

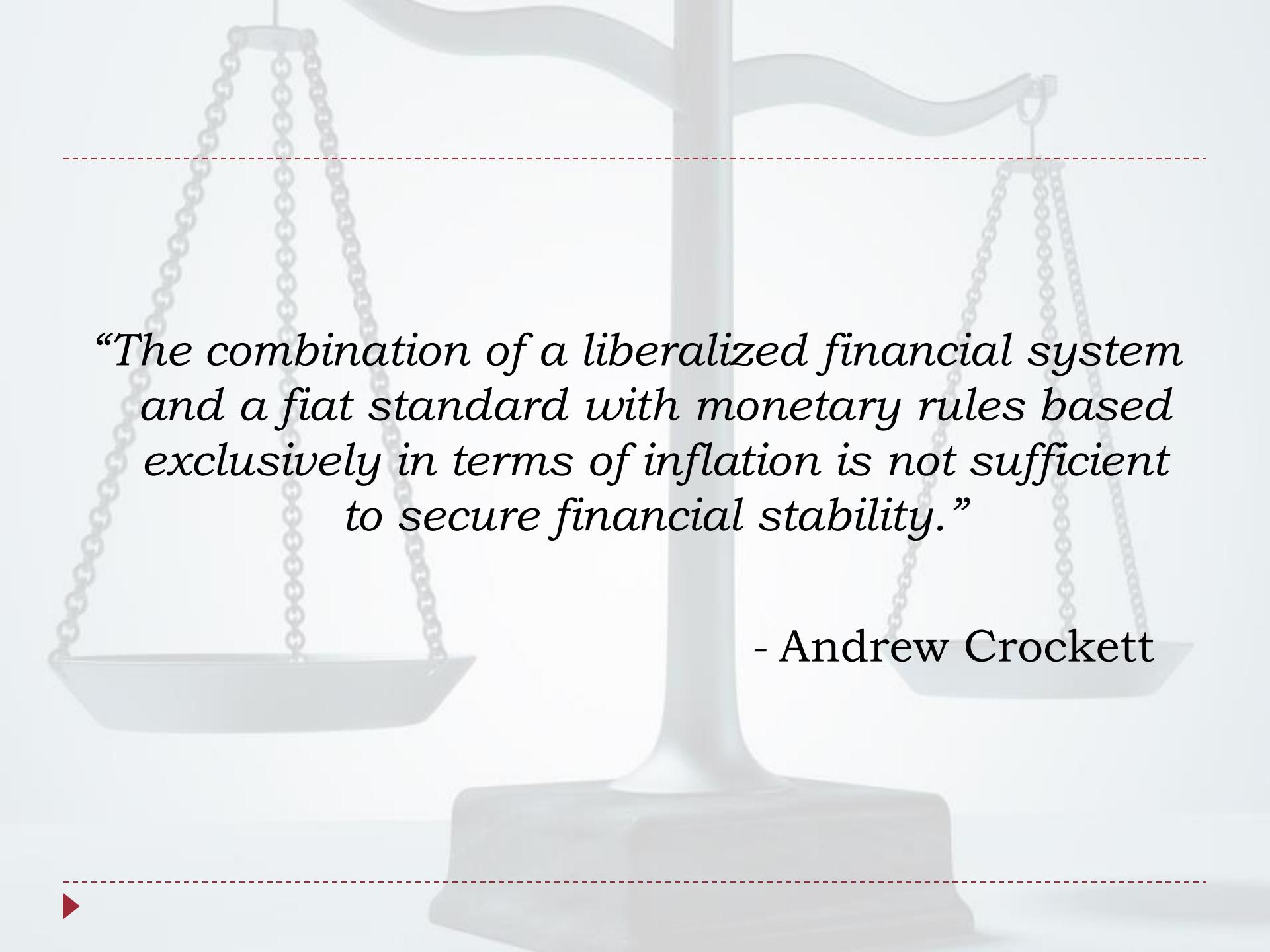
Annual conference
Impact of Economic Policies on Attaining Resilient
Growth

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**Challenges for Monetary Policy in
EMU after the financial crisis**

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“The combination of a liberalized financial system and a fiat standard with monetary rules based exclusively in terms of inflation is not sufficient to secure financial stability.”

