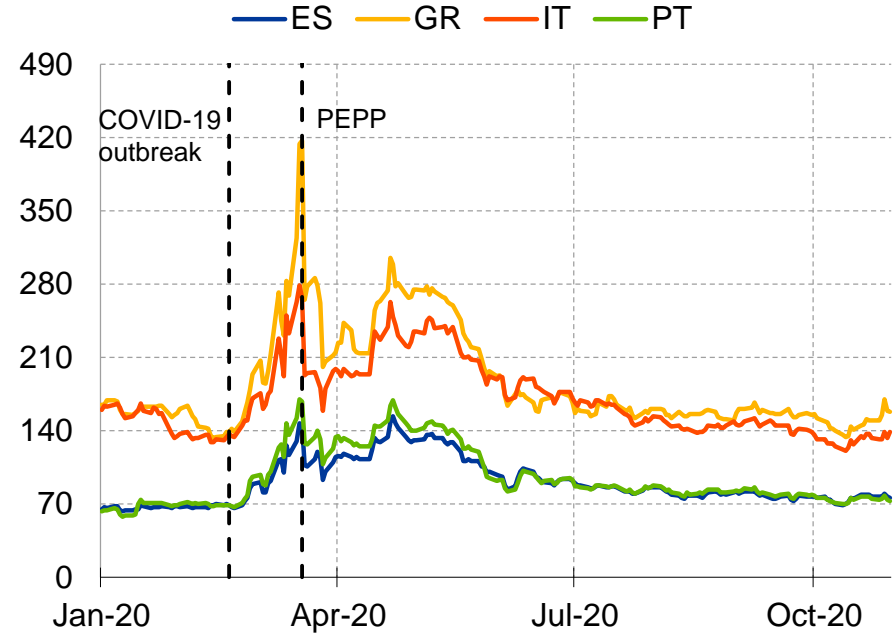
(index: 01/01/2020=100, local currency)



Source: Bloomberg, Consensus Economics, IBES, Refinitiv, ECB calculations.  
Last observation: 30 October 2020.

## Selected euro area 10-year sovereign spreads over equivalent German Bunds

(basis points)



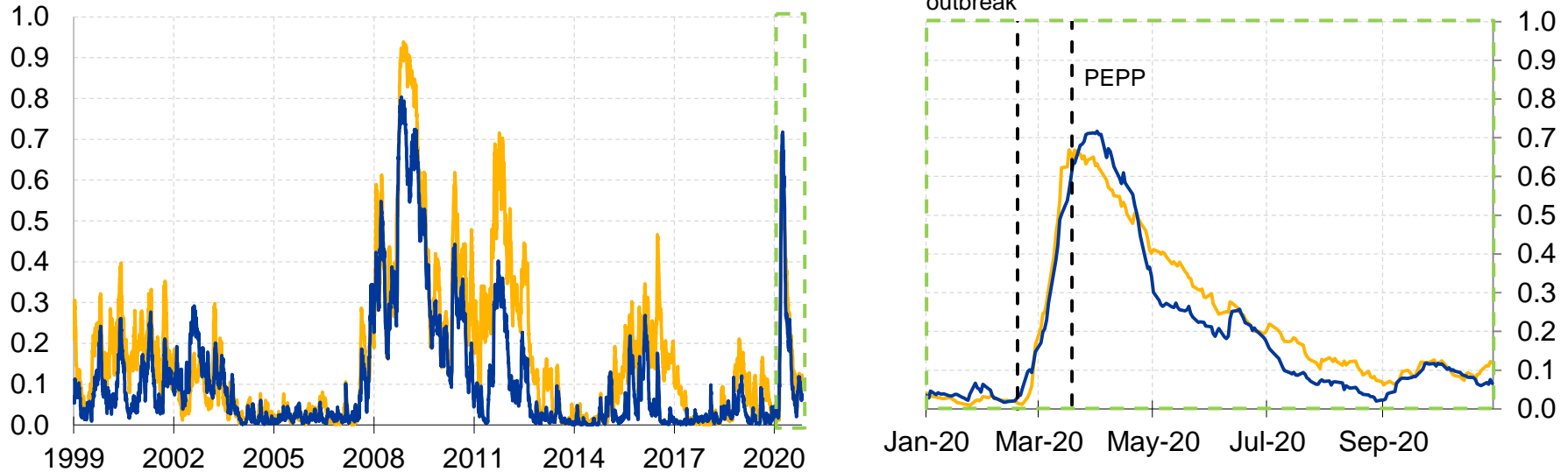
Source: Bloomberg.  
Last observation: 30 October 2020.

