EUROPEAN CENTRAL BANK

EUROSYSTEM

The ECB's policy in the COVID-19 crisis – a medium-term perspective

10/06/2020

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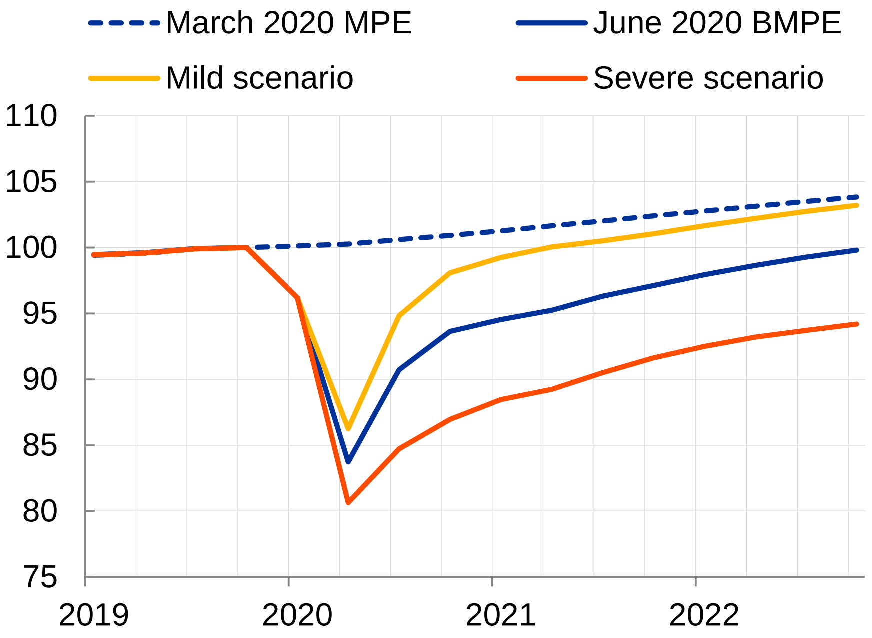
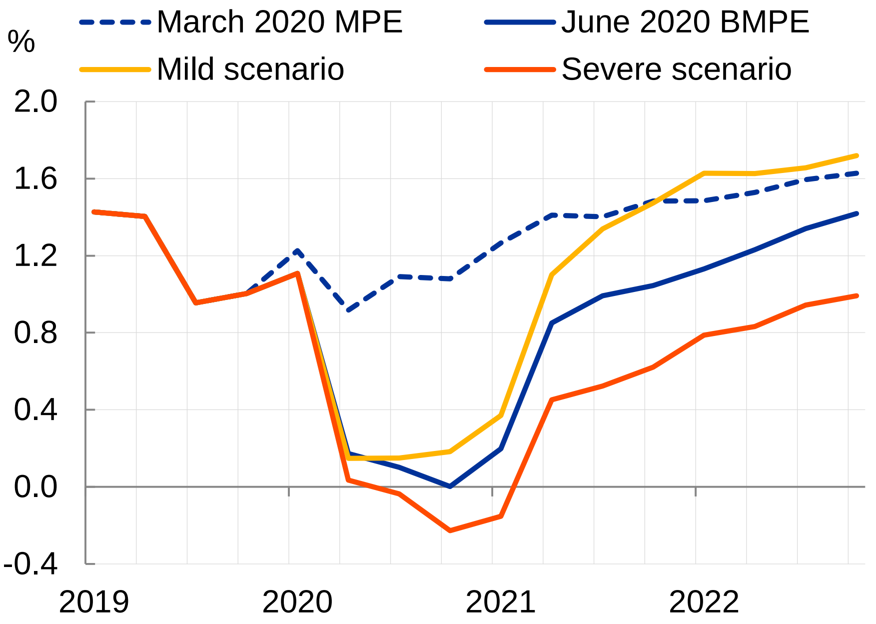
Large uncertainty about economic recovery path

Eurosystem staff projections

Real GDP (index: 2019Q4 = 100)