- Andrew Crockett

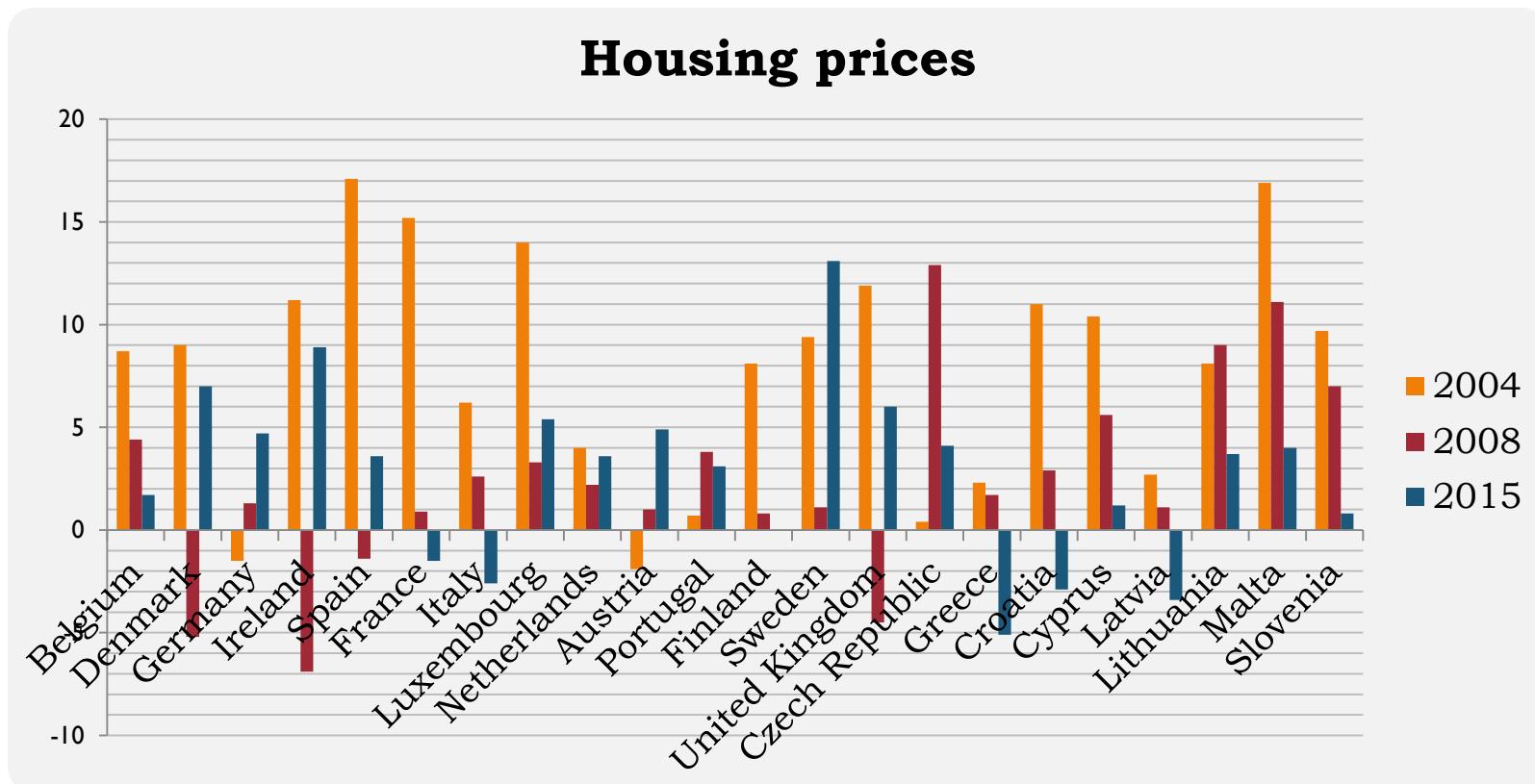


1. Introduction

- ▶ **Q1:** The monetary policy has been successful in maintain price stability, but has it been equally successful in sustaining growth on the short and long run?
- ▶ **Q2:** Why unconventional measures had to be taken and how sustainable are they on the long run?
- ▶ **Q3:** Whether, and to what extent, monetary policy should take account of financial market developments before a crisis occurs?
- ▶ **Objectives:**
 - ▶ critical analysis of (in)efficiency of the monetary policy to sustain price stability and growth in uncertain times
 - ▶ analyzing the sustainability on the long-term of the unconventional measures taken by the ECB after the crisis
 - ▶ Identifying future challenges for the monetary policy
 - ▶ providing recommendations for future shaping of monetary policy measures

