



EUROPEAN CENTRAL BANK

EUROSYSTEM

Is monetary policy dominated by fiscal policy?

Isabel Schnabel

*Member of the Executive Board
of the European Central Bank*



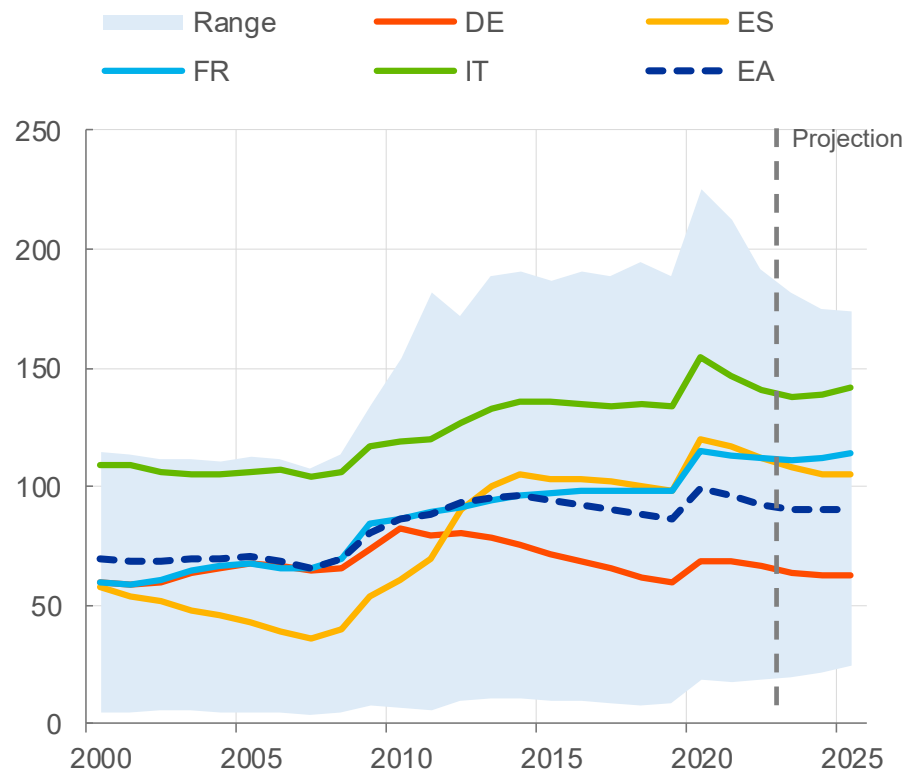
“25 years of the euro – Perspectives for monetary and
fiscal policy in an unstable world”

Stiftung Geld und Währung, Berlin, 7 June 2024

Higher interest rates imply rising interest expenditures as a share of GDP

Government debt in selected countries

(percent of GDP)

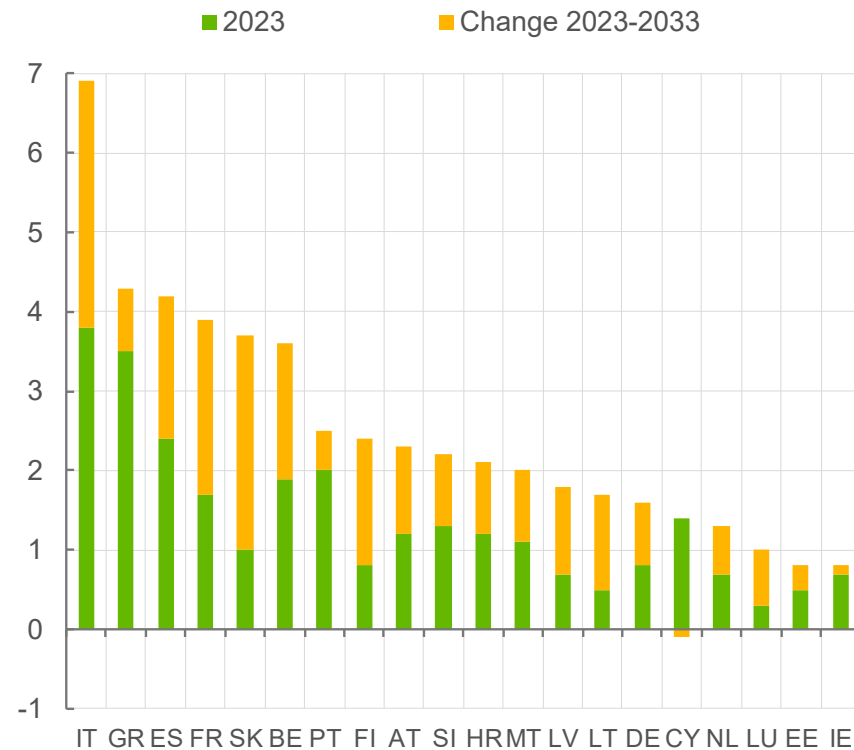


Source: European Commission.

Notes: The range shows the minimum and maximum of all euro area countries. Figures for 2024 and 2025 refer to the European Commission 2024 Spring forecast. Government debt is defined as in ESA 2010. The borrowing on the markets to finance the RRF grants and loans is considered as debt of the EU. The RRF loans to Member States are recorded as Member States' debt towards the EU. Latest observation: 2025 (projection).

Government interest expenditures

(percent of GDP)

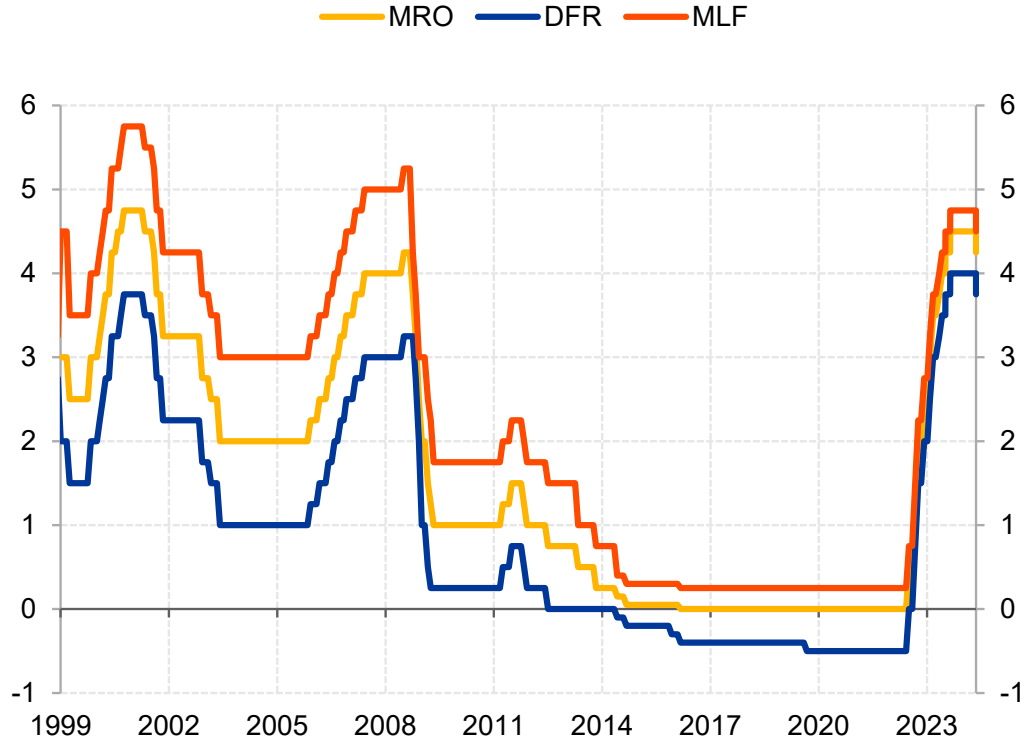


Sources: European Commission, Debt Sustainability Monitor (DSM) 2023.

