Challenges to the single monetary policy and the ECB's response

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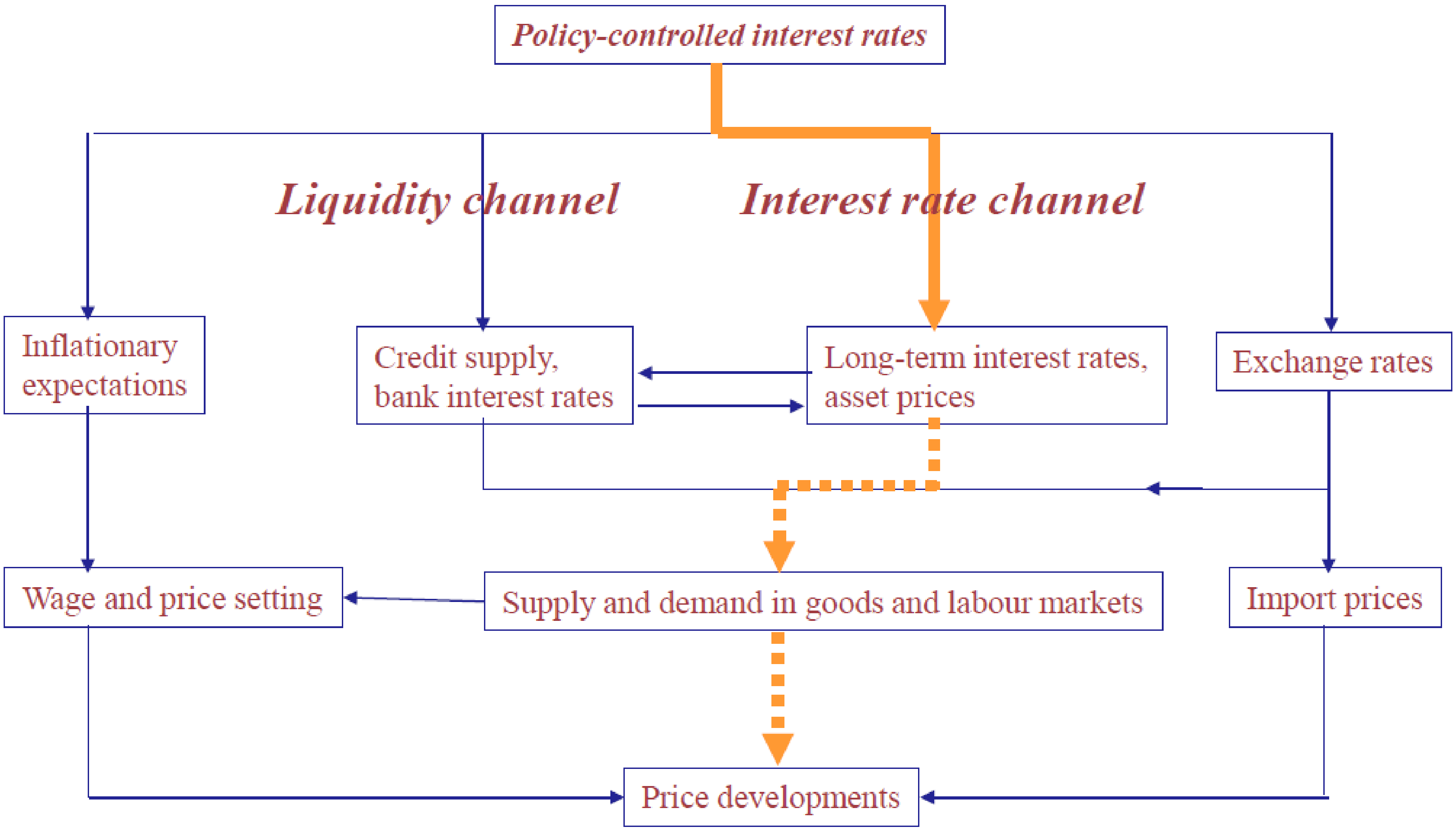
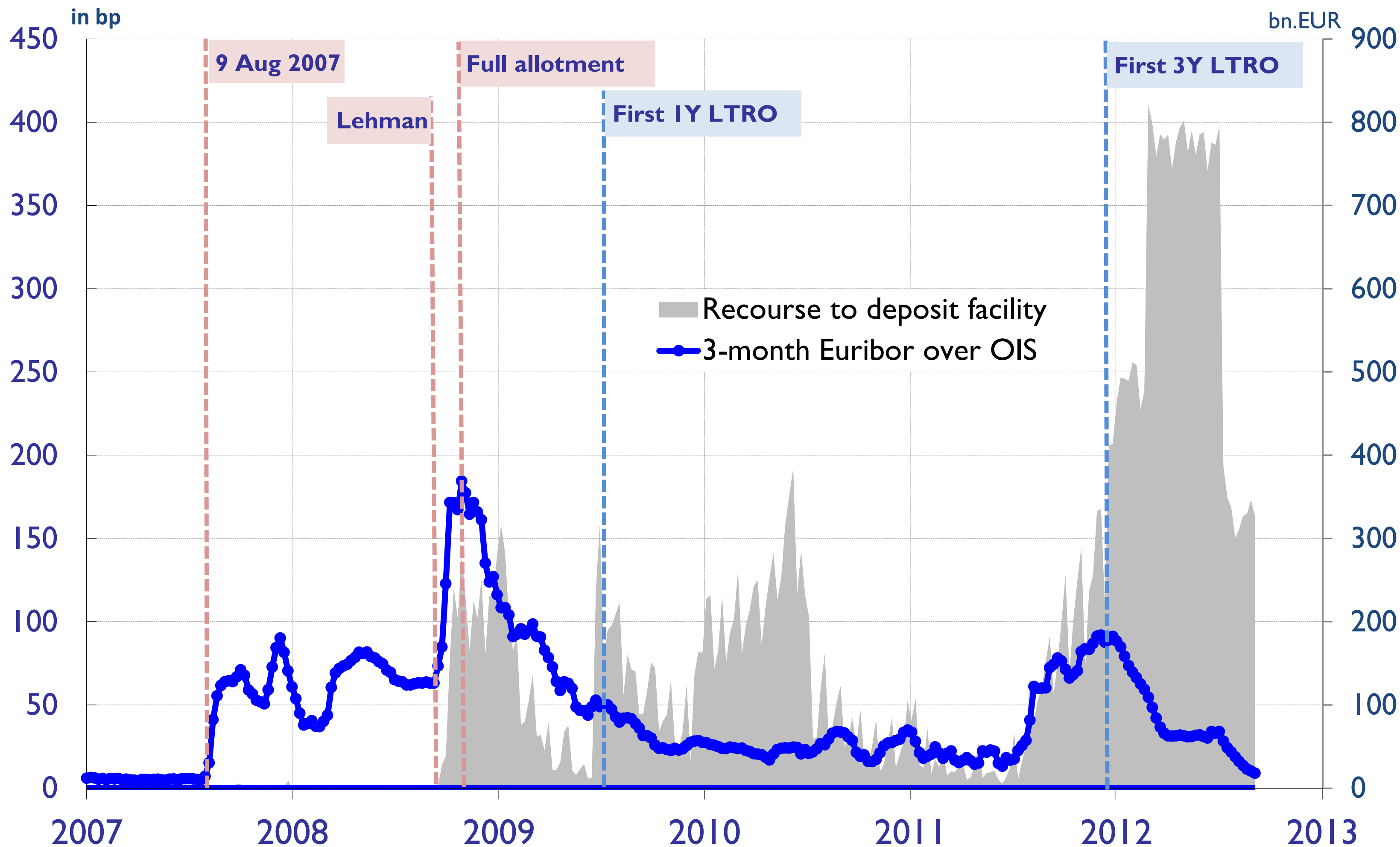
Prime conduit of monetary policy in normal times: the interest rate channel