1. 1 Monetary policy prior the crisis

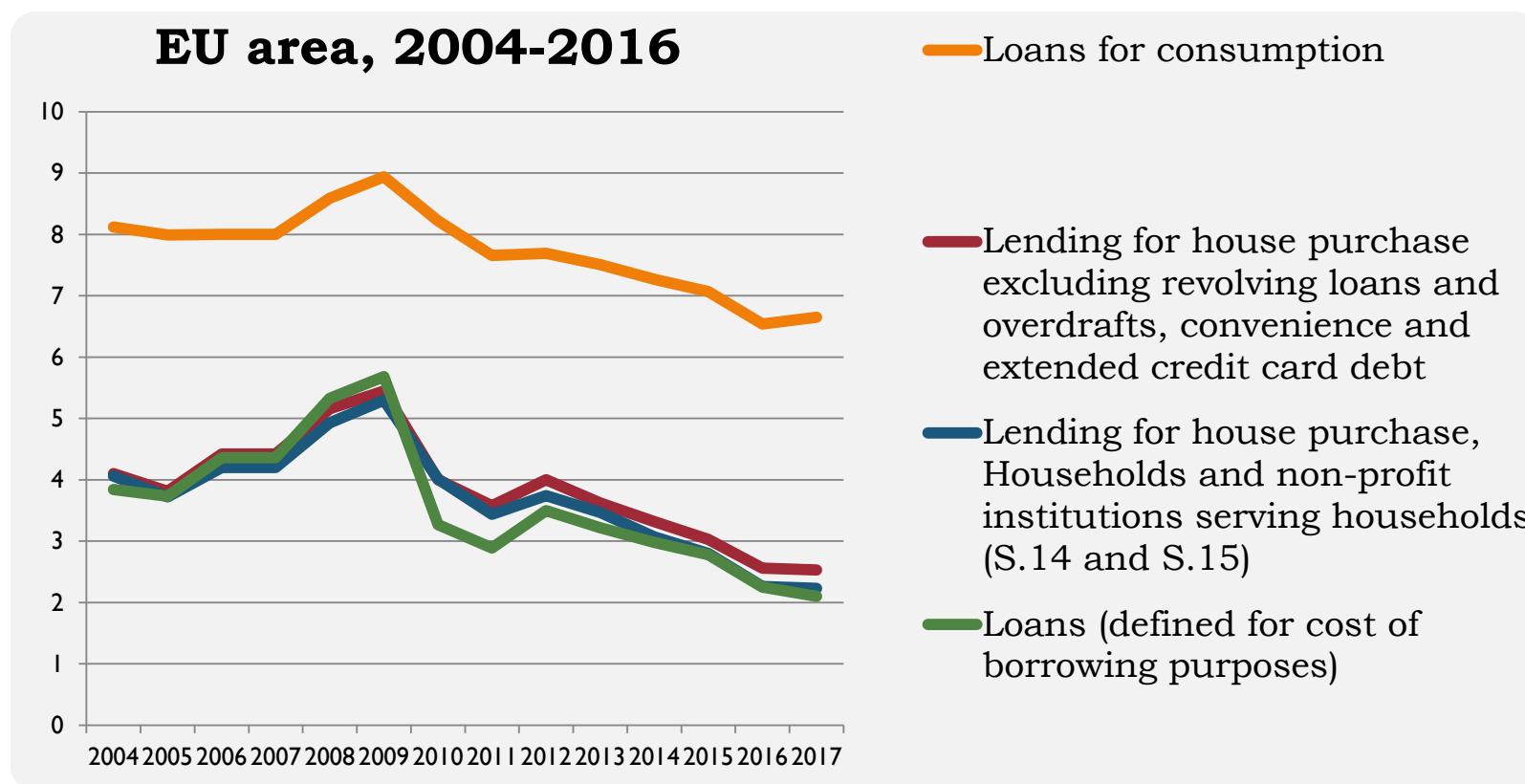
- ▶ Primary objective: price stability through steering short term interest rates;
- ▶ Temporary inefficiencies, such as asset price bubbles, were considered possible, but the majority view was that monetary policy could do little to counteract such developments;