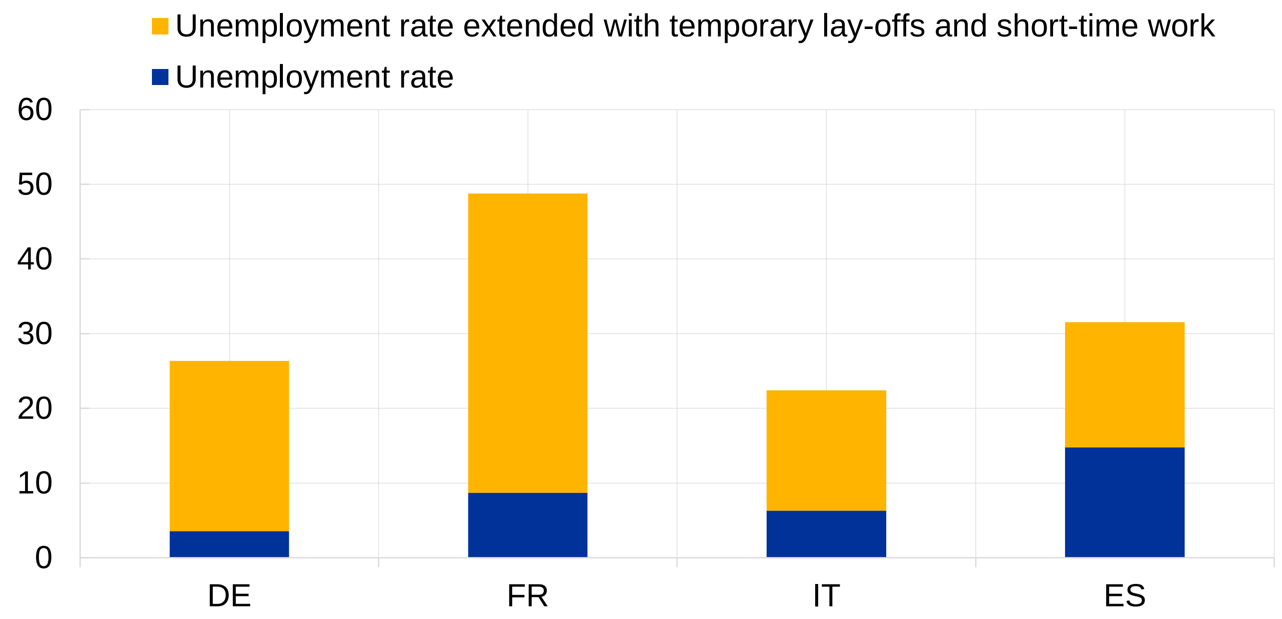
HICP inflation (year-on year)



Source: ECB.