# Systemic stress in financial markets threatening financial stability

## Composite Indicator of Systemic Stress (CISS)

(0=No Stress,1=High Stress)

— Euro area  
— US



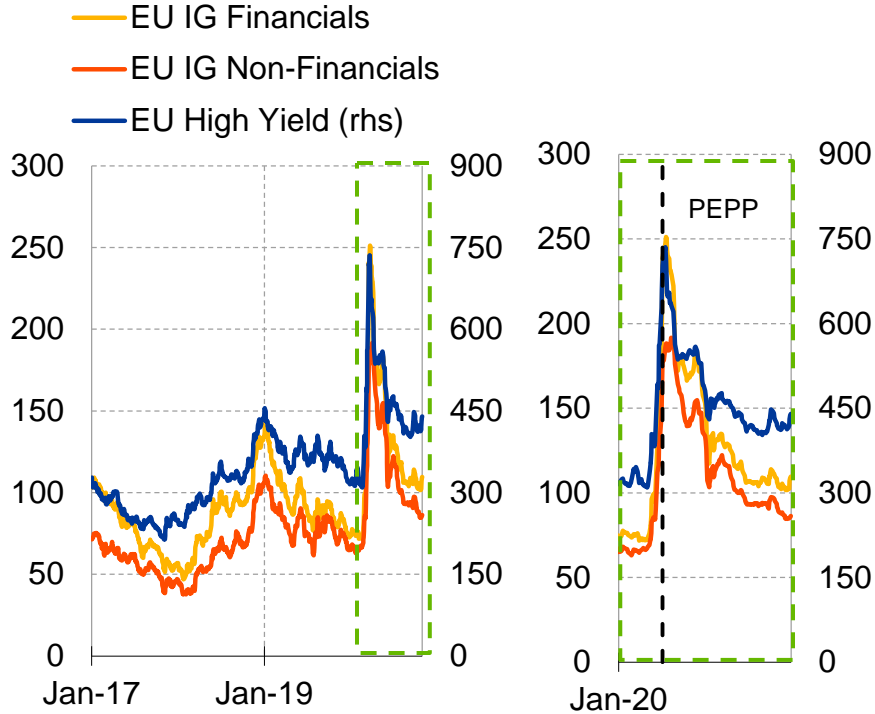
Source: ECB Working Paper No. 1426. CISS aggregates stress symptoms across money, bond, equity and foreign exchange markets and is computed from time-varying correlations among individual asset returns.

Last observation: 29 October 2020.

