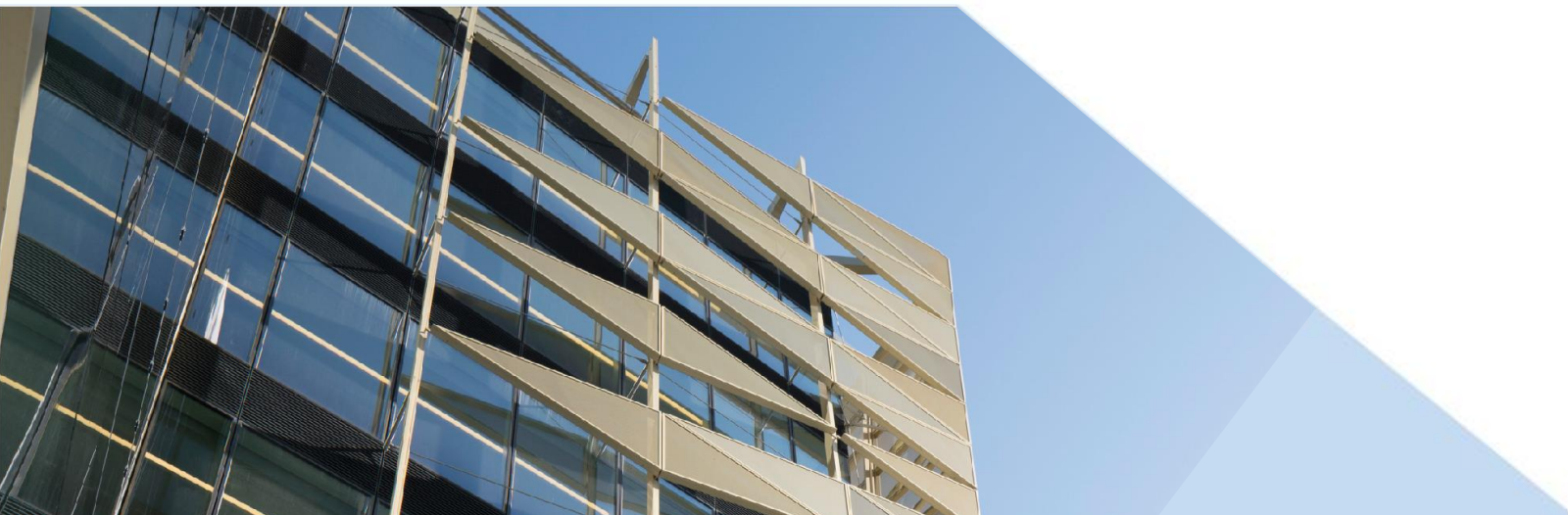




Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

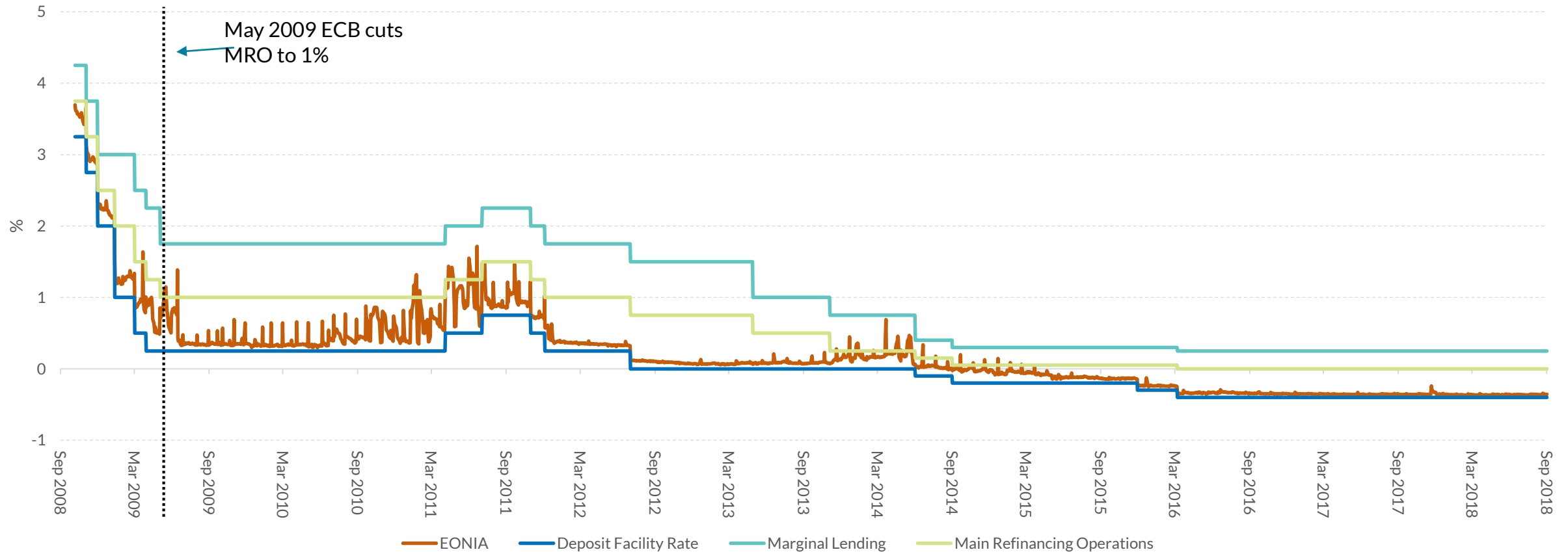


Monetary Strategy in the Euro Area