Furlough schemes preventing stronger rise in unemployment

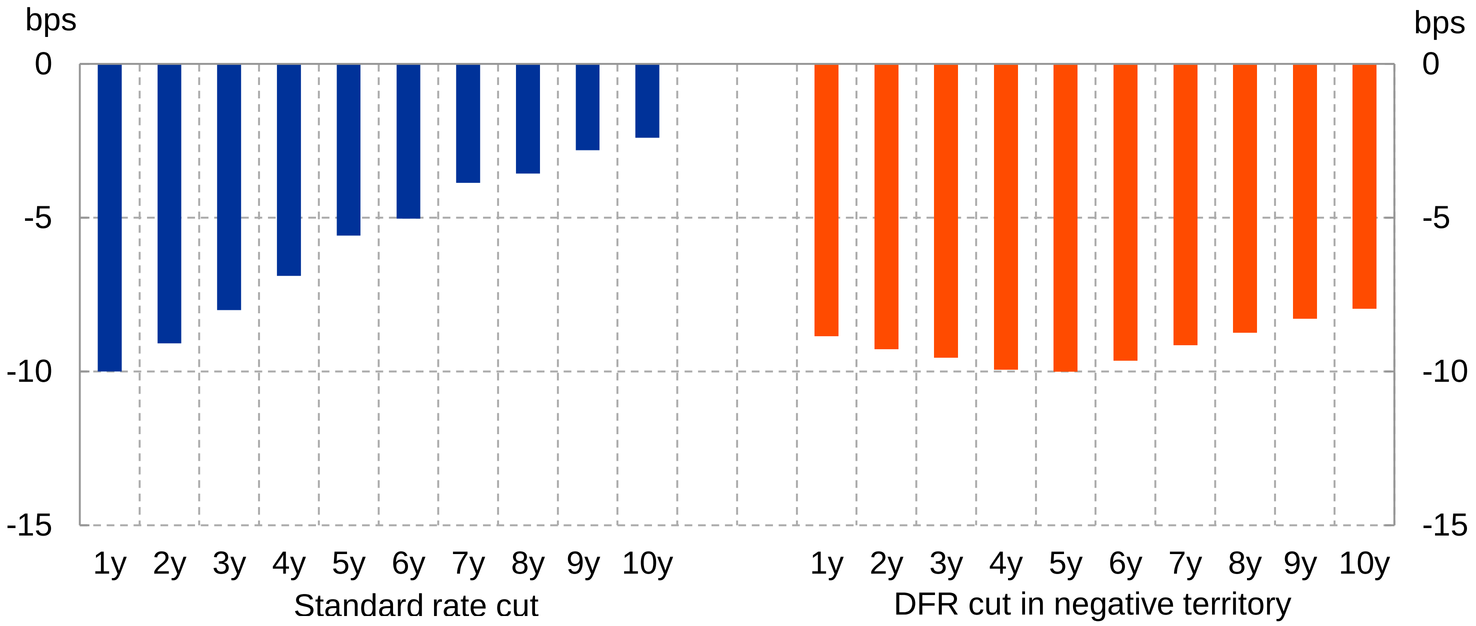
Unemployment rate, temporary lay-offs and short-term work (% of labour force)



Sources: Eurostat, ECB staff calculations and country sources. Notes: The unemployment rate refers to April 2020. The extended unemployment rate includes the number of employees which have been notified under temporary lay-offs and short-time work schemes up to May. This is an upper limit of the number of persons who will eventually participate in such schemes. The final numbers will be lower. Last observation: May 2020.

Stronger portfolio rebalancing effects unleashed by negative rates

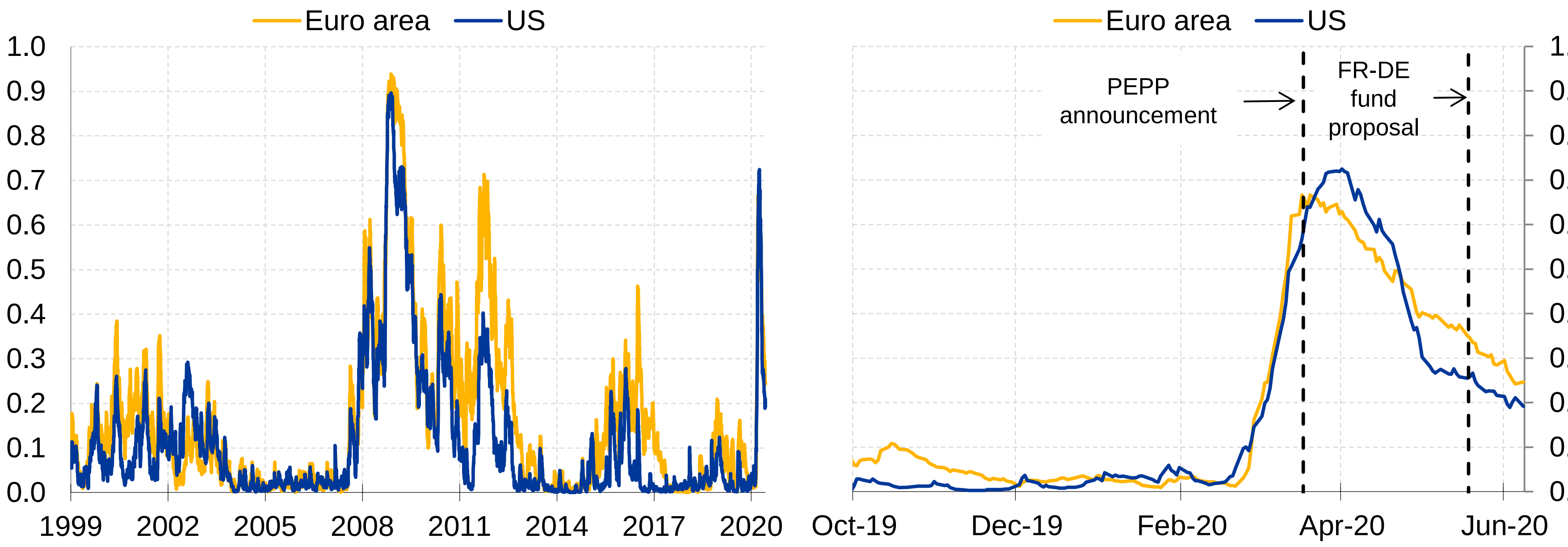
“Footprint” of policy rate cuts across maturity: standard rate cut vs. DFR cut in negative territory