Notes: Annual government interest expenditures in percent of GDP, DSM 2023 is based on the Commission's 2023 autumn forecast.

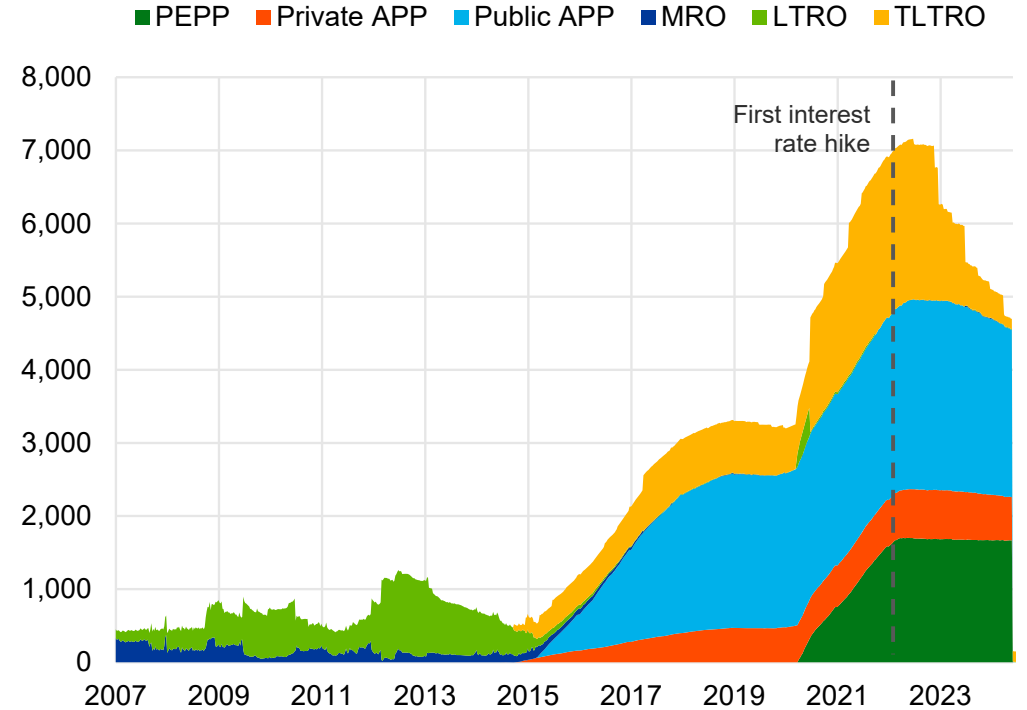
ECB has taken determined policy action to tackle unprecedented inflation surge

ECB key interest rates (%)



Source: ECB.
Latest observation: June 2024.

Monetary policy assets (€ billion)

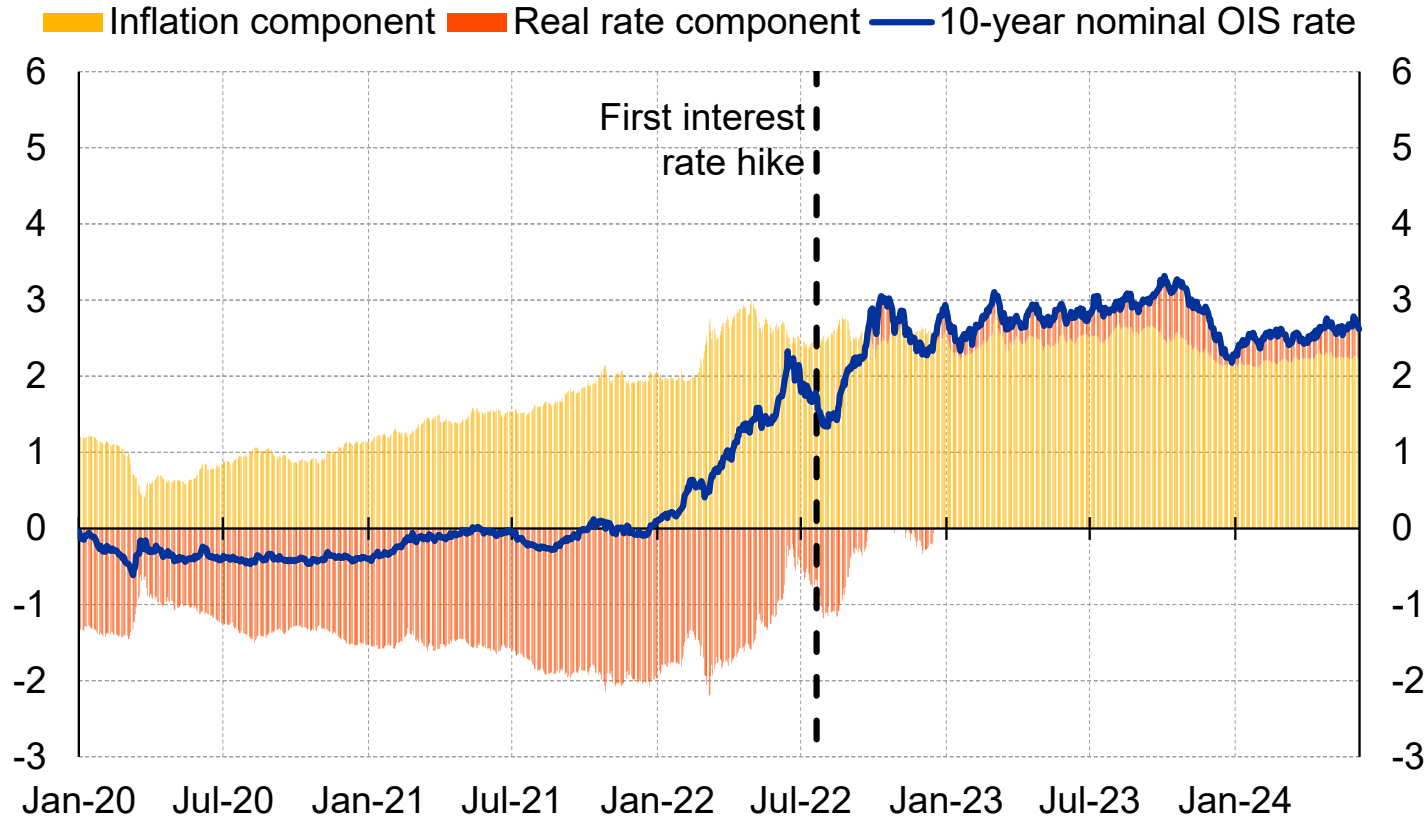


Source: ECB.
Notes: Public APP is PSPP, Private APP is CBPP3, ABSPP and CSPP.
Latest observation: May 2024.