Philip R. Lane , Central Bank of Ireland
SPE Annual Conference
28th September 2018, London

Standard Monetary Policy

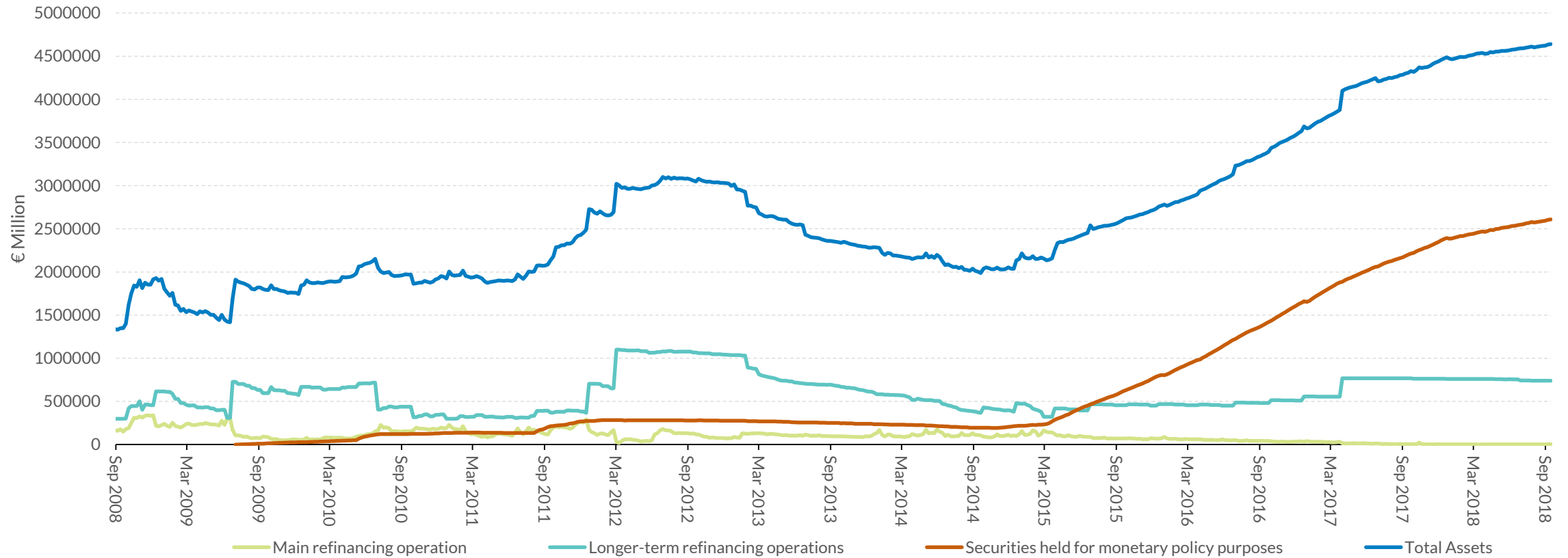
Interest rate policy:

- Main Refinancing Operation (MRO) rate has traditionally been main policy rate which money markets tracked
- Deposit Facility (DF) rate sets floor for market rates

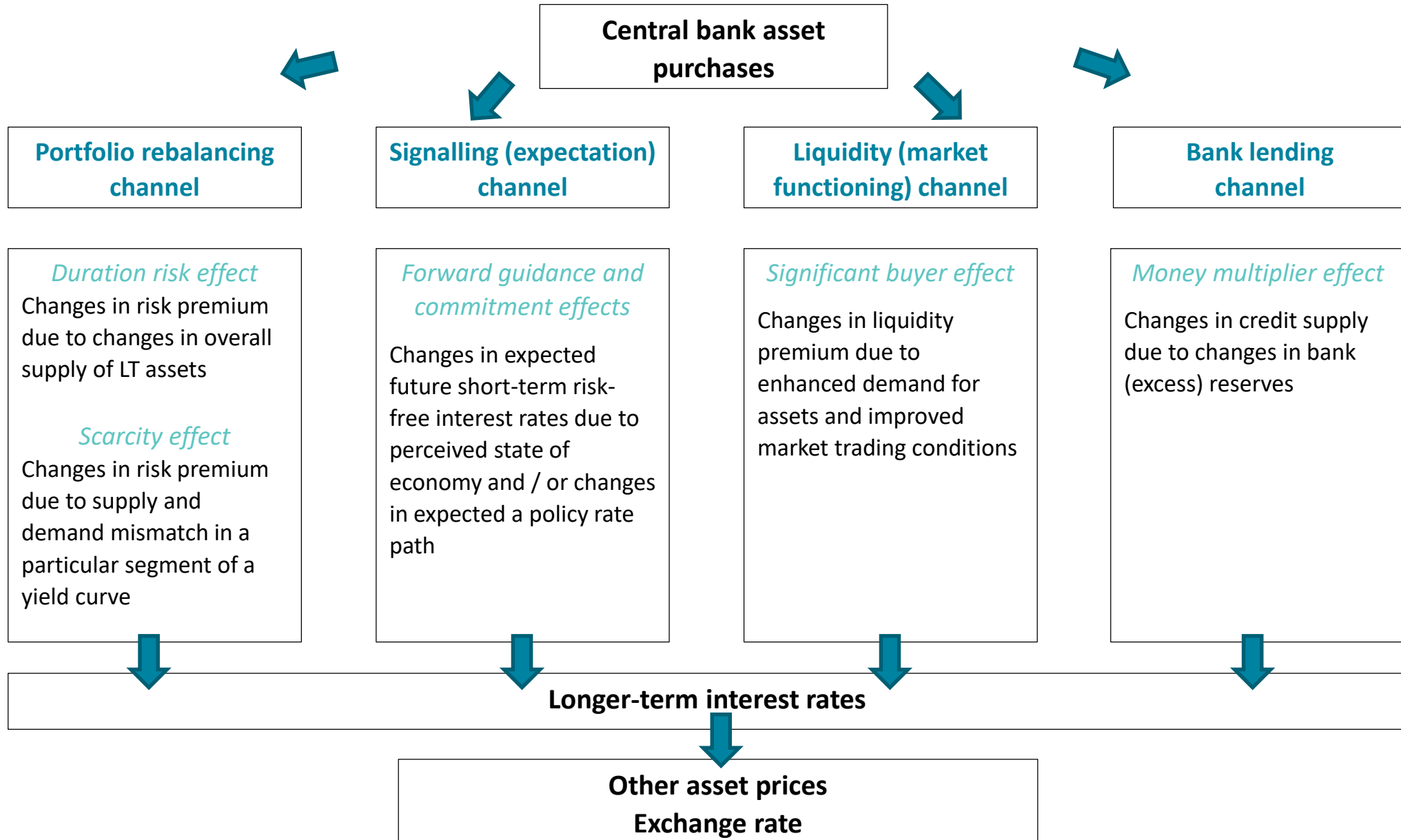


Non-Standard Monetary Policy

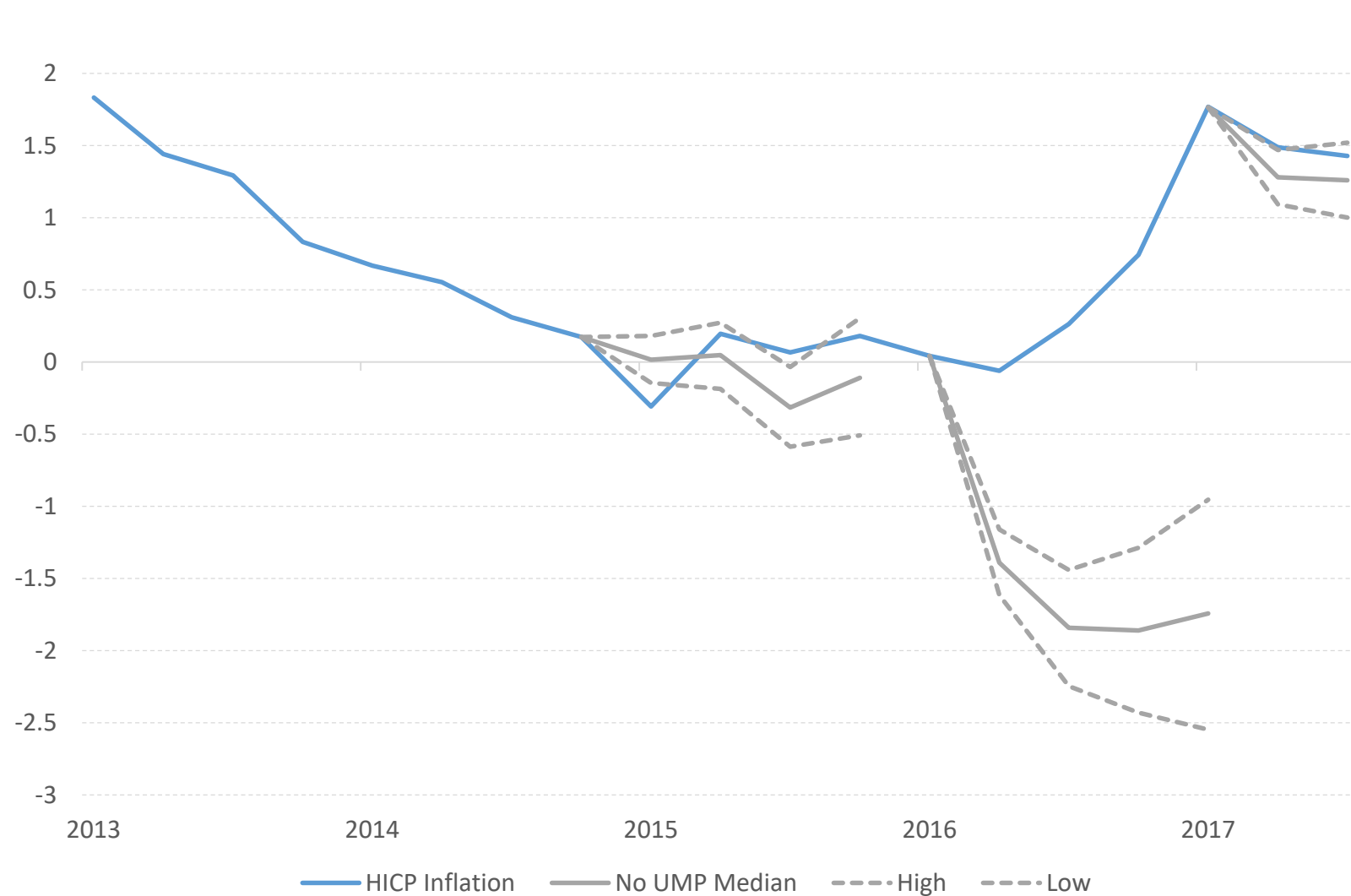
- Liquidity and funding measures
- Outright Monetary Transactions (OMT)
- Forward Guidance
- Credit easing
- Asset purchases
- Negative interest rate policy



Monetary Policy Transmission



Counterfactual – Unconventional Monetary Policy



Full sample forecasts

- Overall difference at end of 2017 amounts to 1.5%
- Comparable to estimates by ECB (Ciccarelli et al., 2017, Gambetti and Musso, 2017)