Source: Rostagno, Altavilla, Carboni, Lemke, Motto, Saint-Guilhem and Yiangou (2019). Notes: Term structure refers to OIS. The changes are normalized to a 10 bps decline of the OIS rate at the maturity where the measure exerts the maximum impact, namely 1-year for the standard rate cut and 5-years for the DFR cut

Declining systemic stress in financial markets but still at elevated level

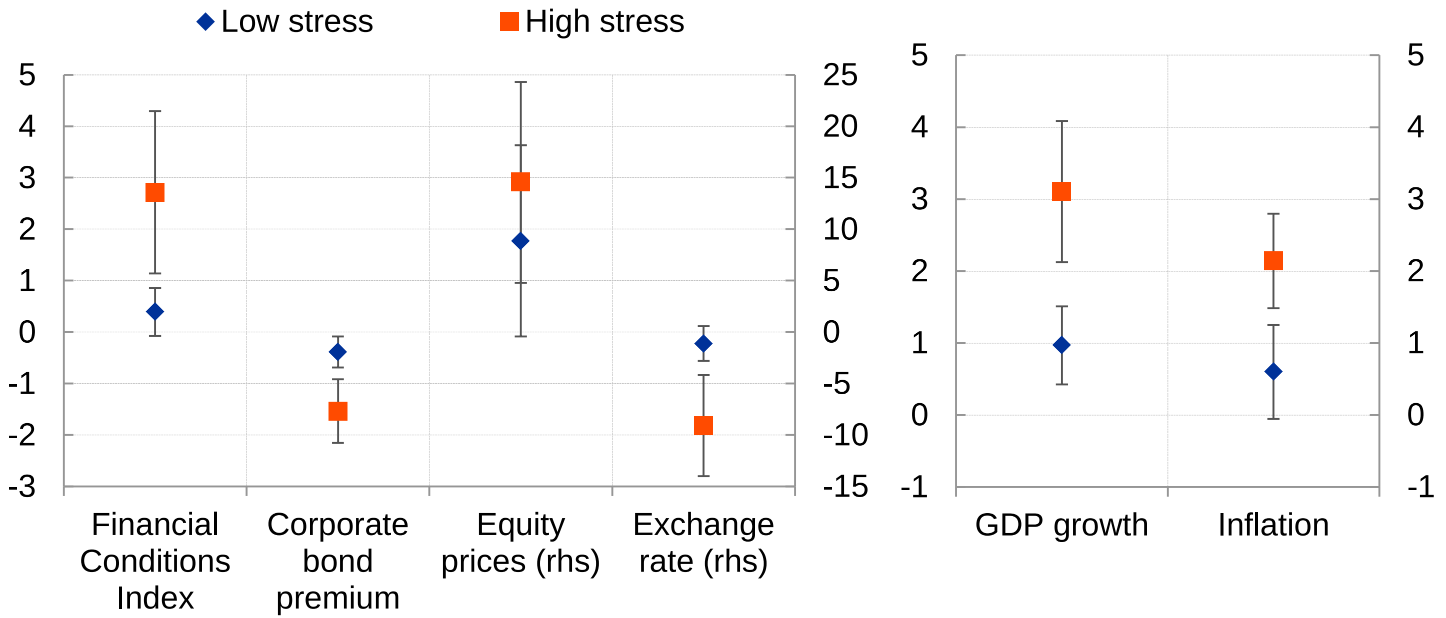
CISS indicator



Source: ECB Working Paper No. 1426. CISS stands for Composite Indicator of Systemic Stress (0=No Stress,1=High Stress). It aggregates stress symptoms across money, bond, equity and foreign exchange markets and is computed from time-varying correlations among individual asset returns.
Last observation: 08/06/2020