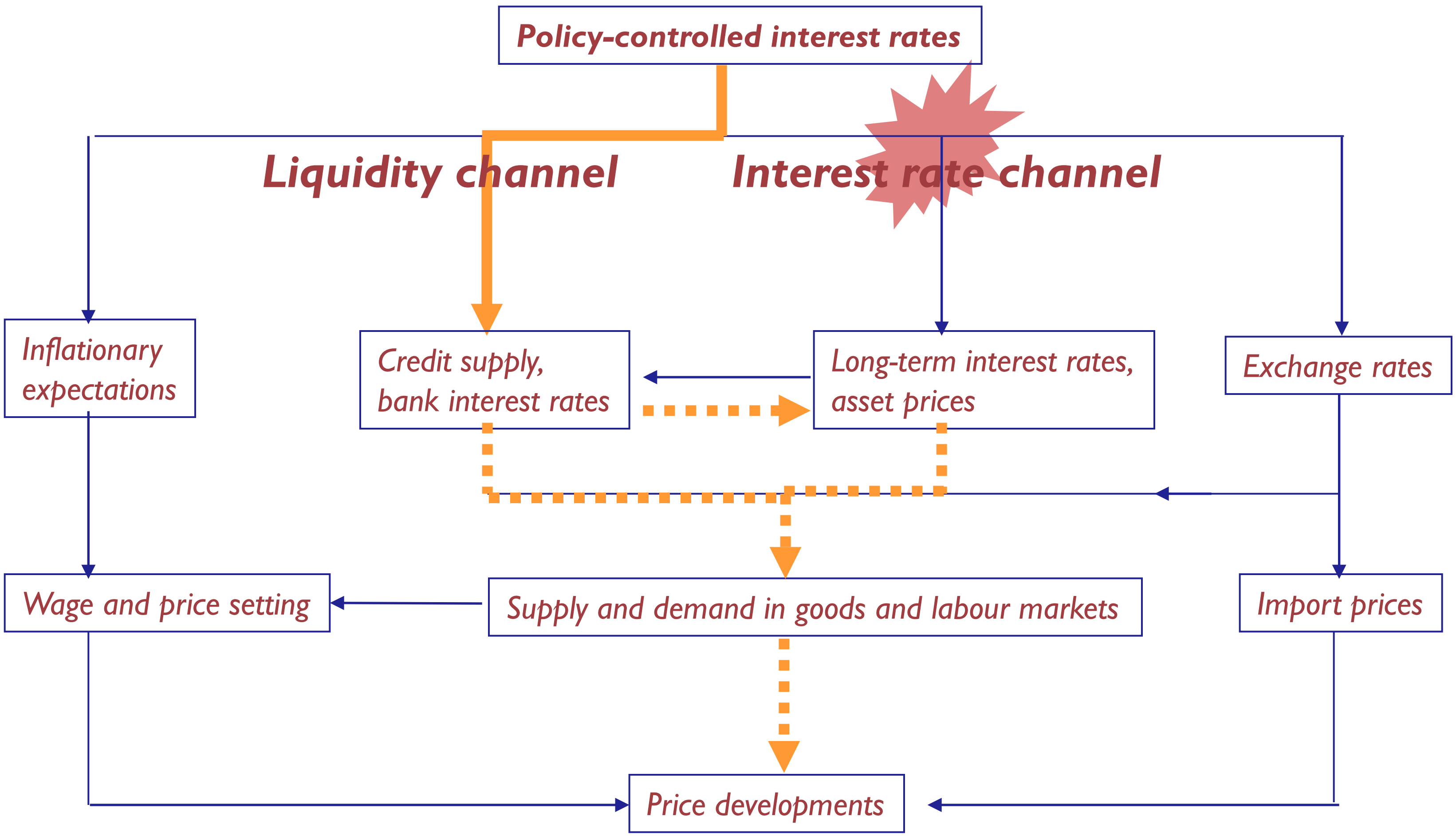
Crisis has led to elevated premia and liquidity hoarding by banks