- ▶ Source: Statistical data warehouse of European Central Bank <http://sdw.ecb.europa.eu/home.do>, Accessed on 20/10/2016

1.2 Borrowing and landing indicators

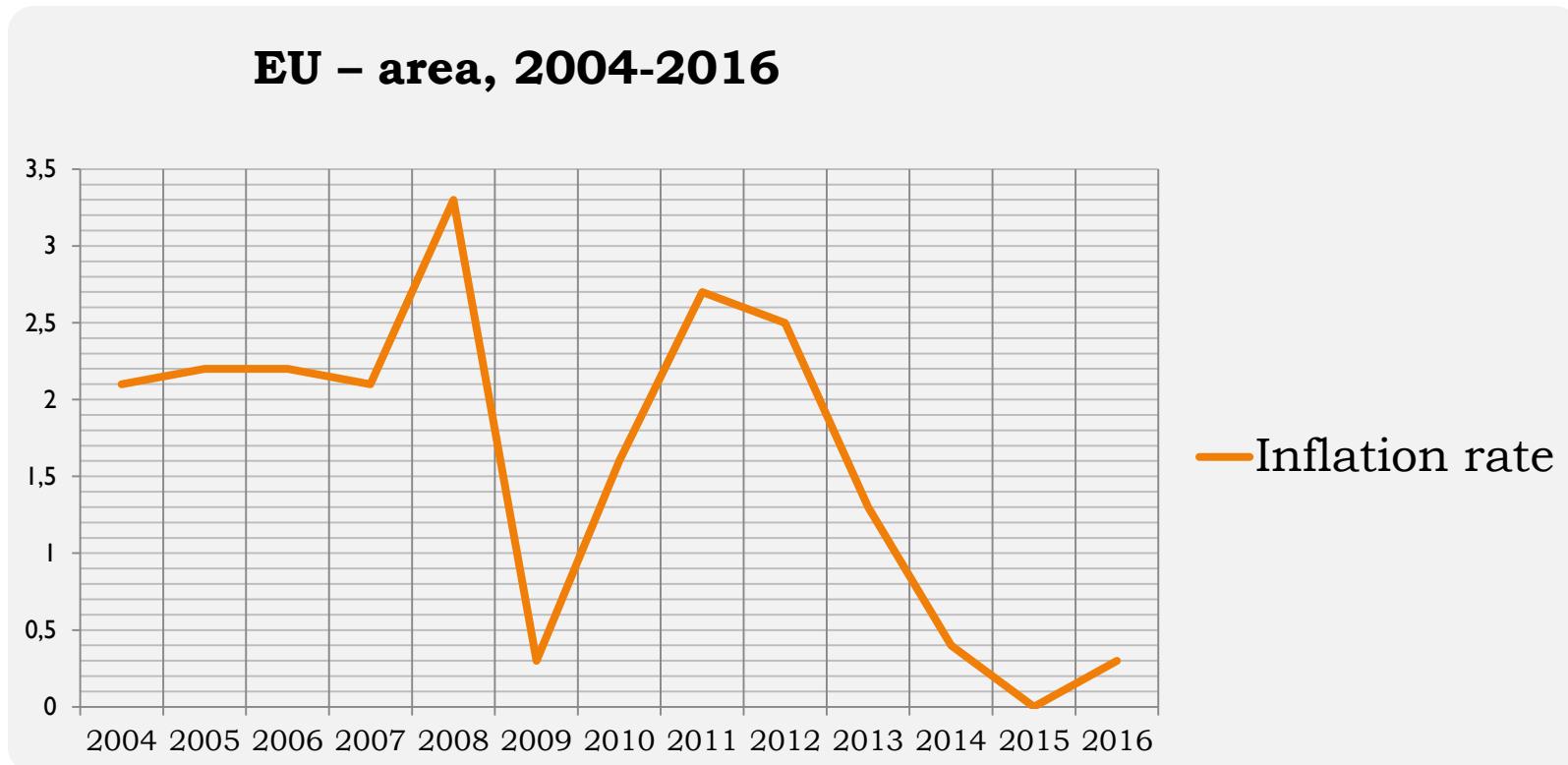
Accommodative monetary conditions can lead to massive increases in asset prices and credit aggregates without triggering movements in consumer price inflation.