Very different picture for conditional forecast over subperiods

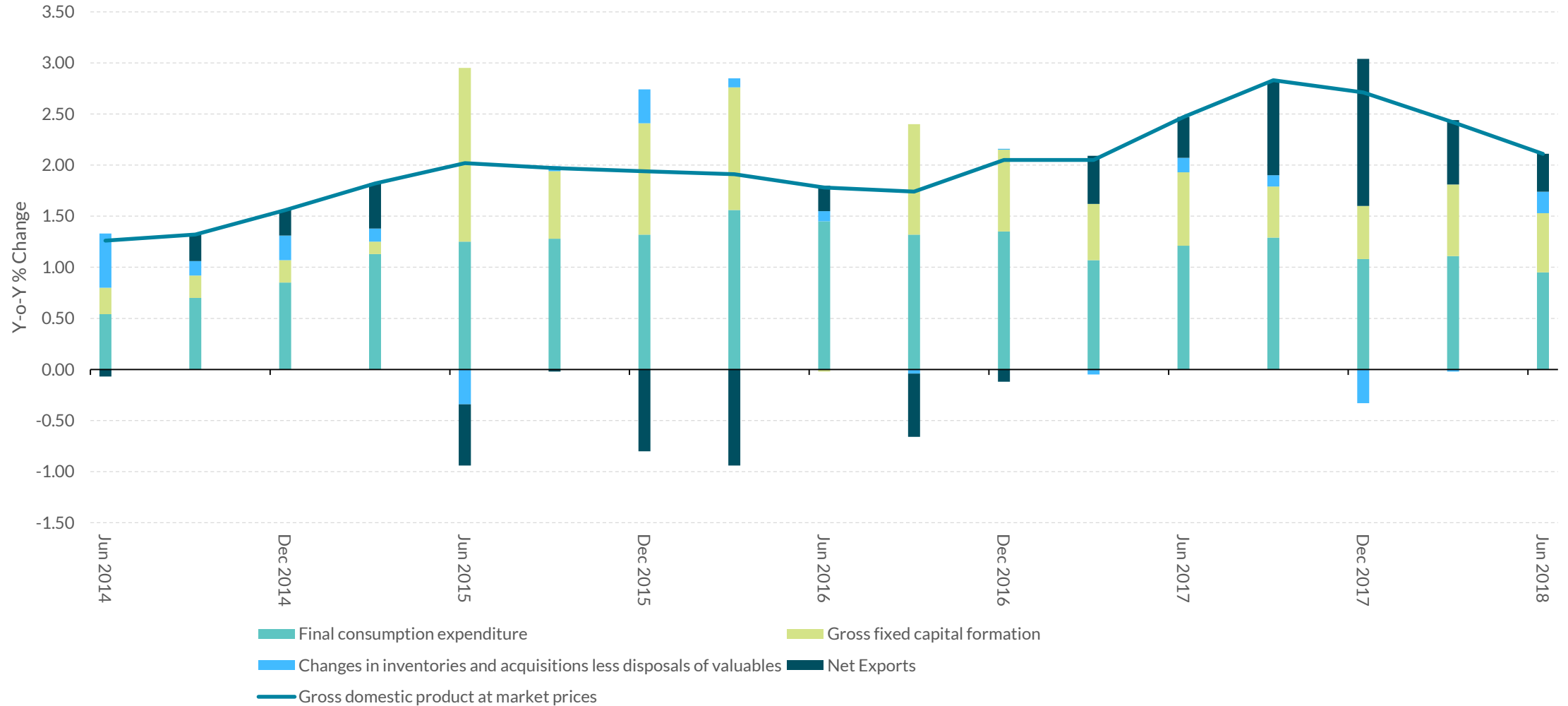
- Impact of UMP measures on inflation is distinctly stronger in 2nd period using both methodologies
- No UMP counterfactual shows complete collapse in inflation values