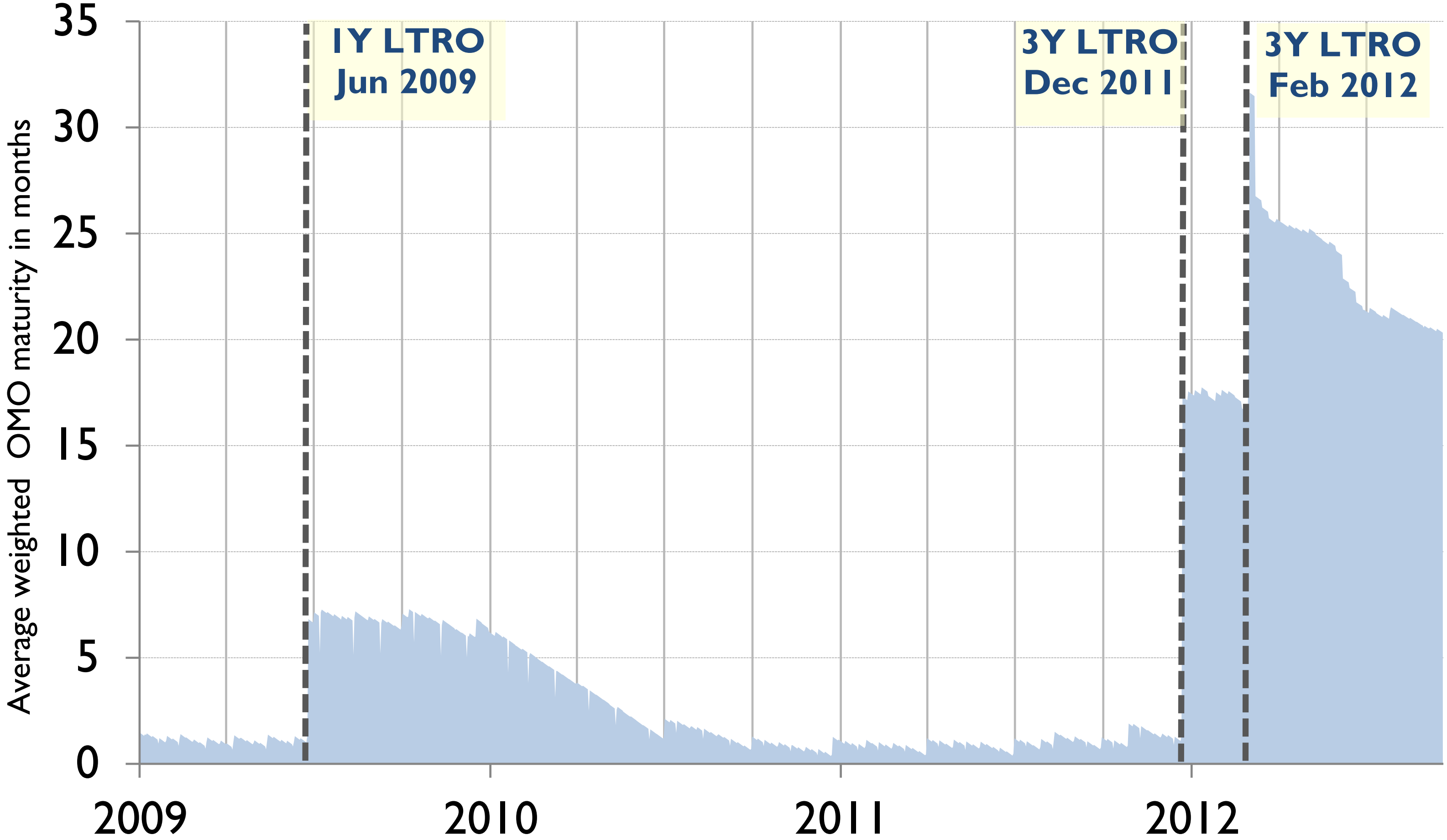
Sources: Bloomberg and ECB.
Note: Weekly observations. Last observation: 7 September 2012.