# Private purchases under PEPP reducing borrowing costs and reviving primary market

## Corporate bond spreads

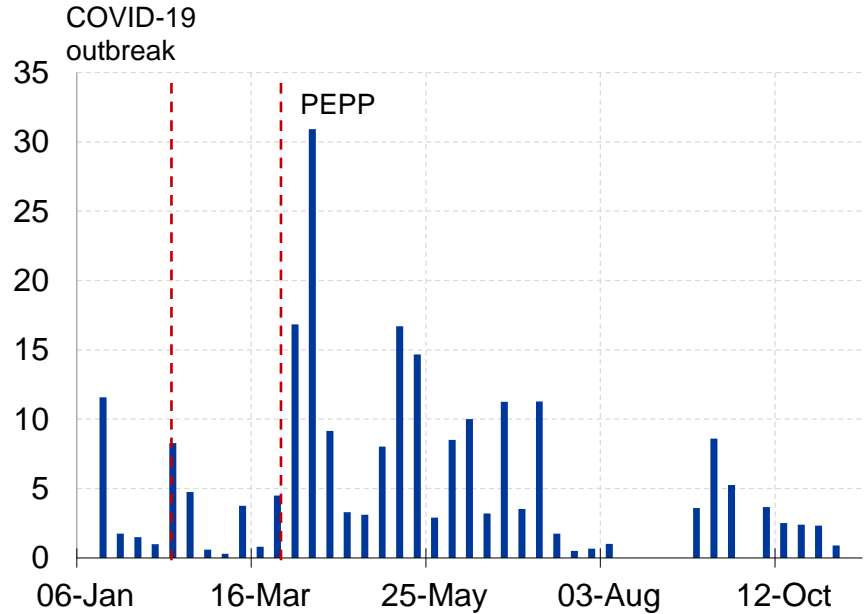
(basis point)



Source: Iboxx.  
Last observation: 30 October 2020.

## Issuance of CSPP- and PEPP-eligible corporate bonds

(EUR billion)

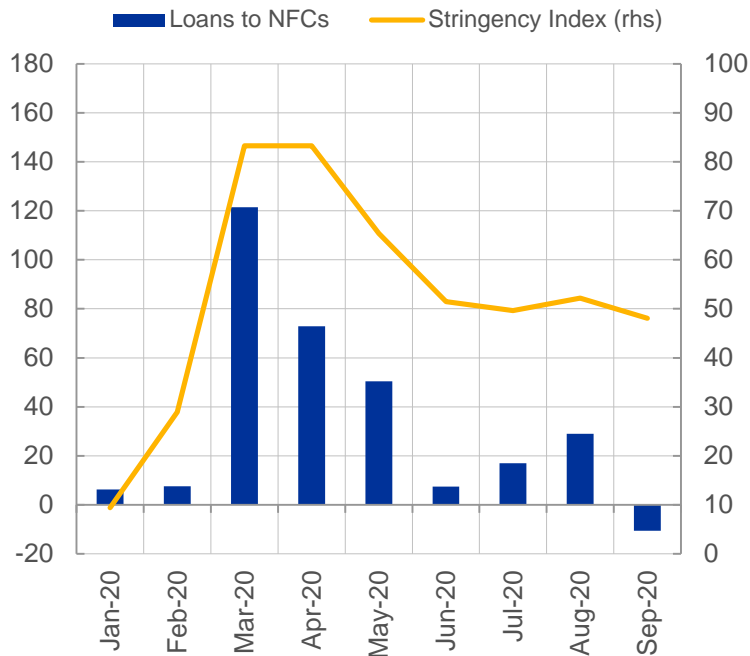


Source: Dealogic and ECB calculations. Notes: Dates refer to the Monday of each week.

# Banks acting as backstop to the economy, supported by ECB liquidity operations

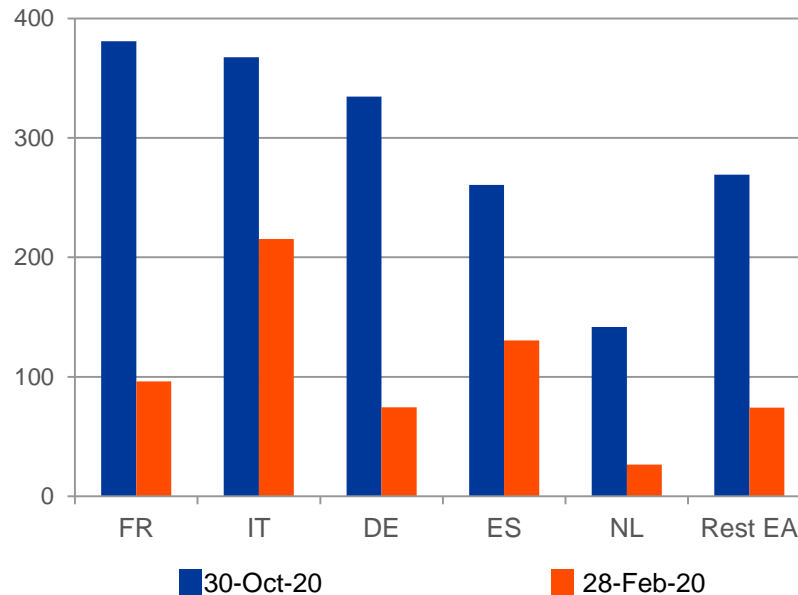
## MFI loans to non-financial corporations and stringency index