Discrepancies between sub-periods previously averaged out

Garabedian (2018), Central Bank of Ireland

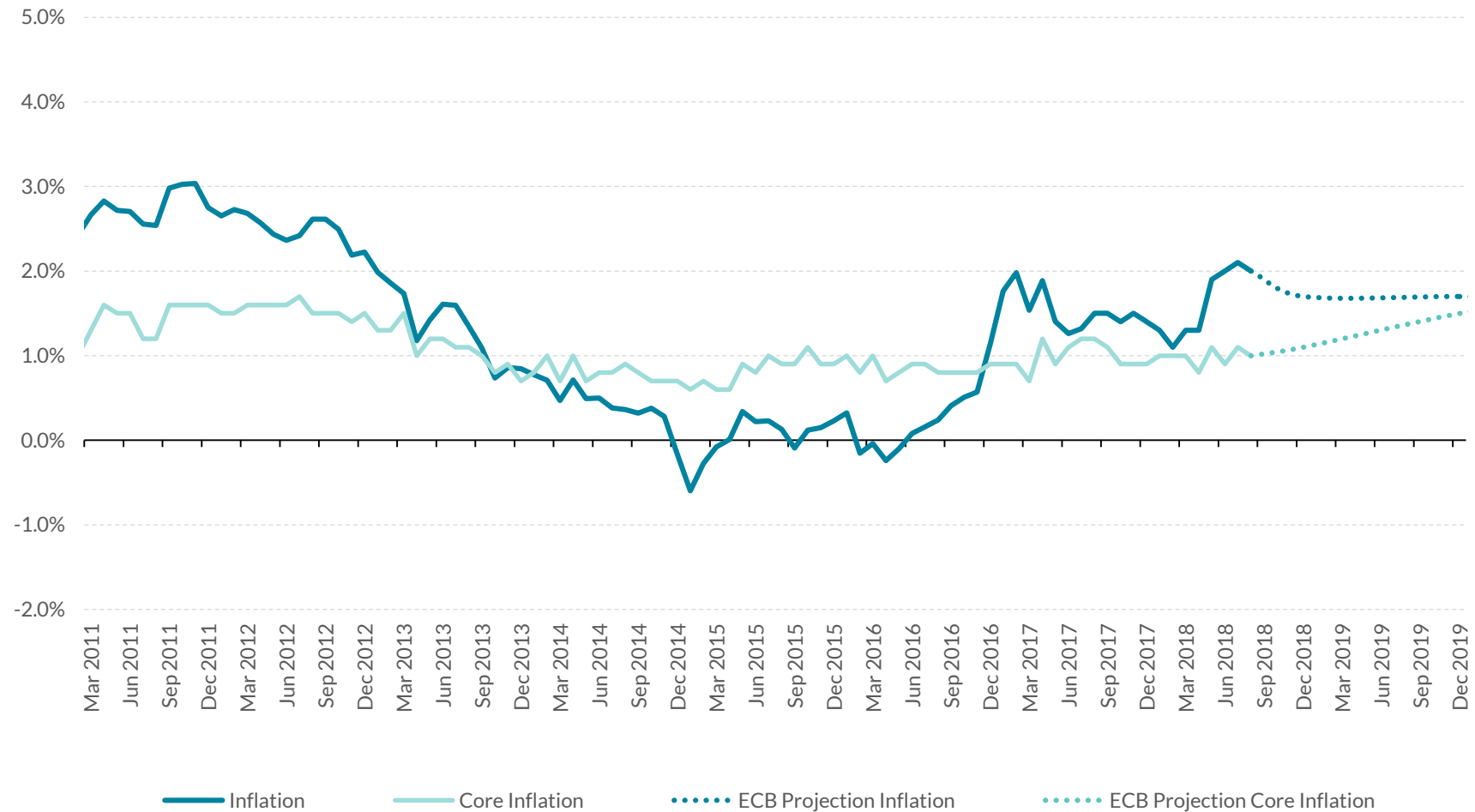
Macroeconomic Trends

■ Euro Area Growth (breakdown)