Monetary policy transmission channels

Transmission plumbing

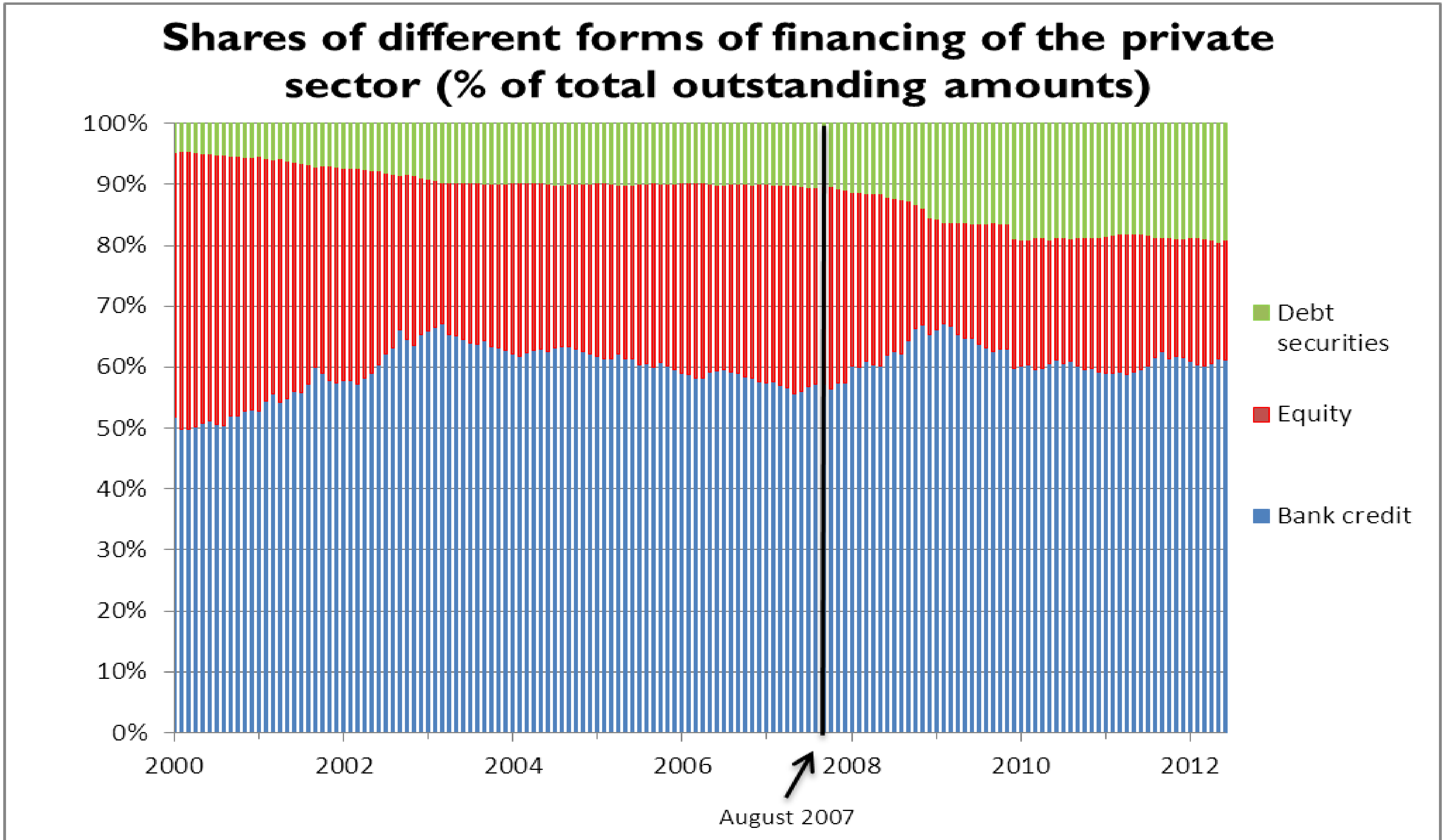


Average maturity of OMO



Source: ECB calculations.
Note: OMO stands for Outstanding Monetary Operations. Last observation: 18 September 2012.

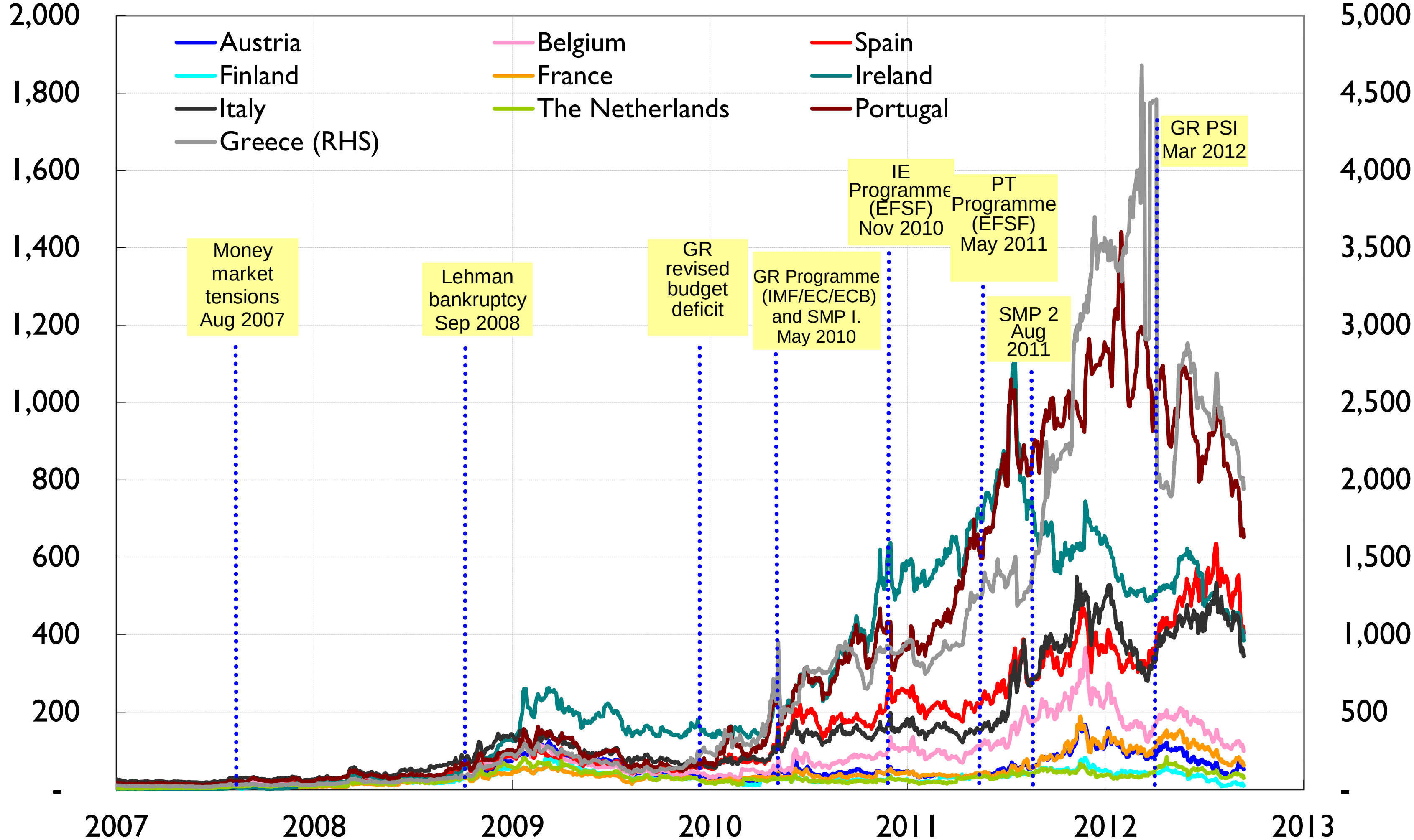
Evolution of euro area financial structure



Source: ECB calculations.
Note: Last observation: June 2012.