(lhs: EUR bn; rhs: index)



## Recourse to ECB liquidity-providing operations

(EUR billion)



Sources: ECB, Oxford University and ECB staff calculations.

Notes: The stringency index is a composite index produced by the University of Oxford that captures the strength of government restrictions on social and business activity in response to COVID-19. The index for the euro area is the GDP-weighted average of the indexes for individual euro area countries. A level of 100 denotes the maximum level of restrictions.

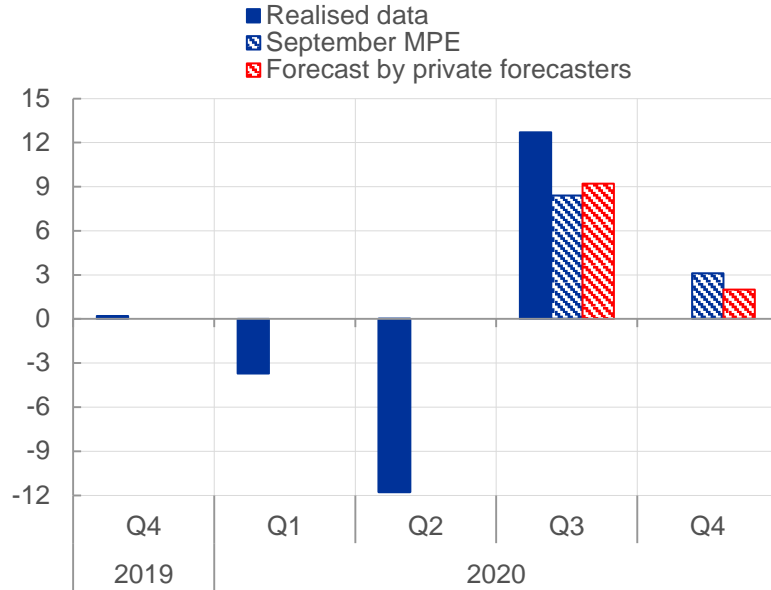
Source: ECB calculations.

Notes: Includes recourse to MROs, TLTROs and LTROs.

# Faster-than-expected recovery in Q3 but growing downside risks for Q4

## Real GDP

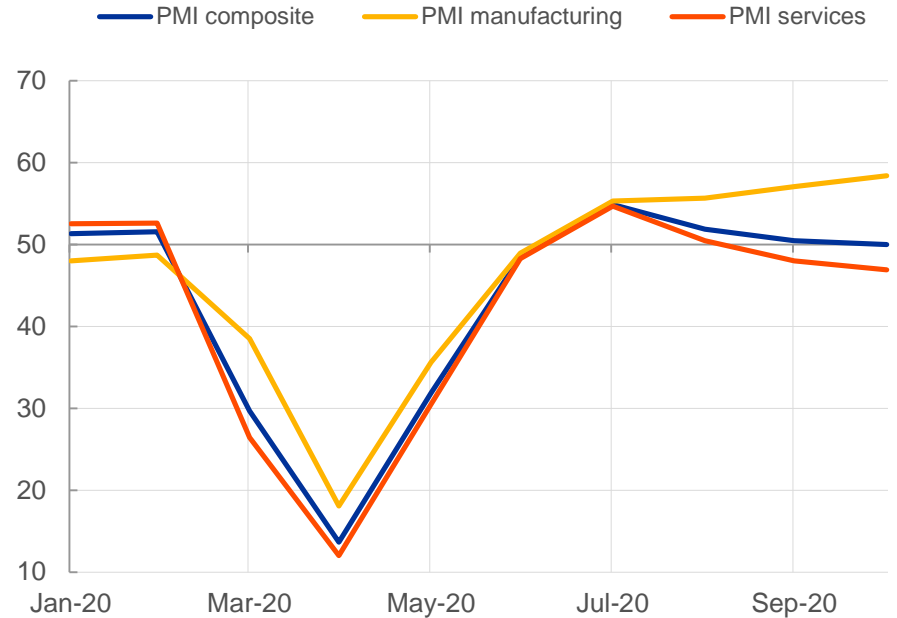
(quarter-on-quarter percentage change)