Asset purchases more effective in periods of market stress

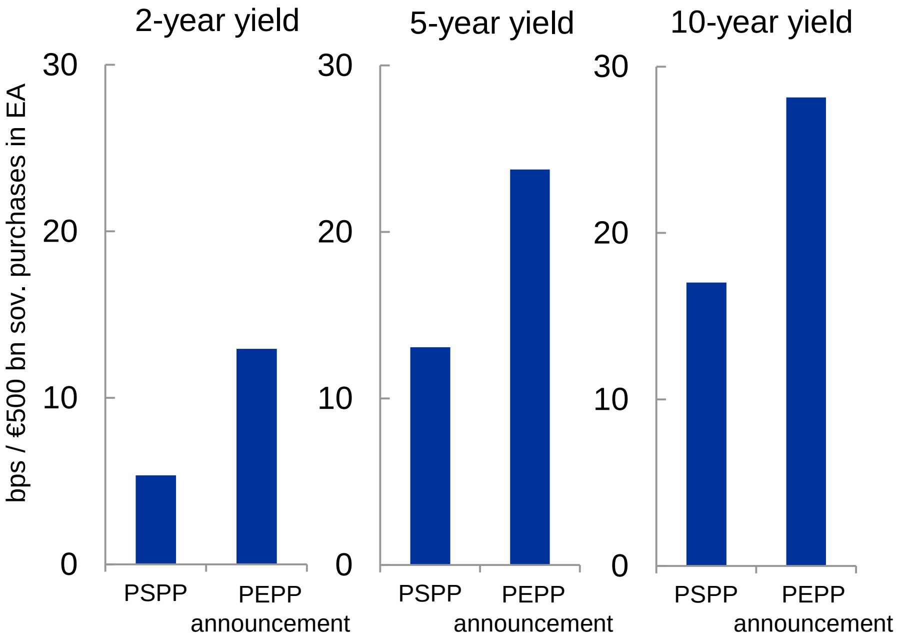
Impact of asset purchases during low and high market stress: the US experience



Source: Motto, Rast and Ristiniemi (2020), mimeo.
Notes: Local projections on monthly sample (2008-2019). Low stress events refer to periods when the VIX is below 25. IRFs scaled to a 50bp decline in 10-year yield on impact. Markers denote point estimates, error bars 68% significance bands.

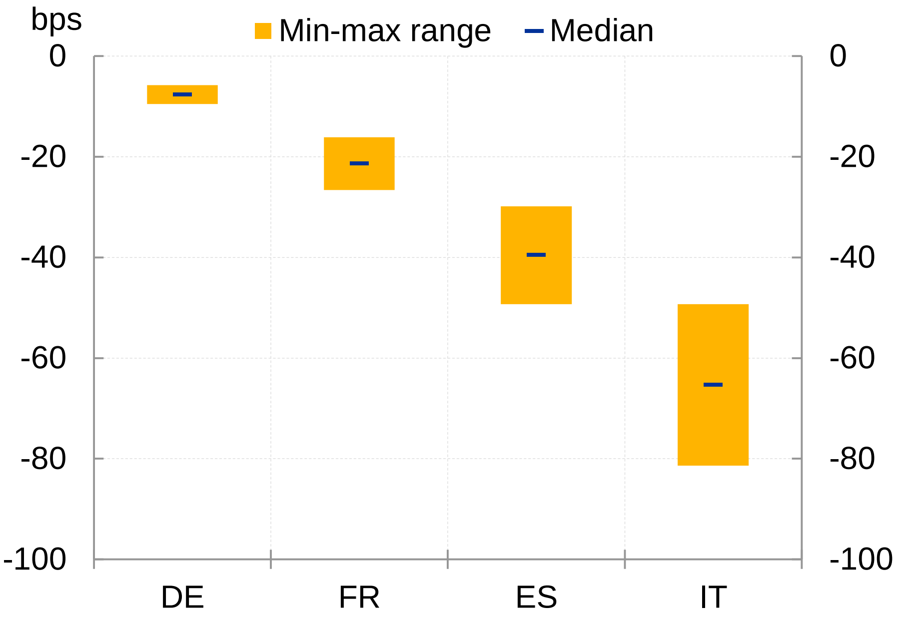
PEPP: highly effective and mitigating fragmentation