► Source: Statistical data warehouse of European Central Bank <http://sdw.ecb.europa.eu/home.do>, Accessed on 20/10/2016

1.3 Inefficiency of standard monetary measures

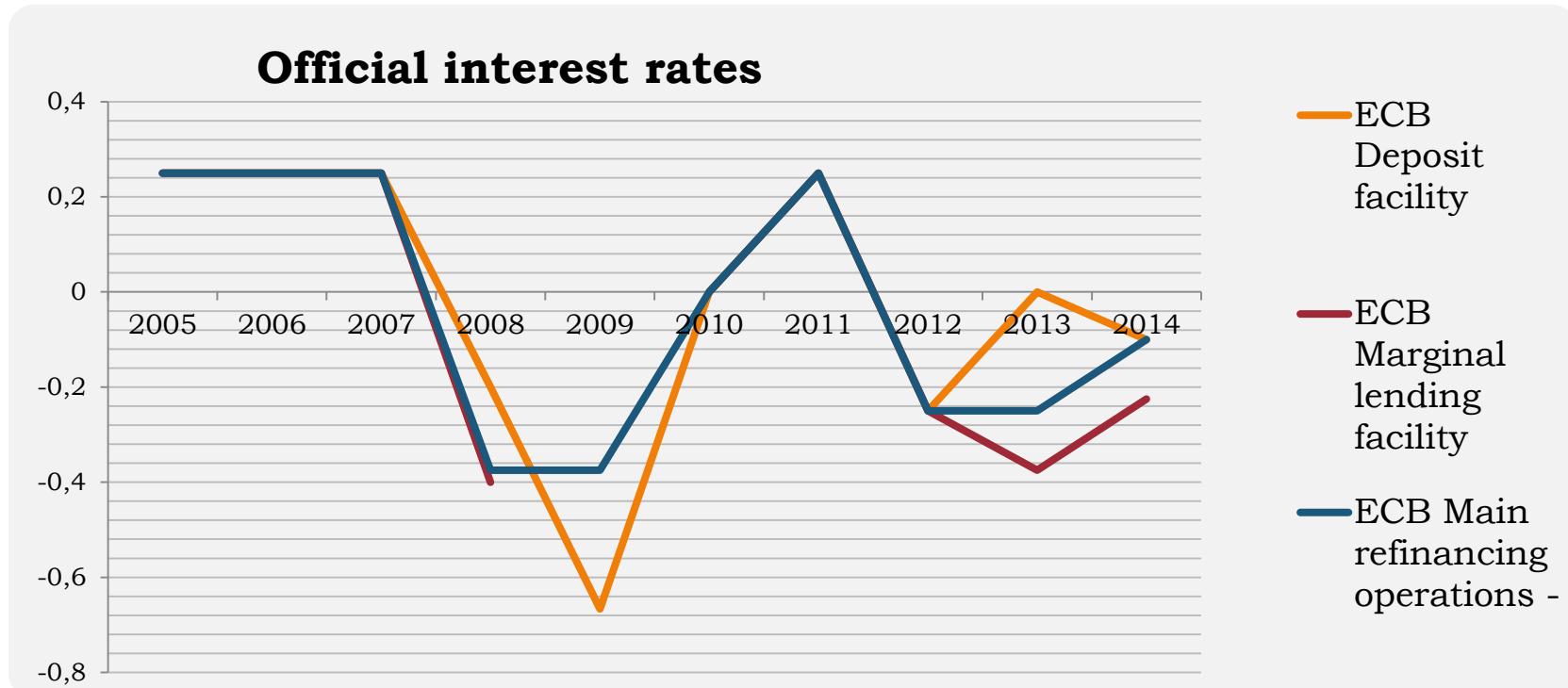
- During the last decade, policy was almost always accommodative.
- From 2001 to 2006, asset prices and credit both boomed. At the same time, inflation appeared largely under control.