Financing conditions began to tighten well ahead of first ECB rate hike

Decomposition of 10-year EA OIS into inflation compensation and real rates

(percentages per annum, percentage points)



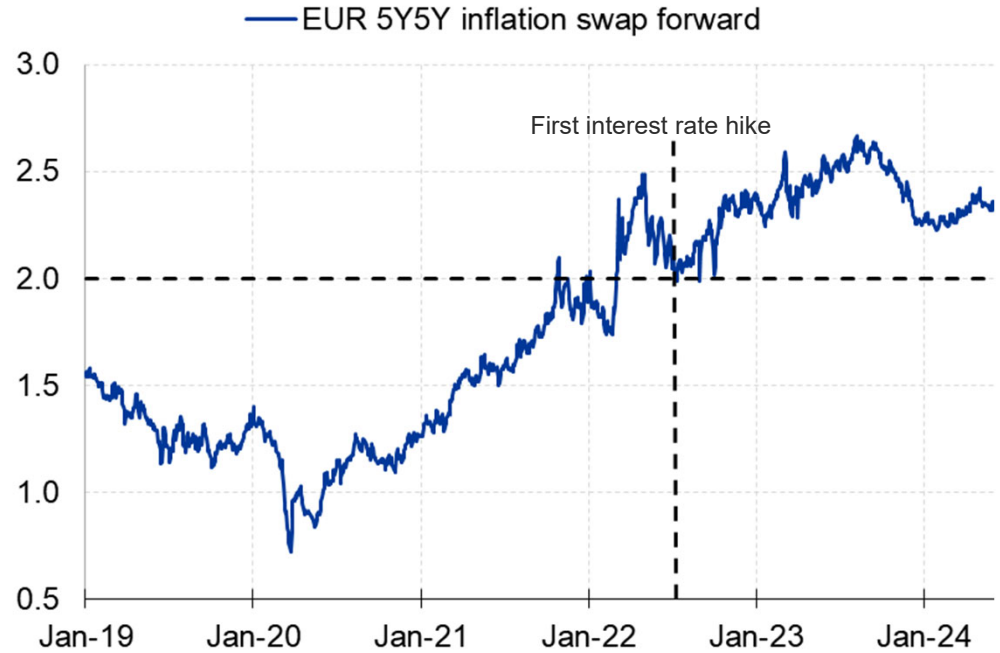
Sources: Bloomberg, LSEG and ECB calculations.

Notes: The EA real rate is calculated by subtracting the inflation-linked swap rate from the nominal OIS rate. For the US, it is calculated by subtracting the break-even inflation rate from the US Treasury yield.

Latest observation: 5 June 2024.

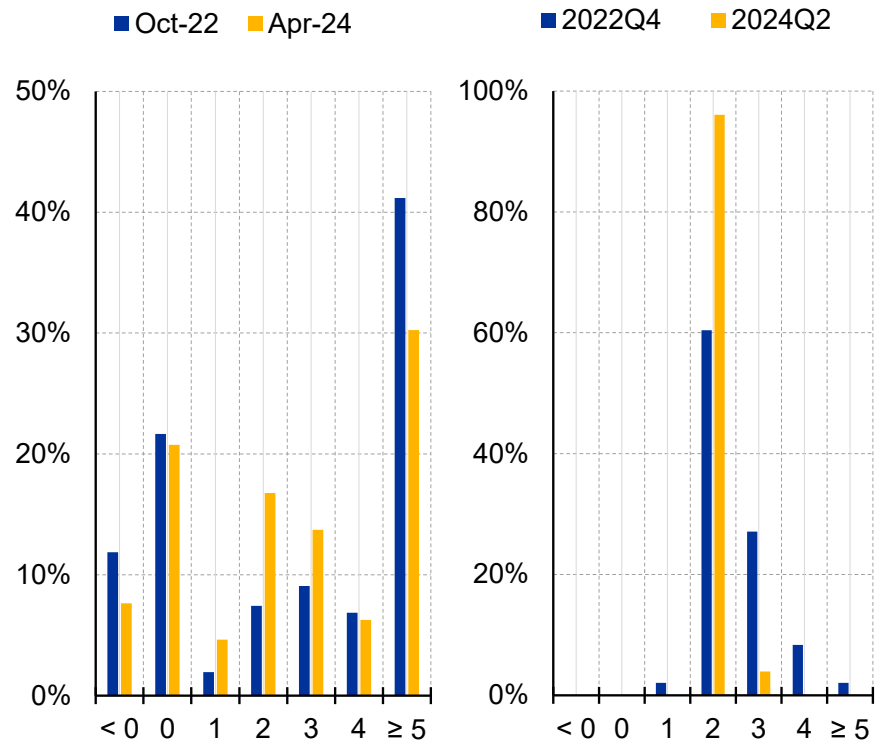
Monetary policy action has prevented a deanchoring of inflation expectations

Market-based measure of inflation compensation (percentages per annum)



Sources: Bloomberg, Refinitiv and ECB calculations.
Latest observation: 5 June 2024.

Inflation expectations: Consumer Expectations Survey (LHS) & Survey of Professional Forecasters (RHS)