GDP-weighted average sovereign yield elasticities



Sources: Refinitiv, ECB calculations. Notes: PEPP estimates derived from an event study based on a two-day window after 18 March. PSPP estimates based on Eser et al. (2019). Elasticities refer to the change in (GDP-weighted) yields of the Big4 EA countries in response to €500bn of sovereign bond purchases in the euro area. No reinvestment assumed.

Estimated impact of PEPP envelope on 10-year sovereign yields across the four largest EA countries



Sources: Refinitiv, ECB calculations. Notes: The bigger impact corresponds to the 2-day reaction of yields to the PEPP announcement in March 2020. The smaller impact (upper part of the boxes) is based on the model by Eser et al. (2019) which uses PEPP-implied projected duration extraction to estimate the impact on GDP-weighted Big4 sovereign yields. This average yield impact is then distributed to country level by assuming the same relative impacts as for the event approach.

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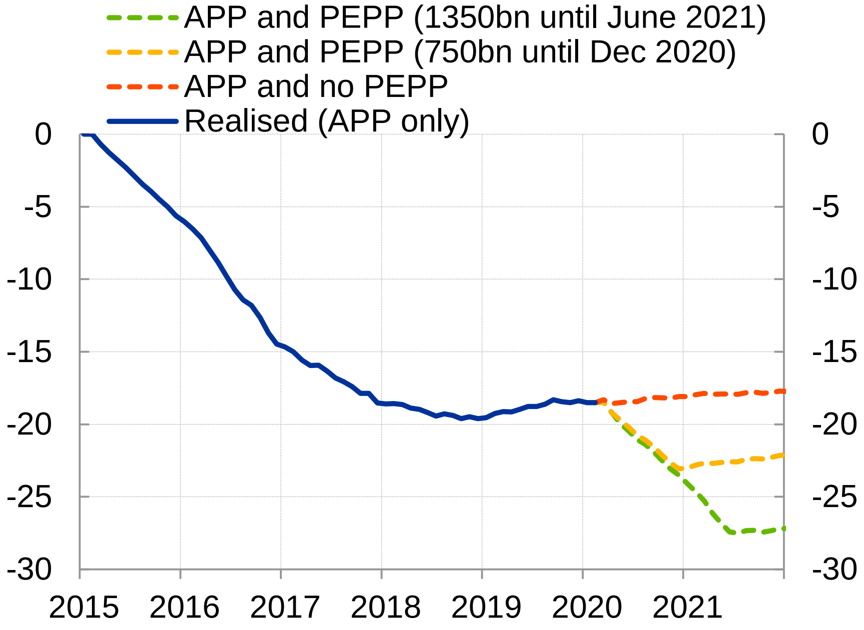
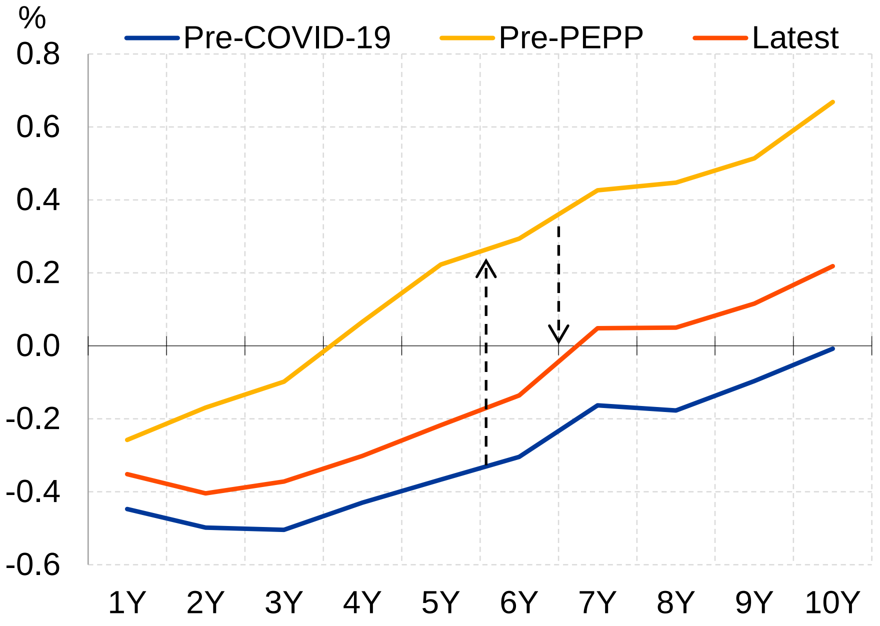
PEPP: absorbing duration risk and easing financial conditions