New phase of the crisis started in May 2010: concerns about creditworthiness of sovereigns

Sovereign bond spreads

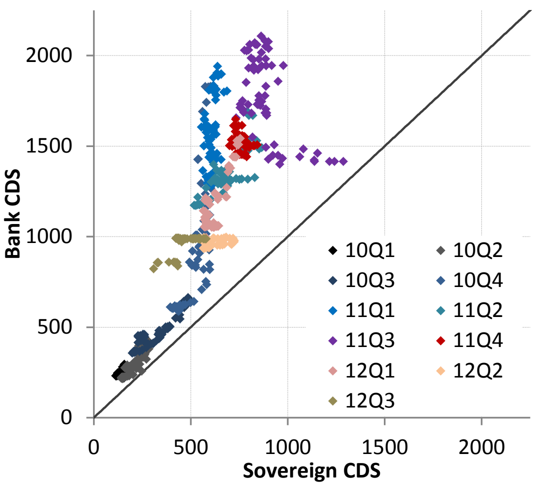


Sources: Thomson-Reuters and ECB calculations.

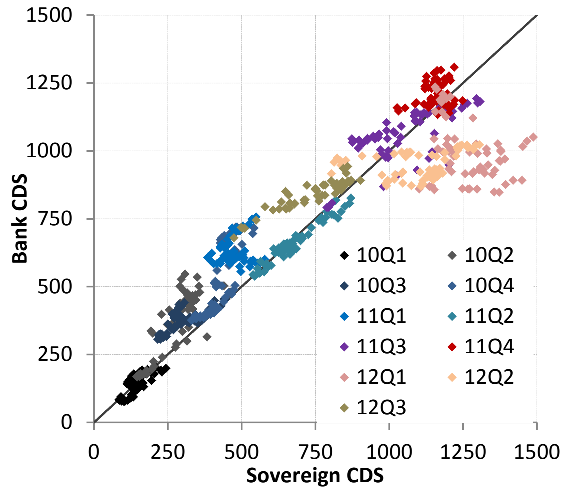
Note: Bond yield spreads are calculated vis-à-vis the German 10-year government bond, end-of-day data. Last observation: 18 September 2012, 17:00 CET.

Fragmentation across national borders: self-reinforcing loop between bank and sovereign risks