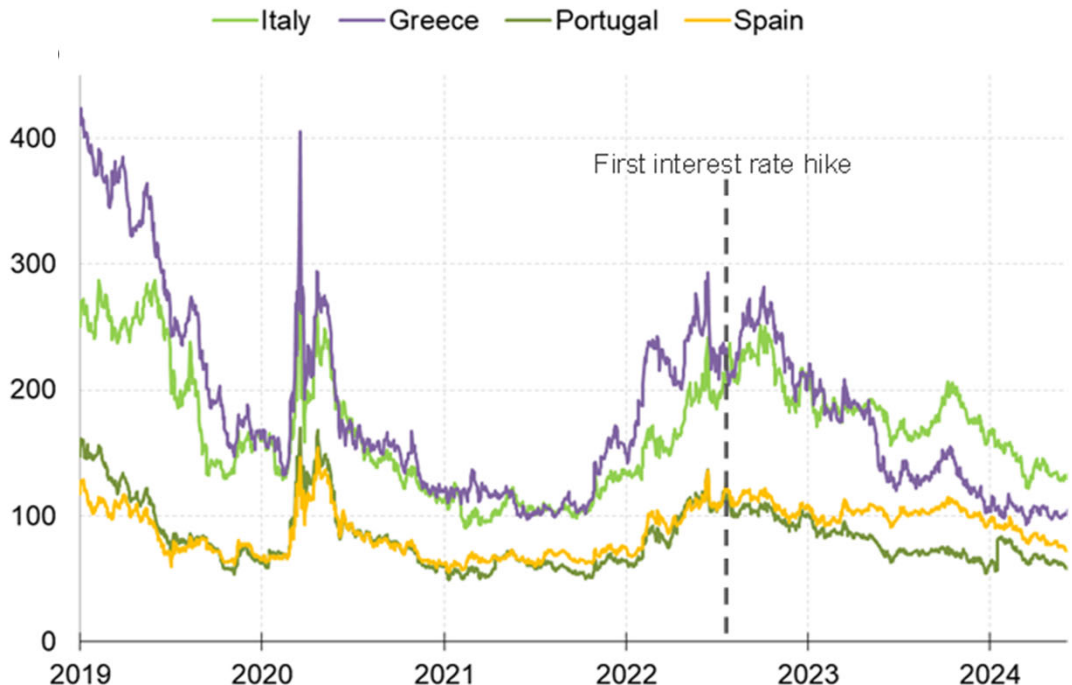


Sources: ECB Consumer Expectations Survey (CES), ECB Survey of Professional Forecasters (SPF) and ECB staff calculations.
Notes: Left panel shows histogram of 3 years ahead CES point expectations for October 2022 [median peak] and April 2024 waves. Right panel shows histogram of SPF point expectations targeting 2 calendar years ahead for 2022 Q4 [median peak] and 2024 Q2 rounds.
Latest observations: April 2024 for CES and 2024 Q2 for SPF.

Sovereign yields increased markedly, while sovereign spreads remained contained

10-year euro area sovereign bond spreads towards German Bund

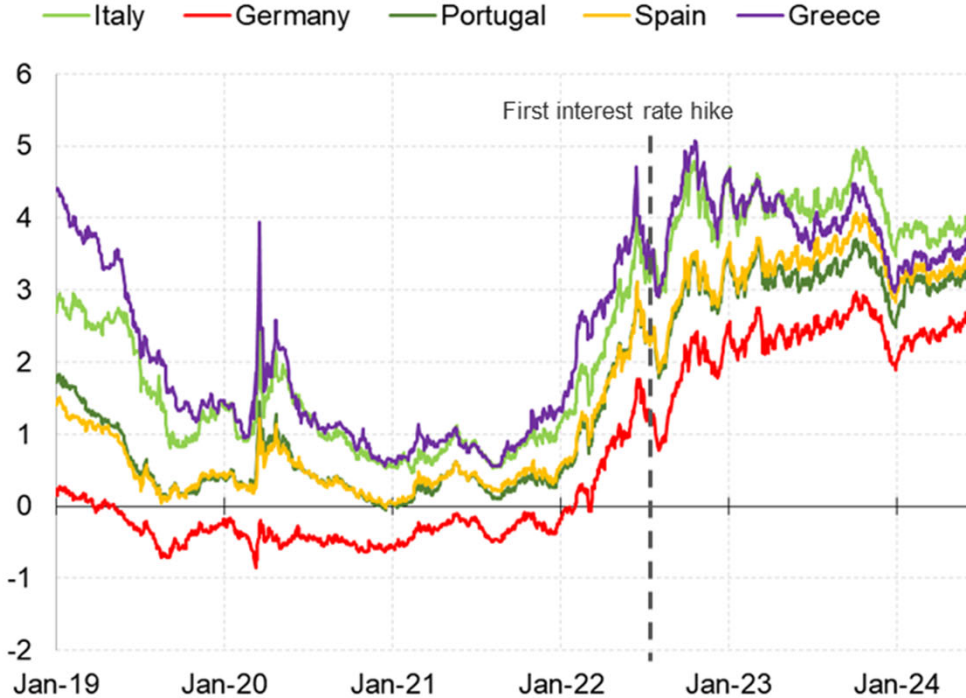
(basis points)



Source: Bloomberg.
Last observation: 5 June 2024

10-year euro area sovereign bond yields

(percentages per annum)

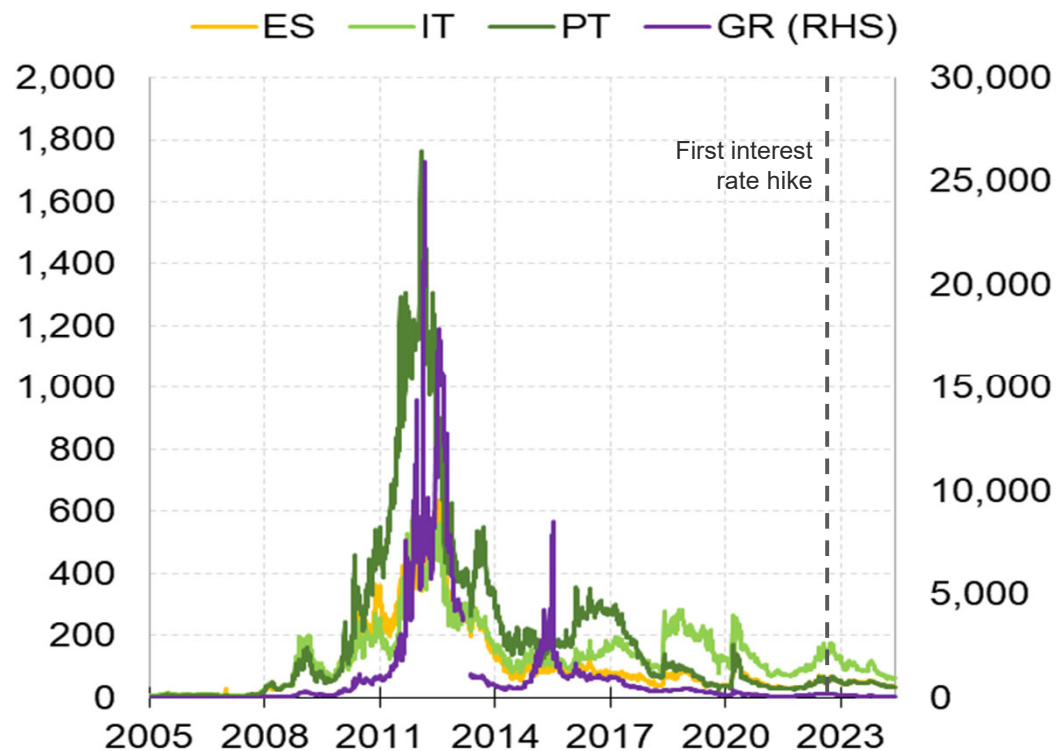


Source: Bloomberg.
Last observation: 5 June 2024.