Sources: Eurostat, September 2020 ECB staff macroeconomic projections exercise and Bloomberg.  
Note: Private sector forecasts for 2020Q3 refer to expectations taken on 29 October 2020 and to 2 November 2020 for 2020Q4.

## Purchasing Managers' Indices

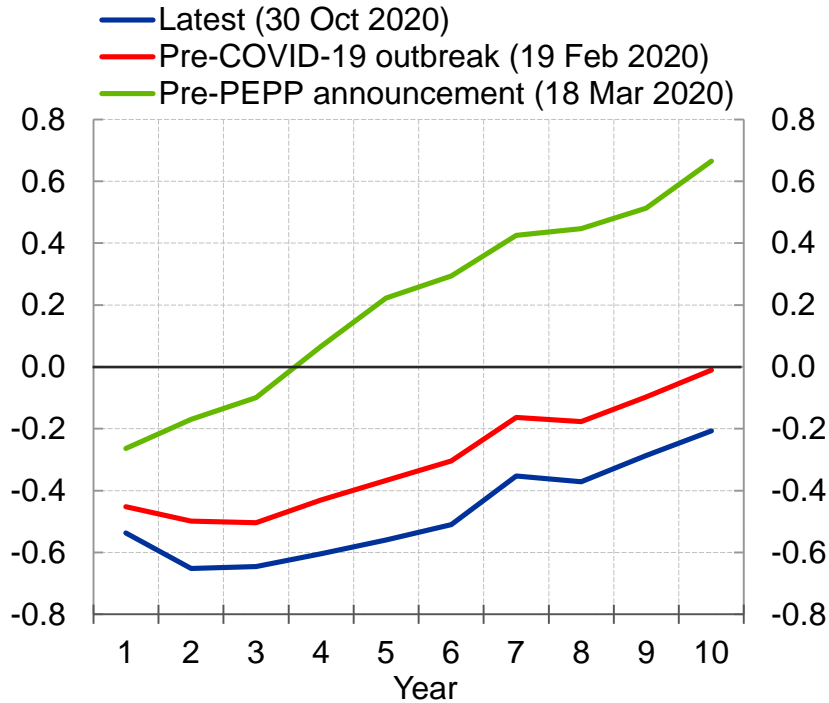
(diffusion index, 50 = no change)



Source: Markit.  
Note: PMI manufacturing refers to PMI manufacturing output.  
Latest observation: October 2020.