Impact of asset purchases on free-float ratio of the four largest EA countries (percentage points)



Sources: ECB calculations. Notes: The figure shows the compression of a free-float measure (based on the ratio of bond holdings of price-sensitive investors to total bond supply, both in 10-year equivalents, as in Eser et al. 2019) induced over time by the successive vintages of the APP and the PEPP.

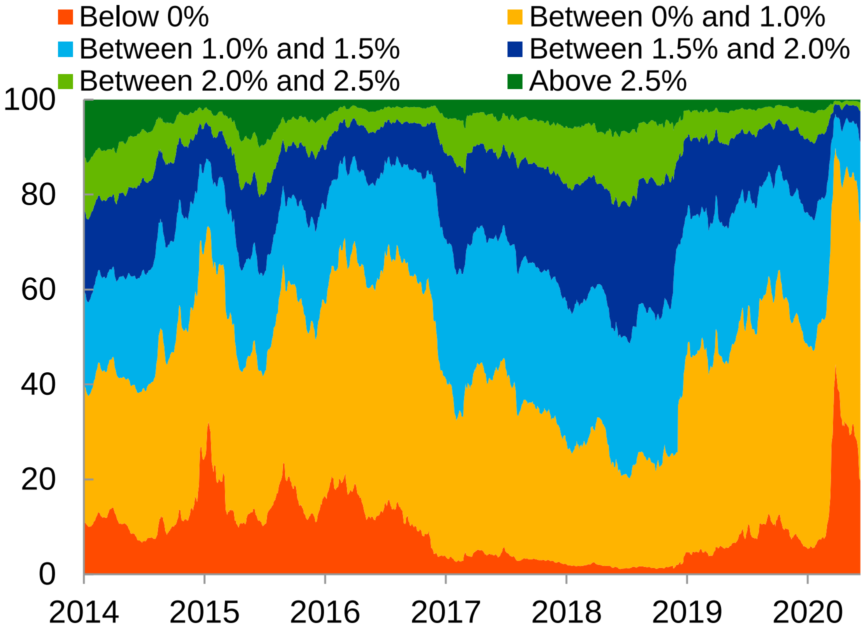
Euro area GDP-weighted yield curve



Source: ECB. Notes: Pre-COVID-19 refers to 19 February 2020. Pre-PEPP to 18 March 2020. Latest refers to 9 June 2020.

Dispersion in inflation expectations: financial markets vs. households

Option implied risk-neutral distribution of average inflation over the next 5 years (percentages)