Macroeconomic Trends

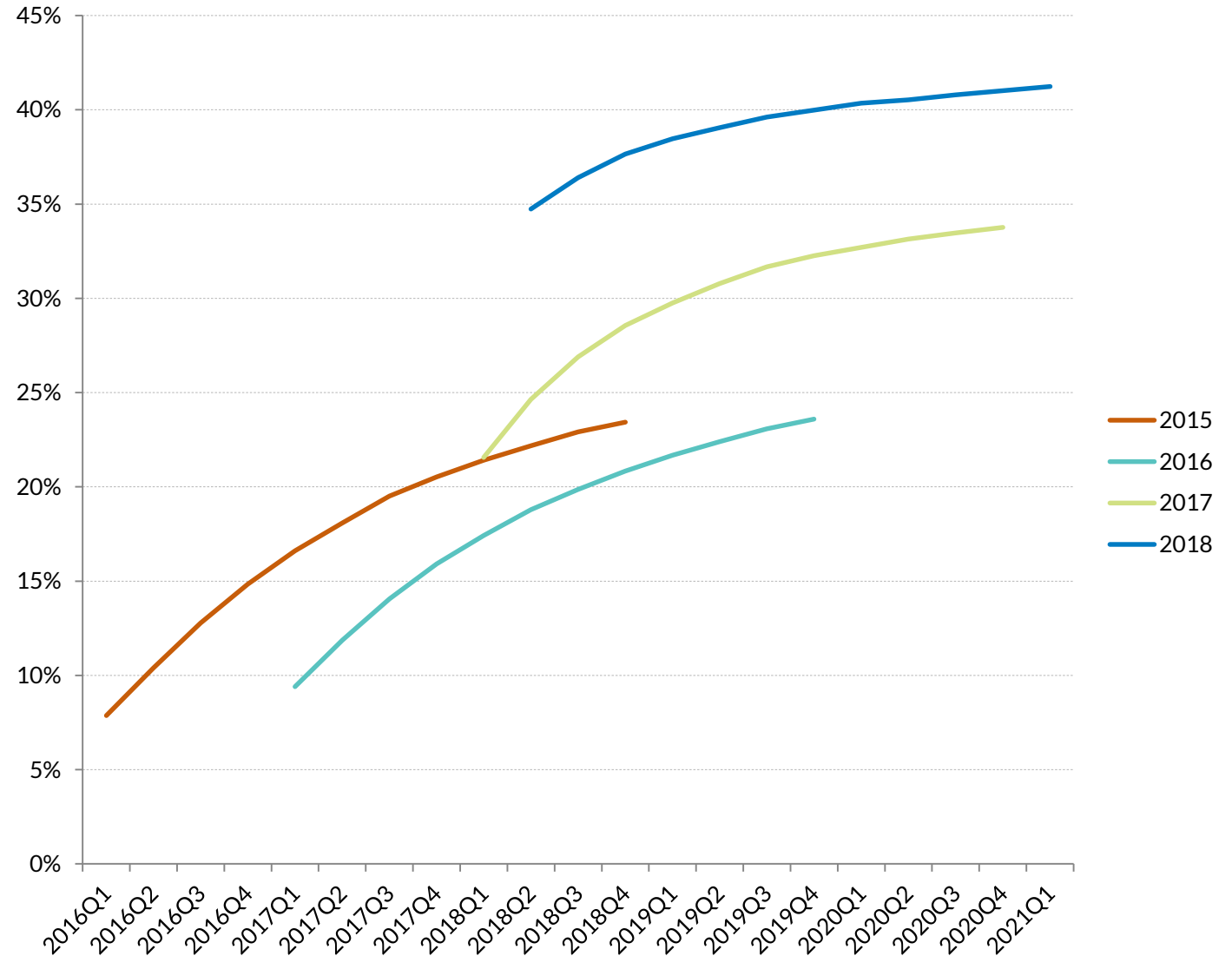
■ Euro Area Inflation



Phillips Curve Forecasts

- Forecast of core inflation using 630 Phillips Curve models
- Latest data from 2018 predicts higher core inflation
 - Probabilities of reaching core inflation over 1.6% increases in 2017 and continues to improve