Lower risk premia supported by outperformance of higher-yielding economies

Credit default swap spreads

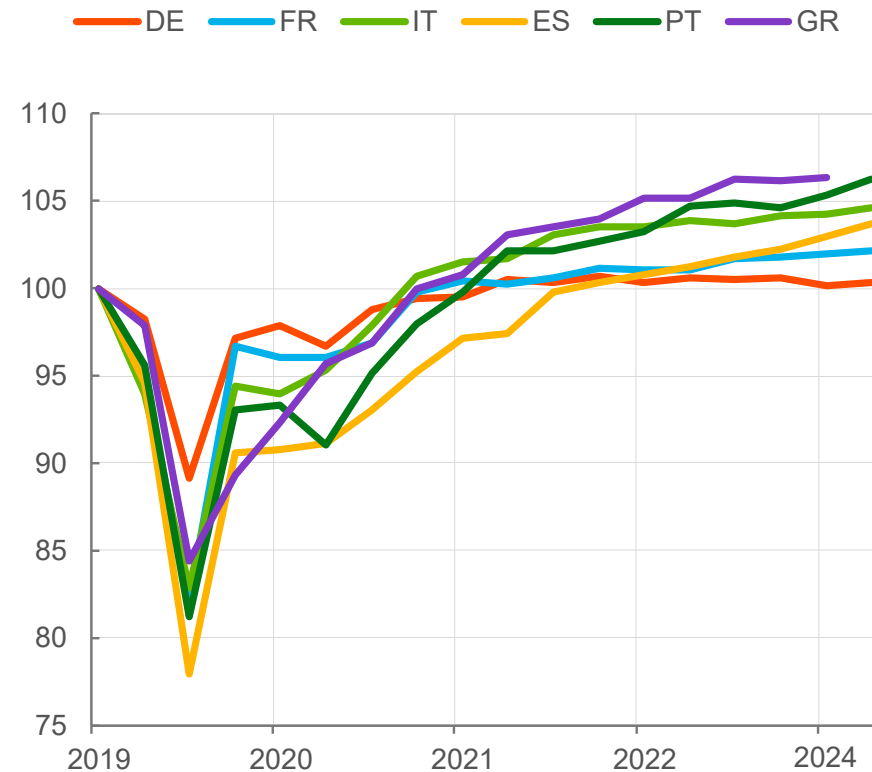
(basis points)



Source: SDW.
Last observation: 5 June 2024.

Real GDP

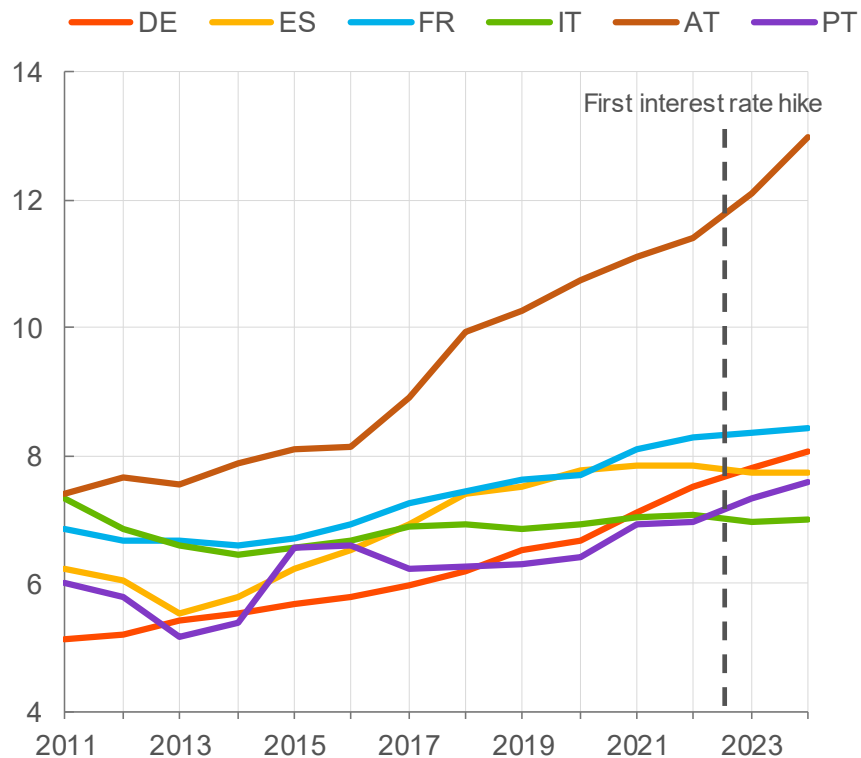
(Index Q4 2019 = 100)



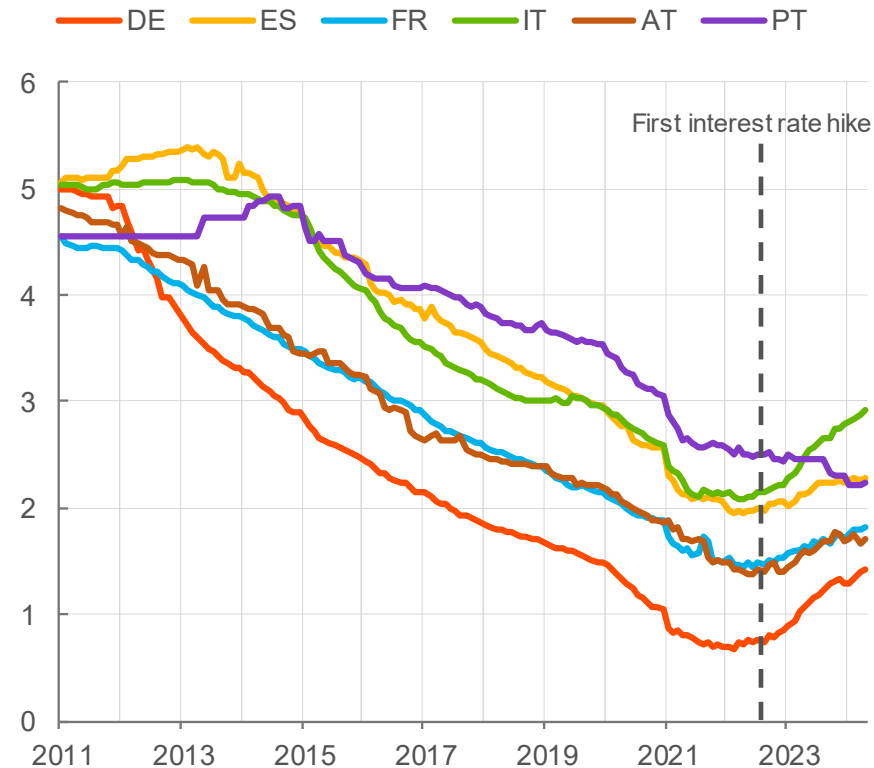
Sources: Eurostat and ECB staff calculations.
Latest observations: 2023 Q4 for Greece and 2024 Q1 for all other countries.