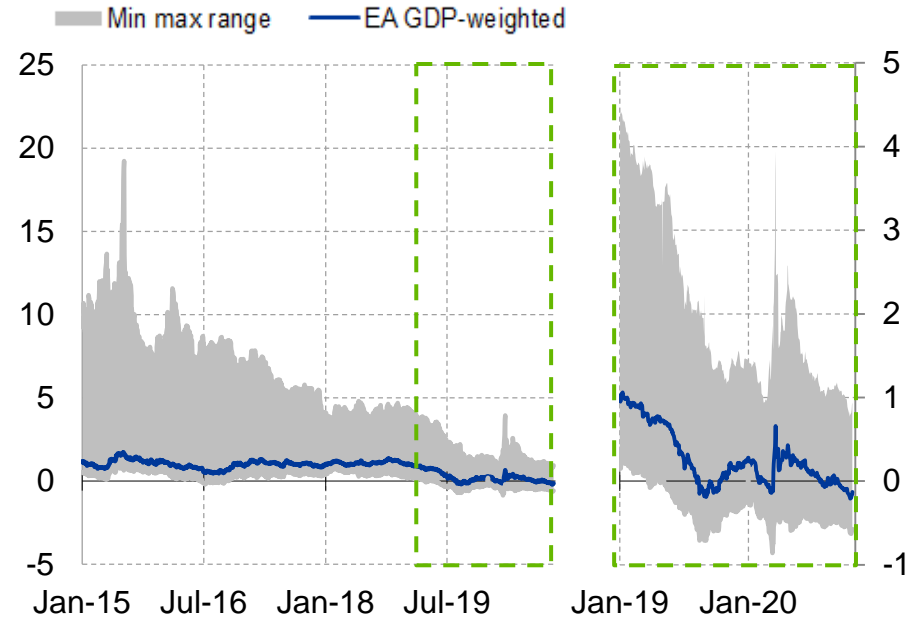
# Financial conditions at historically accommodative level across the euro area

## Euro area GDP-weighted yield curve (percent)



Source: Bloomberg.  
Last observation: 30 October 2020.

## Euro area 10-year GDP-weighted yield and min-max range of country yields (percent)



Source: Bloomberg.  
Last observation: 30 October.

# Precautionary motives reinforcing earlier trend towards higher savings

## Major purchases and actual saving rate

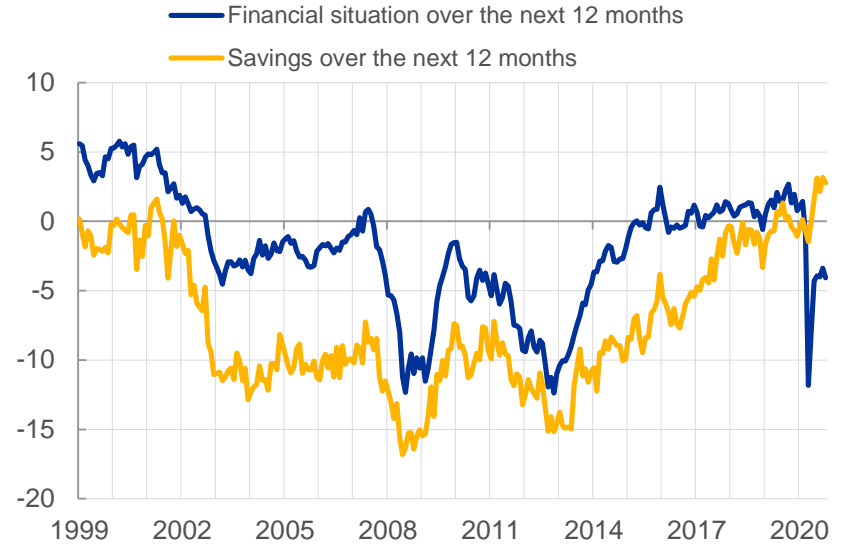
(lhs: percentage balance; rhs: percentage of disposable income, four-quarter moving sum)



Source: Eurostat and DG-ECFIN.  
Latest observation: 2020Q2 for saving rate and October 2020 for major purchases.

## Financial situation and savings of households over the next 12 months

(percentage balance)