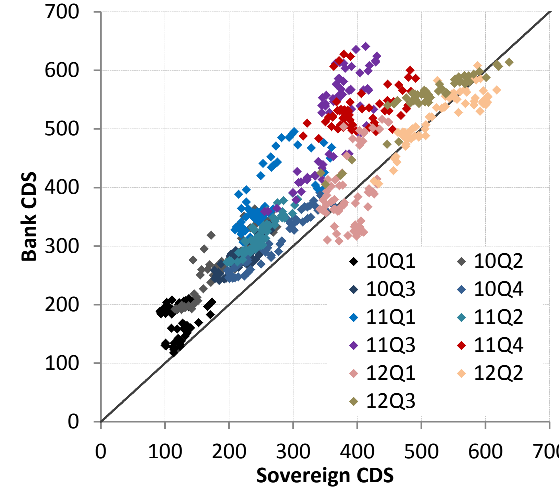
Ireland



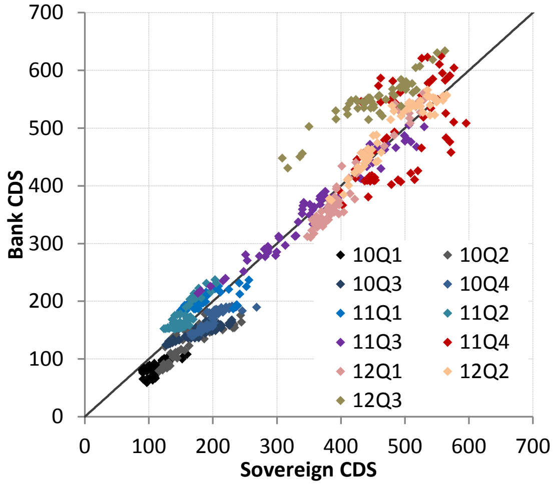
Portugal



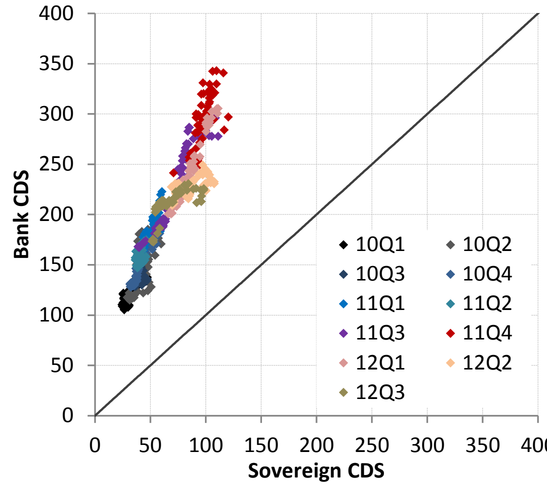
Spain



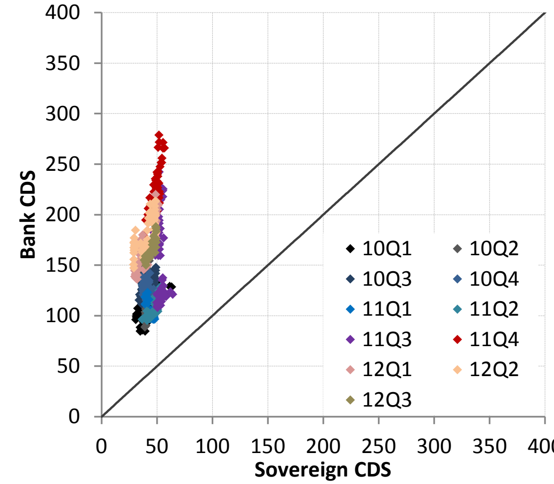
Italy



Germany



United States



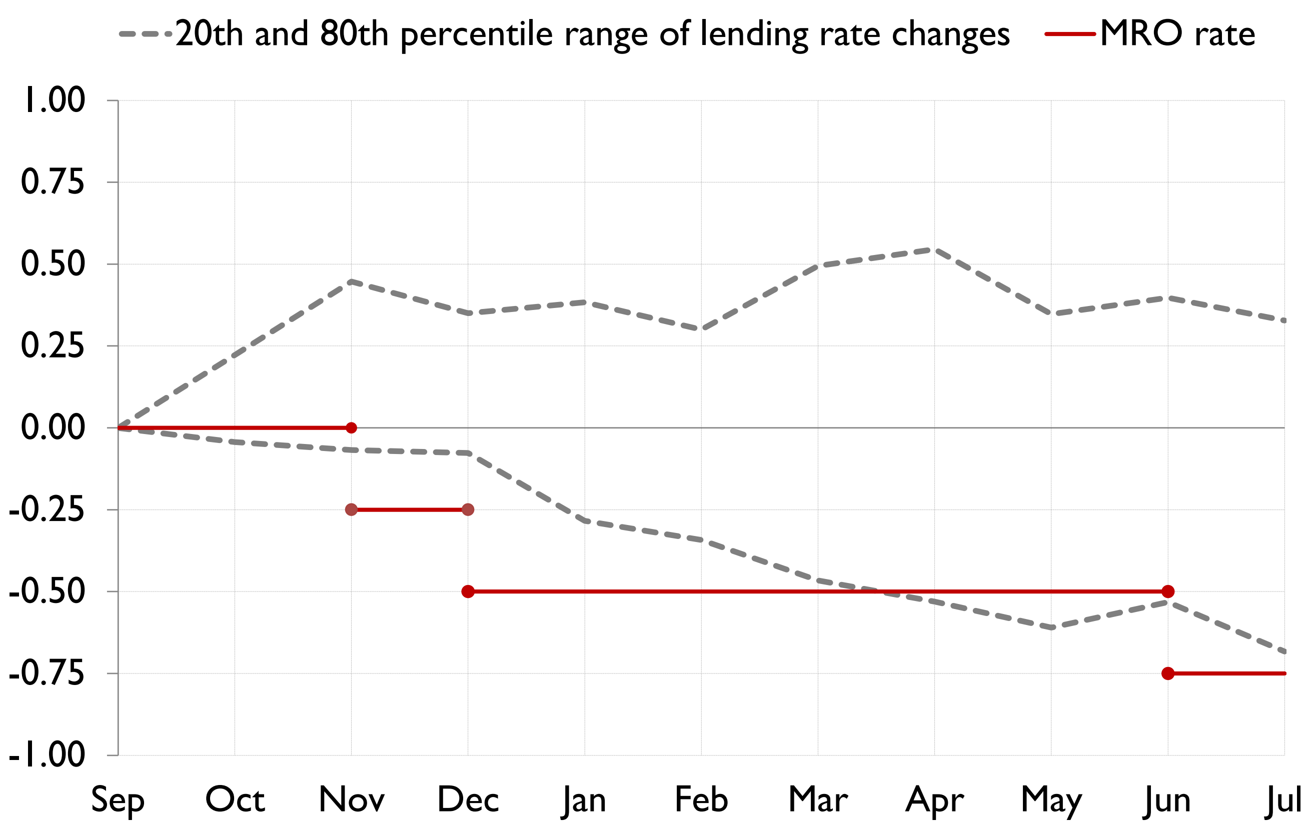
Source: ECB calculations.

Note: Last observation: 12 September 2012.

Cumulated changes in MRO rate and bank lending rates for short-term MFI loans to NFCs

Changes in the composite bank lending rates between September 2011 and July 2012

(percentage points)



Source: ECB calculations.

Note: Over the same period the rate on the main refinancing operations (MROs) was cut by 75 basis points. The last available data for bank lending rates is July 2012.