Longer maturities of sovereign bonds shield governments from rising yields

Residual maturities of sovereign bonds (years)



Average yields on total government debt securities (percentages per annum)



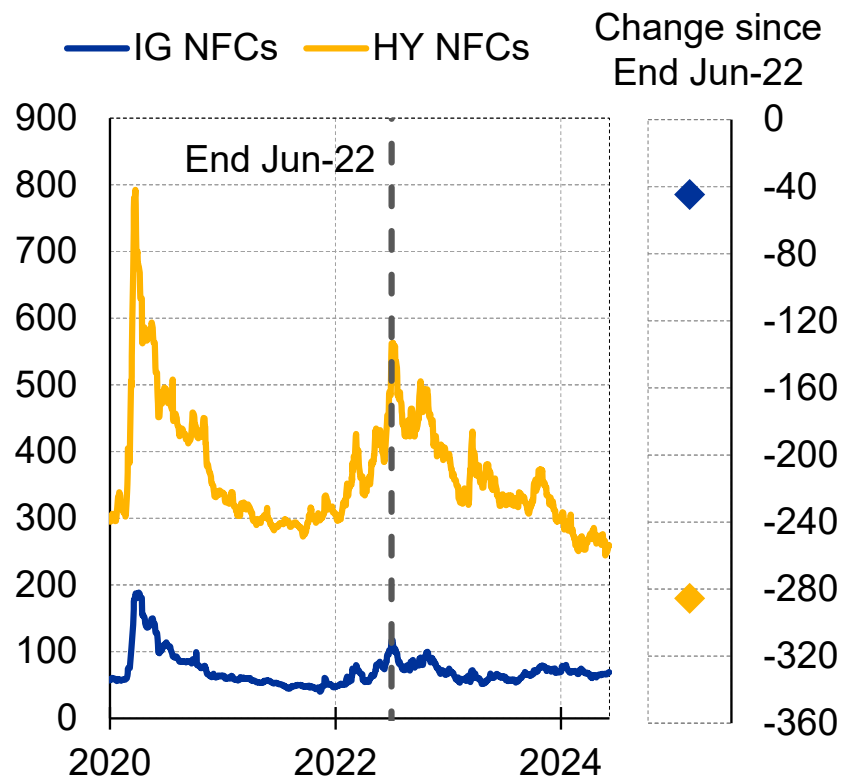
Sources: ECB and ECB staff calculations.

Notes: All original maturities. Annual averages per year, for 2024 average over the period January-April.

Strong risk appetite of global investors compresses risk premia

Non-financial corporate bond spreads

(basis points)



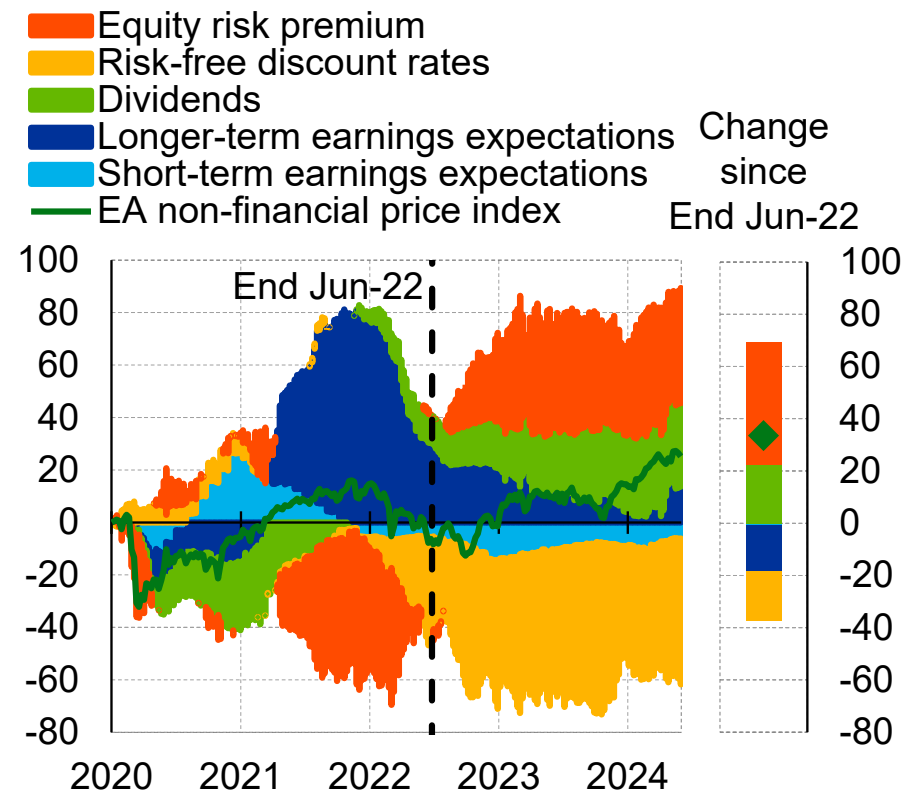
Sources: iBoxx, and ECB calculations.

Notes: The spreads are based on indices including companies that issue bonds in EUR, without strict restriction to their domicile, and are calculated as weighted averages of bond spreads over Markit iBoxx swap curve. The vertical line refers to 30 June 2022.

Latest observation: 5 June 2024.

Drivers of equity prices: NFCs

(lhs panel: cumulative percentage changes relative to Jan-20, rhs panel: percent)

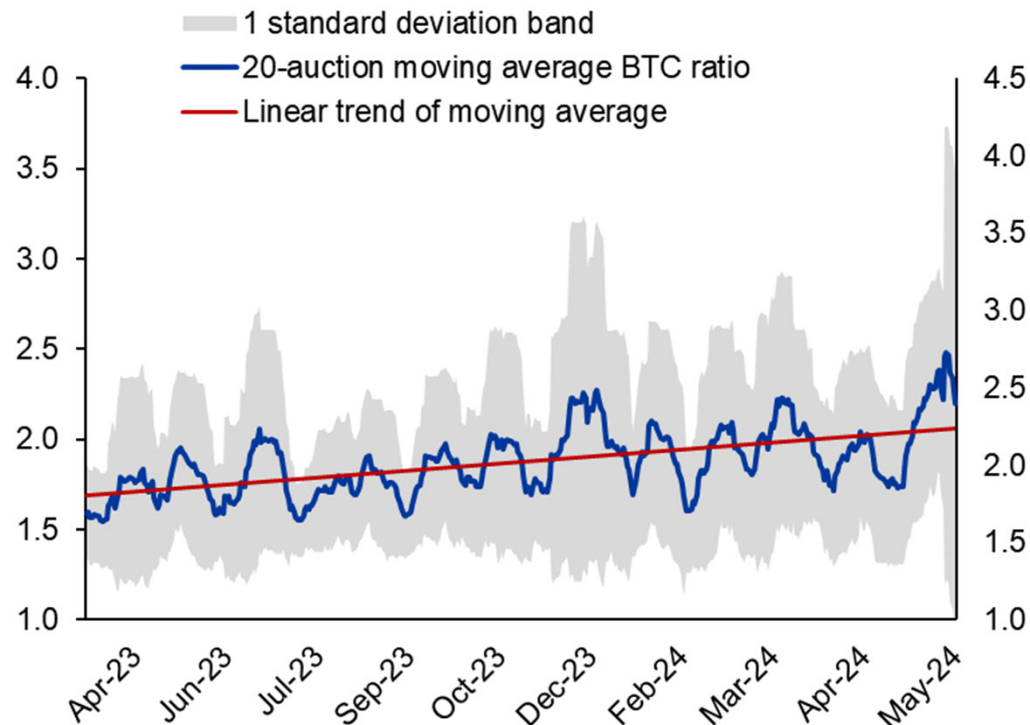


Sources: Refinitiv, IBES, Consensus Economics, Bloomberg and ECB calculations.