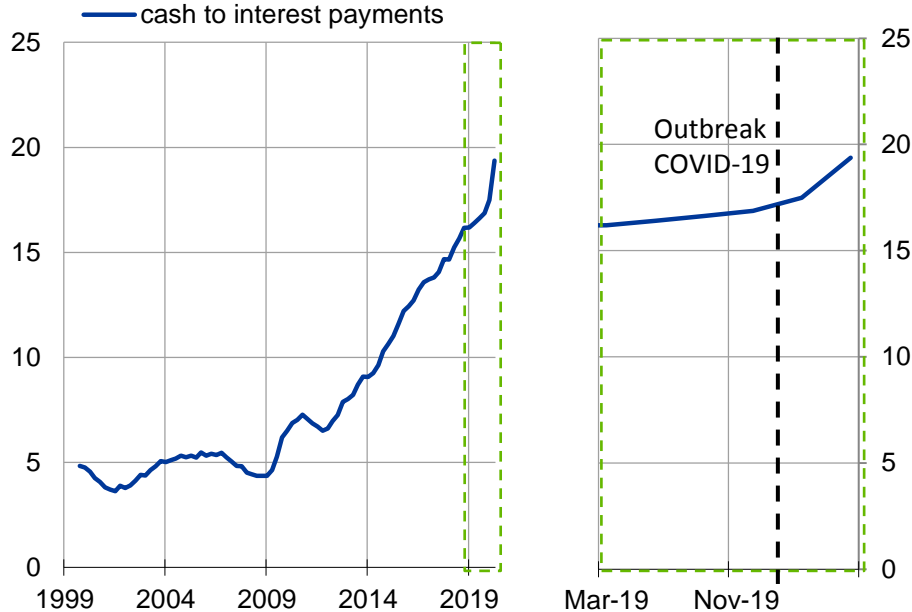
Source: DG-ECFIN.  
Latest observation: October 2020.



# Significant liquidity buffers of firms but looming debt overhang

## Cash coverage of non-financial firms

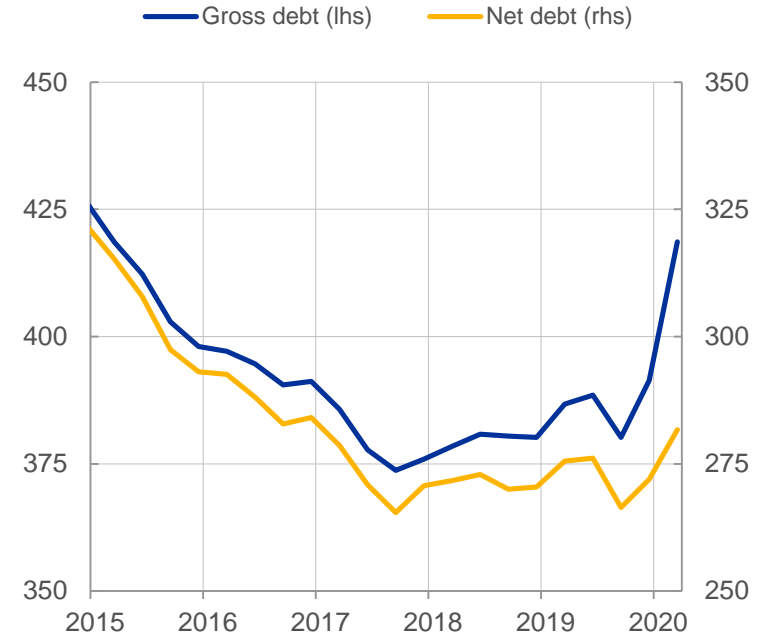
(four quarter moving sum of cash to gross interest payments)



Source: ECB calculations.  
Last observation: 2020Q2.

## Non-financial firm debt

(percentage of gross operating surplus)