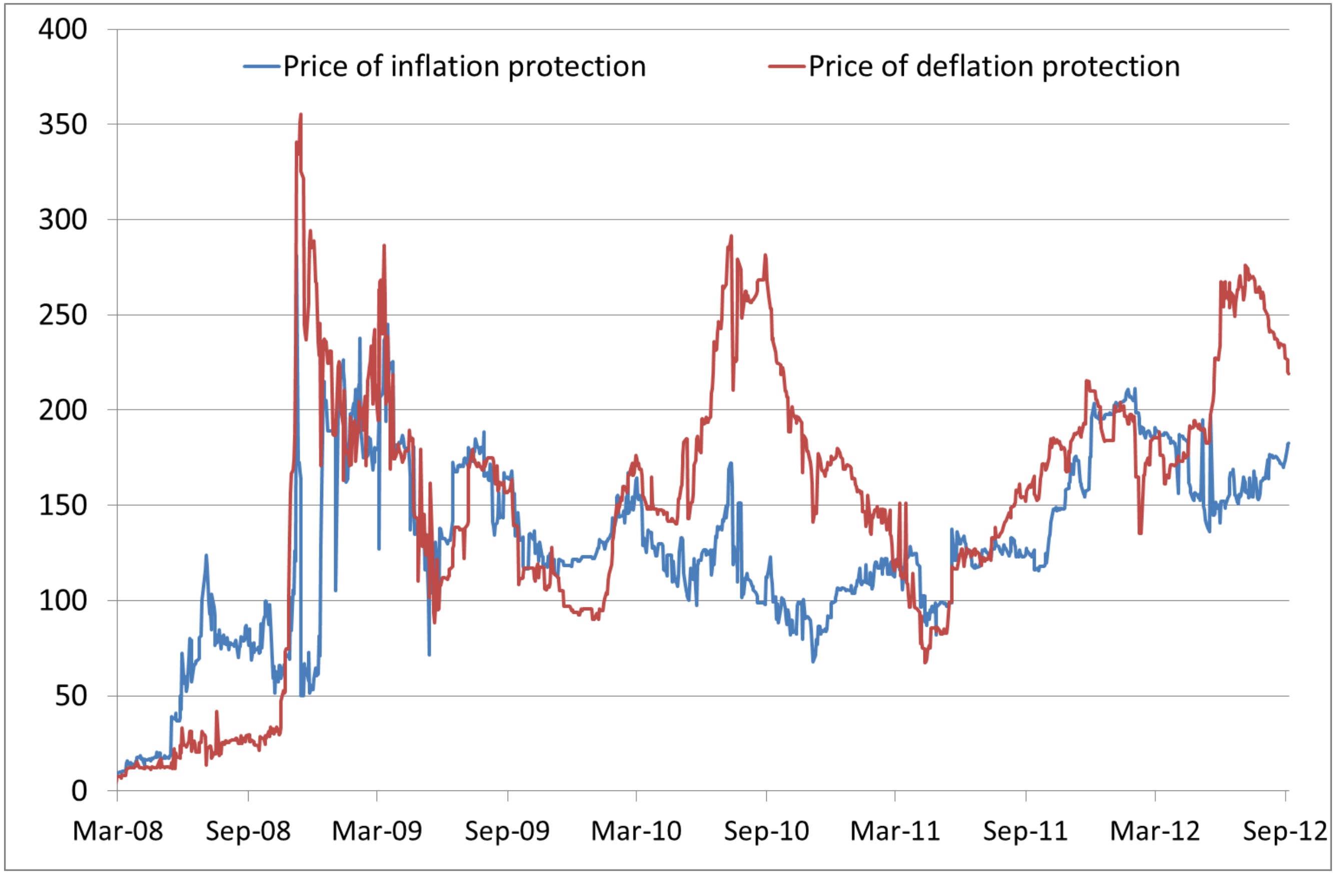
Outright Monetary Transactions (OMTs)

Aim: to preserve singleness of monetary policy by addressing distortions in sovereign bond markets originating in particular from reversibility fears

- Necessary condition: strict and effective conditionality attached to appropriate EFSF/ESM programme
- Built-in exit strategy
- Focus on shorter part of yield curve
- No *ex ante* quantitative limits on size
- *Pari passu* treatment
- Full sterilisation

No clear signs of deflation fears or inflation fears

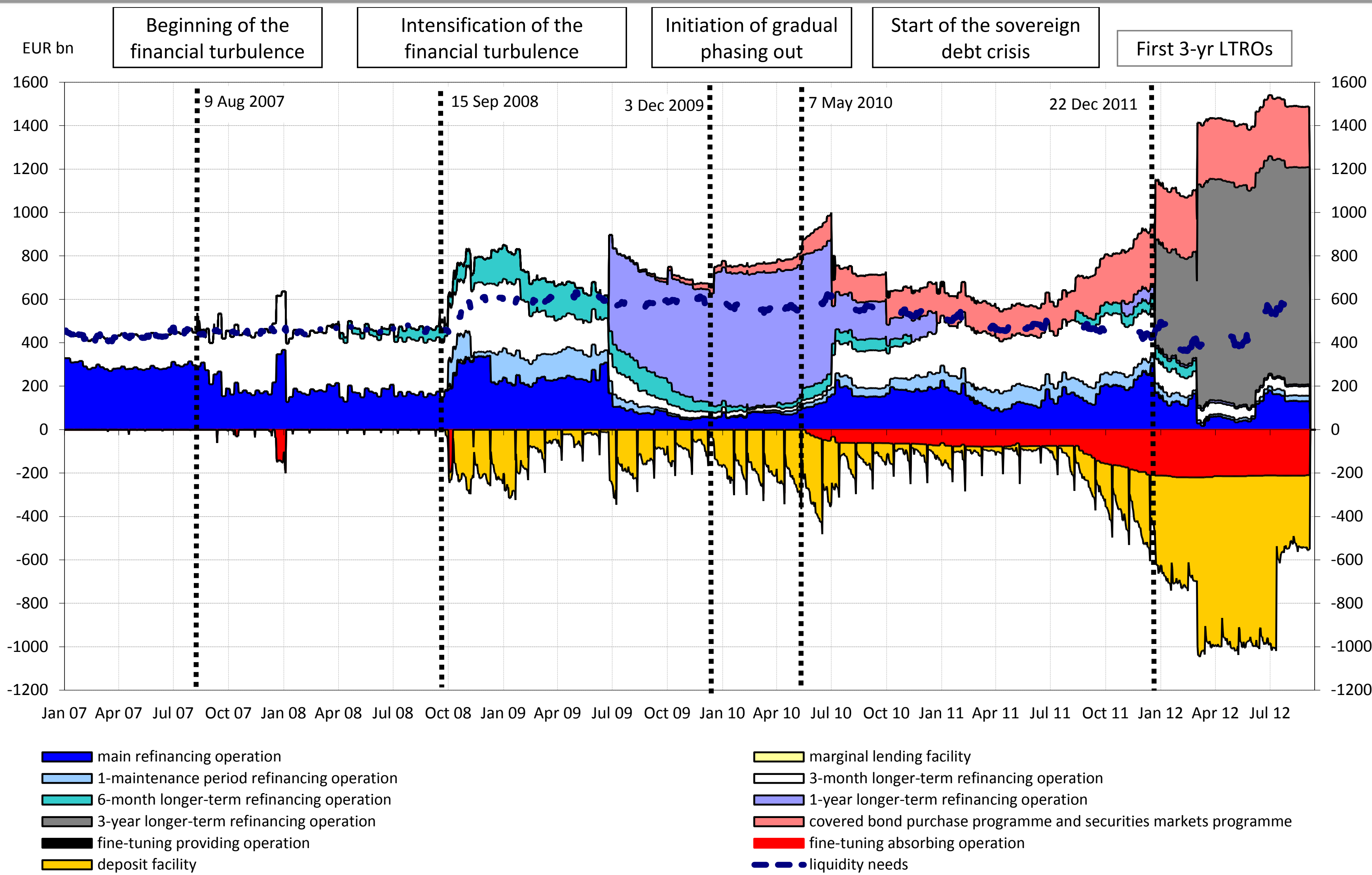
Price of floor and caps (year-on-year) on euro area HICP inflation – 5Y maturity