- Source: Statistical data warehouse of European Central Bank <http://sdw.ecb.europa.eu/home.do>, Accessed on 20/10/2016

2. The case for unconventional policy measures

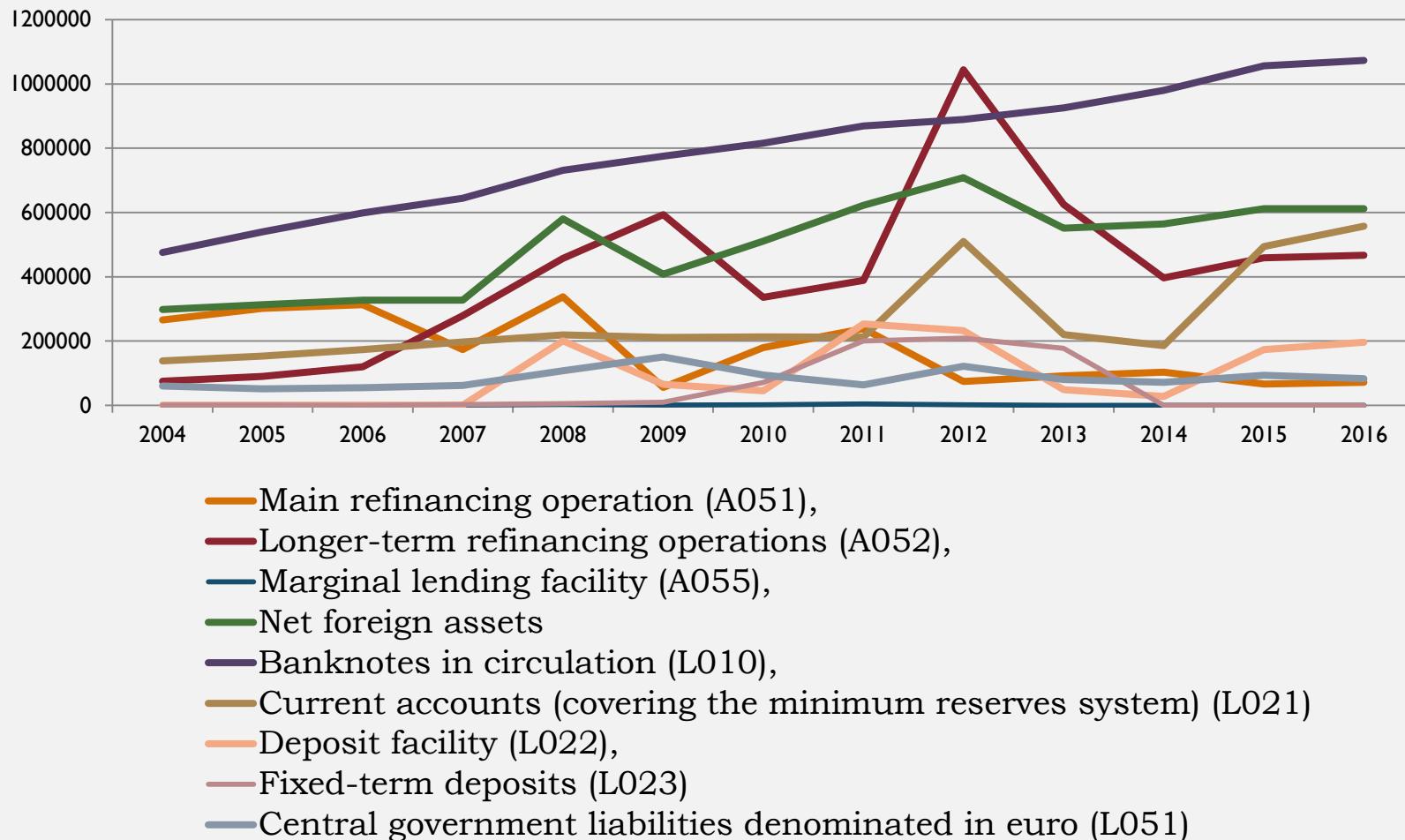
- ▶ Why the Keynesian theory fails – The zero lower bound problem;
- ▶ Steering short term interest rate has little effect due to tight margins;
- ▶ Unequal distribution of indebted population across geographical regions, sectors and social classes;
- ▶ Stagnation of global growth;



- ▶ Source: Statistical data warehouse of European Central Bank <http://sdw.ecb.europa.eu/home.do>, Accessed on 20/10/2016