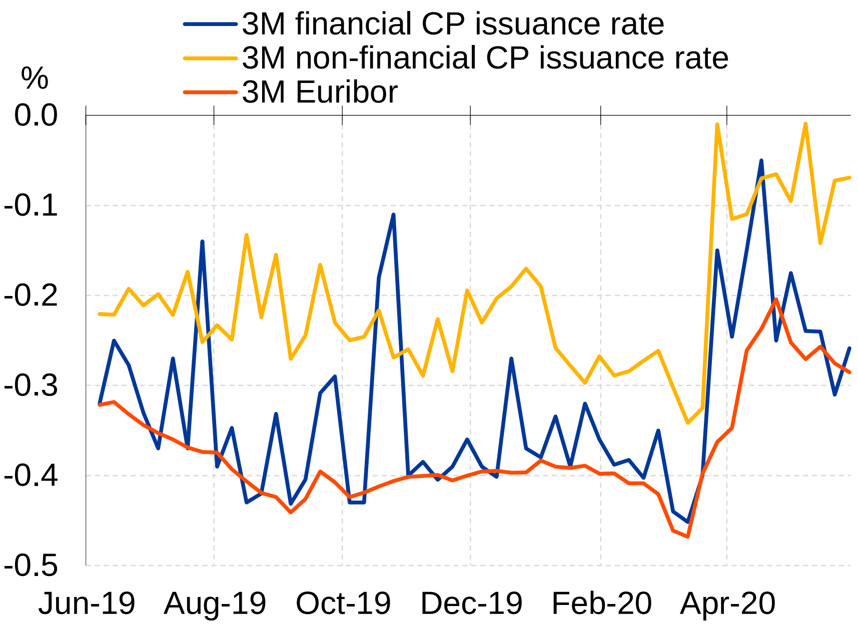
Sources: Bloomberg, Refinitiv, ECB calculations.
Notes: Probabilities implied by five-year zero-coupon inflation options, smoothed over five business days. Risk-neutral probabilities may differ significantly from physical, or true, probabilities. Latest observation: 8 June 2020

Share of euro area households that expect inflation to increase more rapidly over the next 12 months

Source: European Commission/ Haver Analytics.
Notes: Comparison relative to inflation over the past 12 months. Last observation: May 2020.

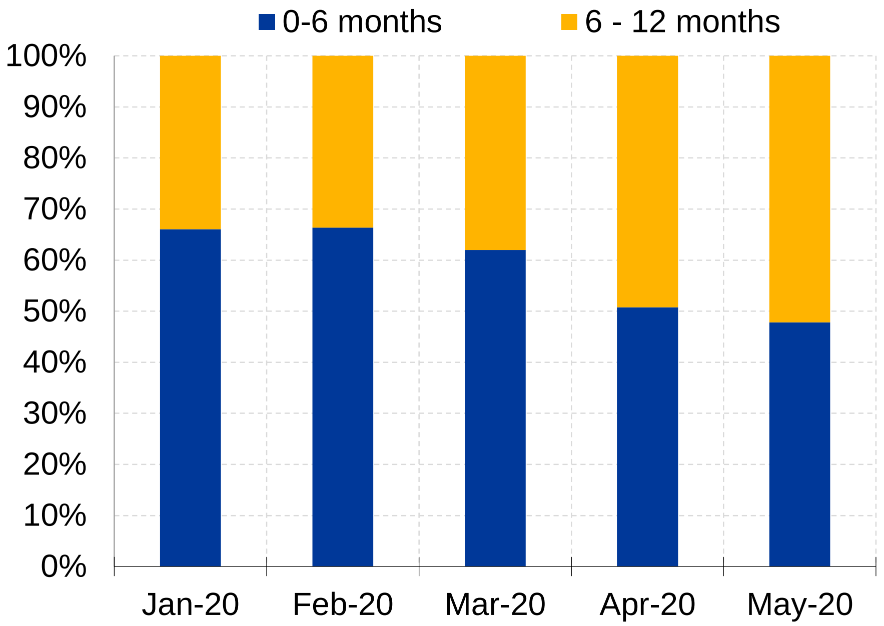
Stabilising rates on non-financial commercial paper, longer tenors supported by Eurosystem purchases

Commercial paper rates and Euribor



Source: NEU Banque de France
Note: Issuance of investment grade (short-term rating) CP under French law, weekly data. Last observation: 29 May 2020.

Commercial paper: outstanding amounts



Sources: CSDB and ECB calculations. Notes: Non-financial corporate issuers as per CSDB issuer classification. Non-financial CP segment in the CSDB used as a proxy for the Eurosystem eligible CP universe. Outstanding amount breakdown by initial maturity. Last observation: 31 May 2020.

Thank you