Source: Bloomberg.
Note: The market for inflation-linked options is relatively illiquid and often heavily influenced by specific demand and supply patterns. Developments should therefore be interpreted with caution. The underlying instruments are for inflation protection: year-on-year cap of 4% with 5-year maturity; for deflation protection: year-on-year floor of 0% with 5-year maturity.

Background slides

Evolution of liquidity term structure during the crisis

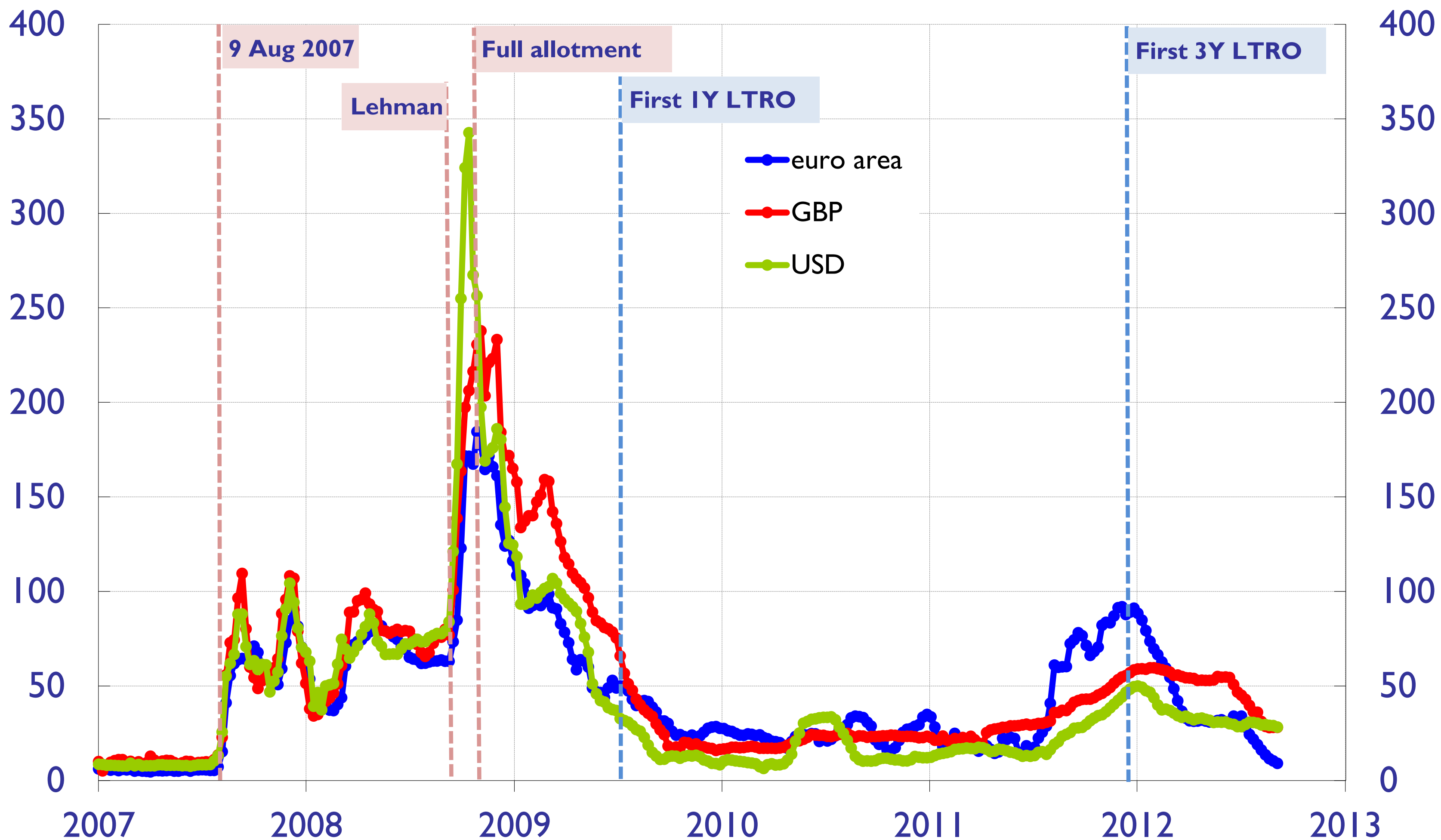


Source: ECB

Note: Last observation: 5 September 2012.

Evolution of money market spreads in euro area, US and UK (3-month maturity)

3-month Libor/Euribor to OIS spread



Sources: Bloomberg and ECB calculations.
Note: Last observation: 7 September 2012.