3. 1 Unconventional policy measures

Refinancing options, EU – 2004-2016

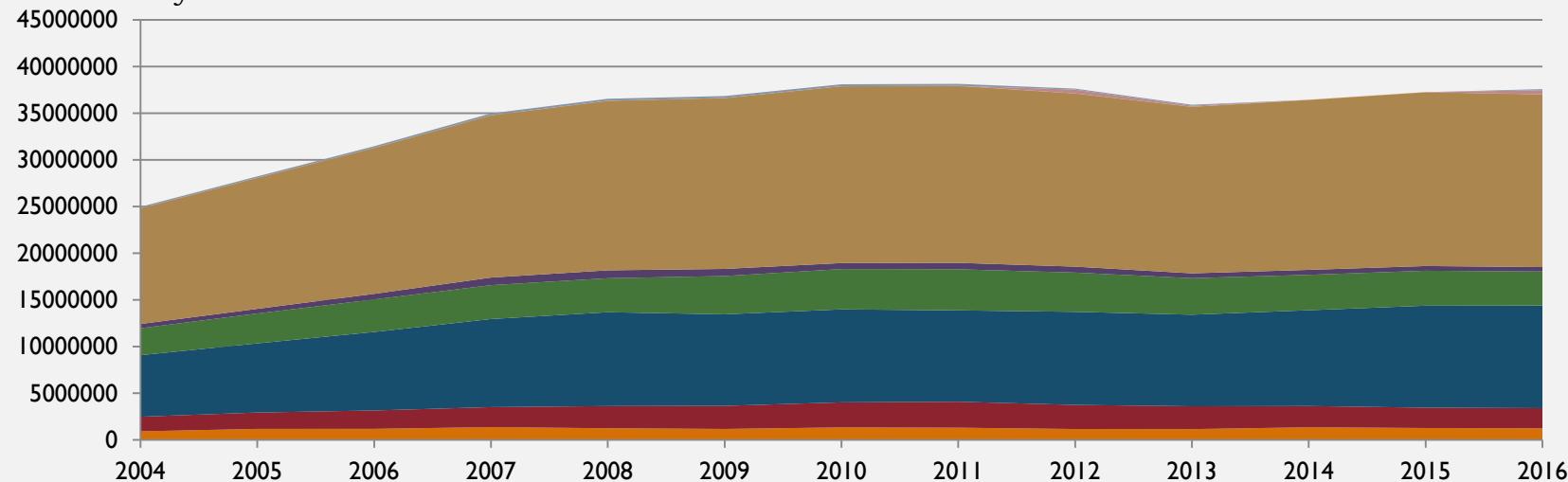


► Source: Statistical data warehouse of European Central Bank <http://sdw.ecb.europa.eu/home.do>, Accessed on 20/10/2016

3.2 Unconventional policy measures

Balance Sheet Items, MFIs resident, EU, 2004-2016

- Reserve maintenance - Required reserves
- Reserve maintenance - Excess reserves
- Reserve maintenance - Deficiencies
- Reserve base, Total
- Debt securities issued, Up to two years
- Debt securities issued, Over 2 years
- Deposits overnight, agreed maturity and redeemable at notice[L21,L22,L23], Up to two years



Source: Statistical data warehouse of European Central Bank <http://sdw.ecb.europa.eu/home.do>, Accessed on 20/10/2016

4. Future challenges

- ▶ Unconventional monetary policy may cause overinvestment in areas where asset prices or credit are particularly sensitive to low interest rates and unanchored by factors such as international competition;
- ▶ Spillover effects of unconventional policies emanating from the large central banks;
- ▶ The interaction of monetary policy and sovereign debt management will be a major challenge for CB's operating procedures;
- ▶ Bad shape of public finances in the euro area;
- ▶ Macroeconomic imbalances and growing heterogeneity;
- ▶ **THE biggest challenge: Exit from unconventional policies – IF, WHEN and HOW**



5. Recommendations

- ▶ **Modification of inflation targeting frameworks:**
 - ▶ an extension of the usual decision-making horizon of 2 years, as financial distortions often build up over a fairly long period of time.
- ▶ **Prudential regulation:**
 - ▶ Risks to financial stability should be addressed through financial regulation and macroprudential policy rather than using the blunt tool of short-term interest rates.
- ▶ **More symmetrical monetary policy:**
 - ▶ Taking greater account of the implicit risks stemming from lively money and credit growth, booming asset markets and decreasing risk premiums, especially with regard to their implications for price stability in the long run.
 - ▶ Existing monetary policy frameworks need to be modified to put additional weight on the risks associated with a build-up of financial imbalances, even when inflation rates remain low and stable.
- ▶ **Safeguarding central bank independence from domestic political pressures;**

Conclusion

Existing monetary policy frameworks need to be modified to put additional weight on the risks associated with a build-up of financial imbalances, even when inflation rates remain low and stable.



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Thank you!