Notes: The decomposition is based on a dividend discount model. The model includes share-buybacks, discounts future cash-flows with interest rates of appropriate maturity and includes five expected dividend growth horizons. See ECB Economic Bulletin, issue 4/2018 for more details. The vertical line refers to 24 June 2022.

Latest observation: 31 May 2024 (weekly data).

Bid-to-cover ratios of major 4 EA sovereigns plus European Union (ratio)



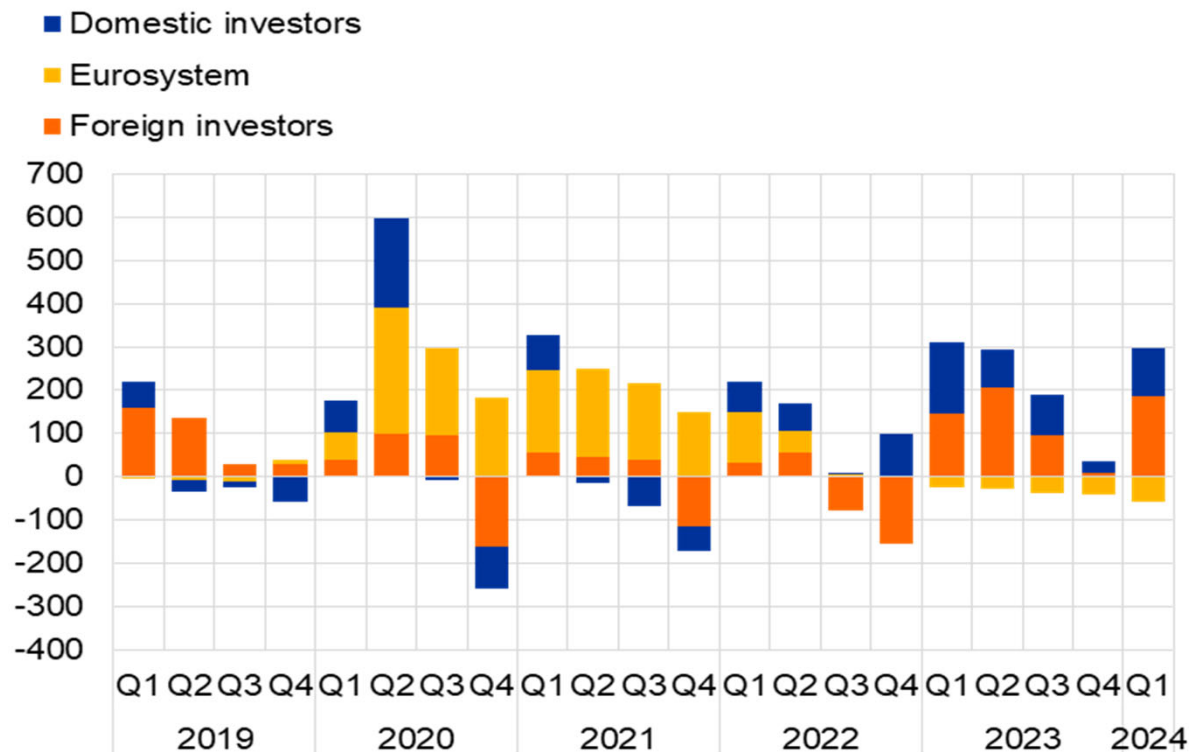
Sources: National Debt Management Offices, ECB.

Notes: Includes central government bond auctions in Germany, France, Italy, Spain and EU-supranational bond auctions. Excludes syndications and bills.

Latest observation: May 2024.

Buyers and sellers of euro area government bonds

(€ billion)



Sources: ECB Securities Holding Statistics by Sector (SHSS) and Eurosystem (SHSE) and ECB calculations.

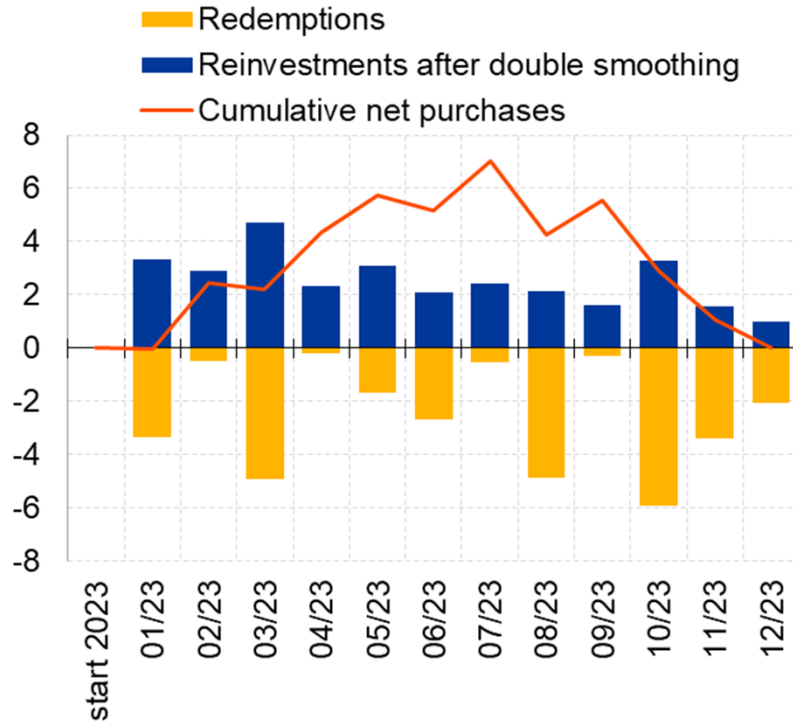
Notes: Government bond holdings of domestic bonds are excluded to address distortions caused by retained bonds.

Latest observation: 31 March 2024.