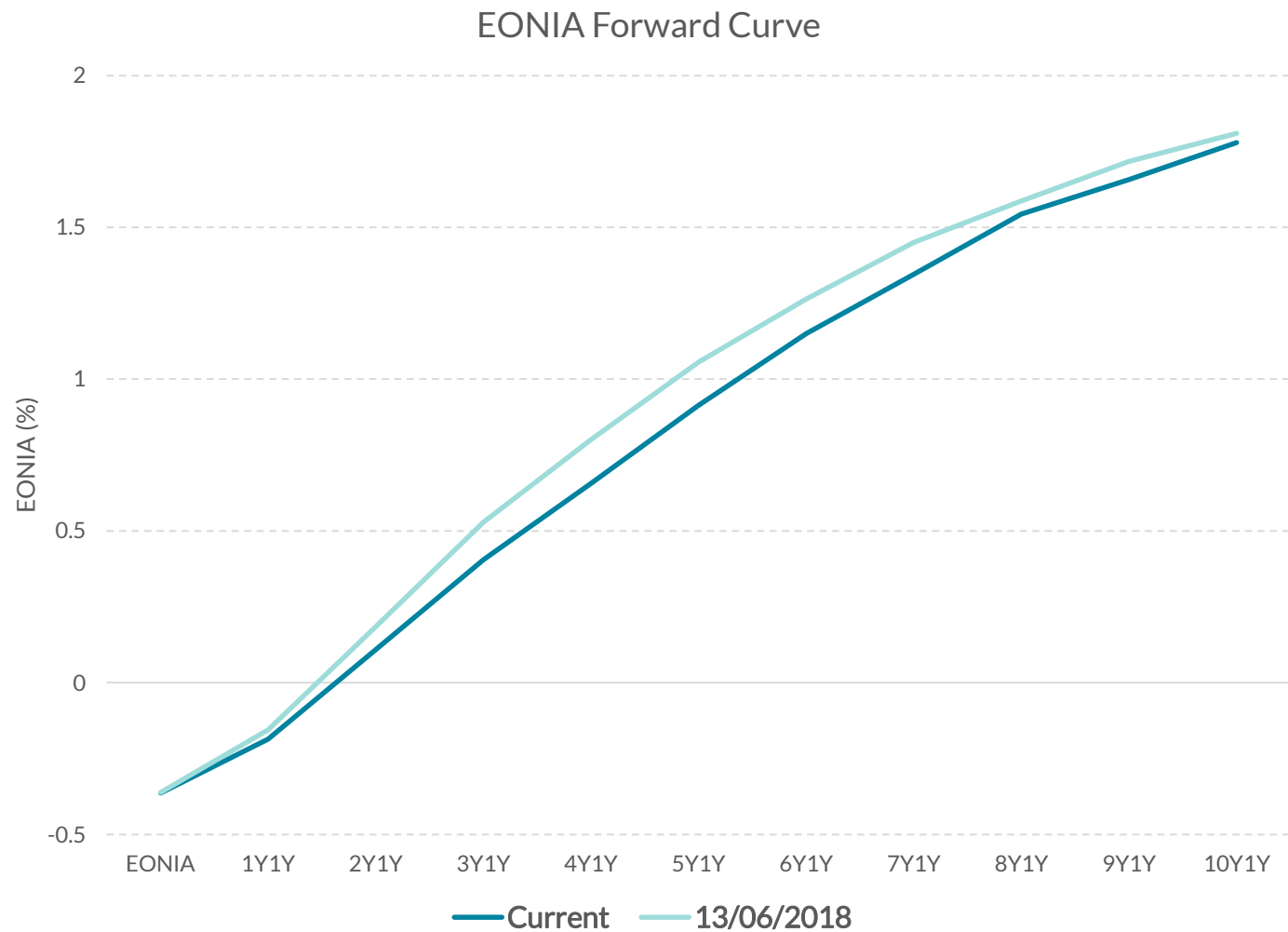
Onorante, Moretti, Zakipour-Saber (2018), Central Bank of Ireland



Monetary Policy Stance - Governing Council Statement, Sept.

- Decision to keep key ECB interest rates unchanged, based economic and monetary analyses
 - *“We expect the key ECB interest rates to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.*
 - Interest rate on main refinancing operations, and interest rates on marginal lending facility and deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively.”
- Continued net purchases under asset purchase programme (APP) at current monthly pace of €30bn. until end of Sept 2018
 - *“After Sept 2018, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and anticipate that, subject to incoming data confirming the medium-term inflation outlook, net purchases will then end.*
 - We intend to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.”

Market expectations – Aligned with ECB Announcements



Look into the future ...

■ Operational Framework

Pre-crisis operational framework	Current operational framework
EONIA kept in line with MRO rate	Mainly supply-driven liquidity provision via APP
Variable rate tenders with limited allotment in MROs	Fixed rate tenders with full allotment in MROs and LTROs
Demand-driven liquidity provision via credit operations (mainly MROs)	Expansion of collateral framework
Structural liquidity deficit	Narrowing of corridor
→ Balanced liquidity conditions, EONIA close to MRO rate (i.e. in middle of corridor)	→ Excess liquidity, EONIA close to DFR (floor system)