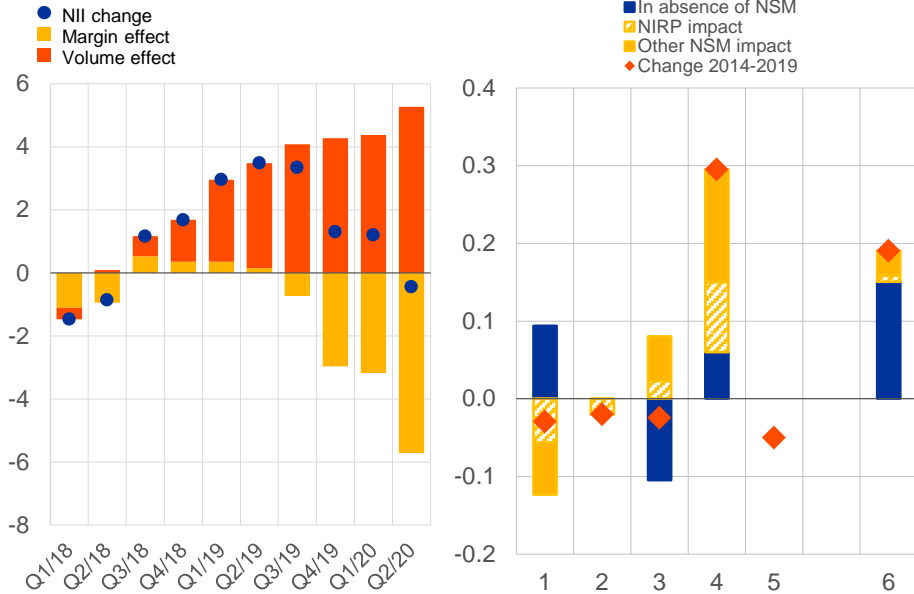


Sources: Eurostat, ECB and ECB calculations.

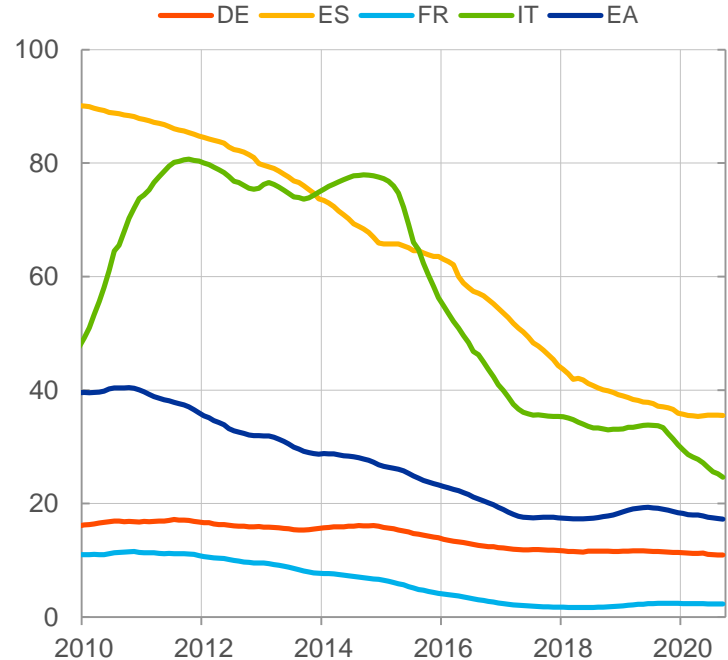
Notes: Debt is consolidated. Gross debt is defined as sum of total loans granted to NFCs (net of intra-sectoral lending), debt securities issued and pension liabilities. Net debt is defined as gross debt net of currency and deposit holdings.  
Latest observation: 2020 Q2.

# Declining margins, weaker economy and structural factors weighing on banks' earnings

## Euro area banks' net interest income and changes in bank profitability between 2014 and 2019 (lhs: percentage changes and pp contribution; rhs: percentage of total assets)



## Weight of short-term loans in the cost of borrowing indicator to households for house purchases (percentage)



Sources: ECB and ECB calculations.

Notes: Left panel: Figures are on a trailing four-quarter basis. Based on a balanced sample of 94 SIs. NII stands for net interest income. Right panel: The sample is balanced (covering 194 euro area banks) and adjusted for major mergers and acquisitions. For technical details on the model see Altavilla et al (2018). NIRP stands for Negative Interest Rate Policy. X-axis labels refer to the following items: 1: Net Interest Income excluding excess liquidity charges, 2: Excess liquidity charges, 3: Non-Interest Income, 4: Provisions and Impairments, 5: Operating Expenses, 6: Return on Assets.

Source: ECB.

Latest observation: September 2020.

Notes: The weight is a 24-month moving average of the fraction of new business volumes with initial fixation period up to 1 year over total new business volumes.

**Thank you for your attention**