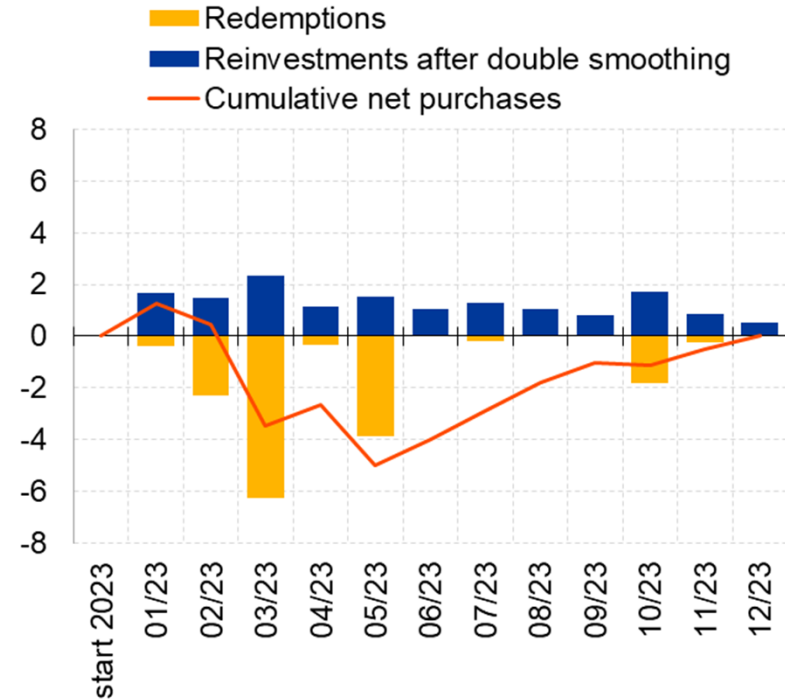
Redemptions, reinvestments and cumulative net purchases

(€ billion)

Italy



France

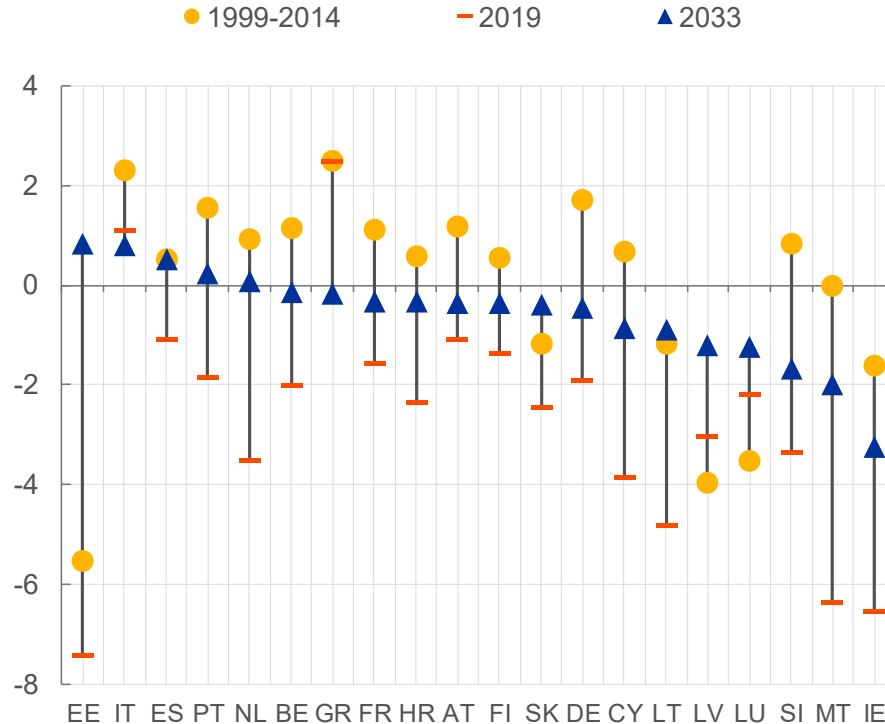


Sources: ECB and ECB staff calculations.

Note: Chart shows reinvestment amounts before allocation to the catch-up in supranational bonds.

Low growth, higher yields and primary deficits may weigh on public debt outlook

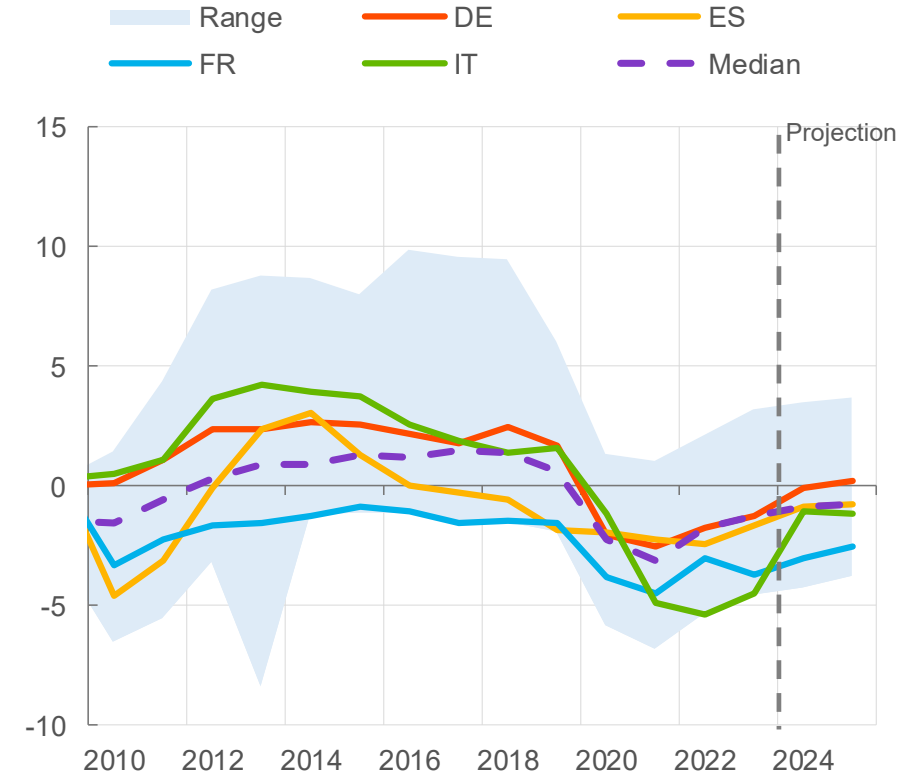
Interest rate-growth differential (r-g) (percentage points)



Source: ECB and ECB staff calculations.

Notes: Projections are derived from the current yield curve consistent with the 'sound fiscal policy' scenario (baseline of the Eurosystem DSA; based on June 2024 BMPE data). The data is sorted based on 2033.

Structural primary balance (percent of GDP)



Source: European Commission.

Notes: Median shows the median of all euro area countries, and the range shows the minimum and maximum of all euro area countries. Figures for 2024 and 2025 refer to the European Commission 2024 Spring forecast. Latest observation: 2025.

Thank you very much for your attention!