

Navigating towards neutral

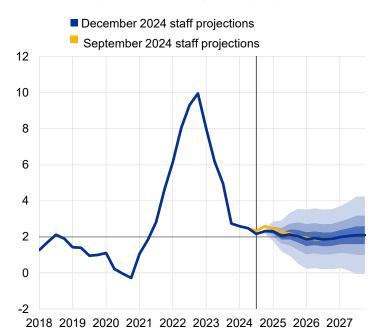


Isabel Schnabel, Member of the Executive Board of the ECB CEPR Paris Symposium 2024, Banque de France

Staff projections confirm nearing return to price stability as economy slowly recovers

Euro area HICP inflation

(annual percentage changes)



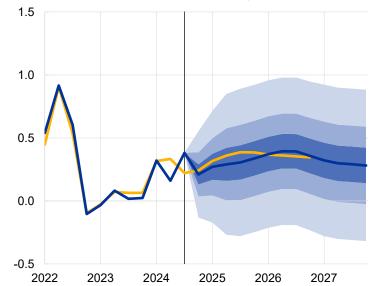
Source: ECB.

Notes: The vertical line indicates the start of the current projection horizon. The ranges shown around the central projections provide a measure of the degree of uncertainty and are symmetric by construction. They are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome of HICP inflation will fall within the respective intervals.

Real GDP growth

(quarter-on-quarter percentage changes)

- December 2024 staff projections
- September 2024 staff projections



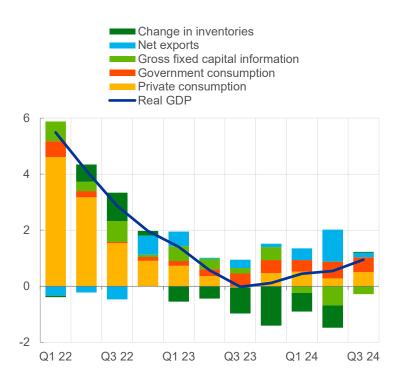
Source: ECB.

Notes: Seasonally and working day-adjusted quarterly data. Historical data may differ from the latest Eurostat publications. The vertical line indicates the start of the current projection horizon. The ranges shown around the central projections provide a measure of the degree of uncertainty and are symmetric by construction. They are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome of real GDP growth will fall within the respective intervals.

Private consumption growth picked up, with drag from inventories fading

Decomposition of real GDP growth

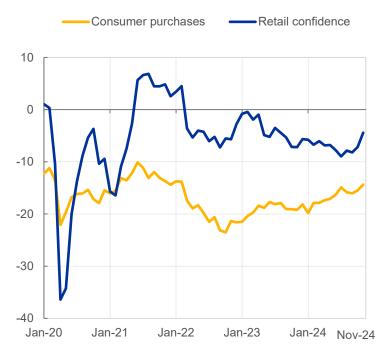
(year-on-year percentage change, percentage point contributions)



Sources: Eurostat and ECB staff calculations. Latest observation: Q3 2024.

Retail sector confidence and intended consumer purchases

(percentage balances)



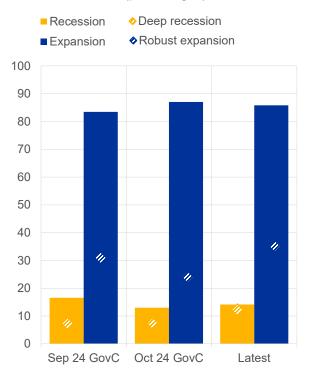
Source: DG-ECFIN.

Notes: Consumer purchases refers to major purchase expectations over the next 12 months. Latest observation: November 2024

Economic expansion remains the most likely outcome despite rising uncertainty

Probabilities of recession and expansion

(percentages)



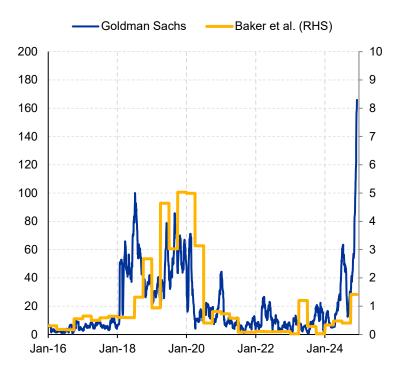
Source: ECB.

Notes: Recession is defined as four consecutive quarters below 0% q-o-q growth, and expansion is the corresponding residual. Deep recession is defined as four consecutive quarters below -0.25% q-o-q growth, and robust expansion as four consecutive quarters above 0.25% q-o-q growth.

Latest observation: 11 December 2024.

Trade policy uncertainty

(lhs: percent of 2018 peak; rhs: index points)



Sources: Baker et al. (2016) via Bloomberg, Goldman Sachs research.

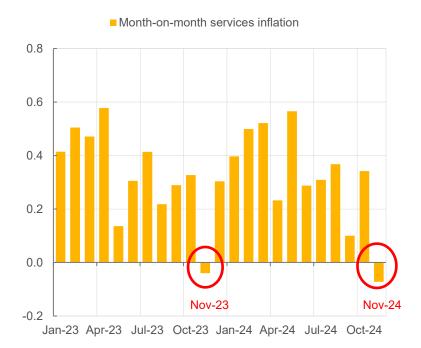
Notes: The trade policy uncertainty (TPU) indices count the number of articles that contain key TPU words scaled by the total number of articles, WUI world trade uncertainty index equally weighted average from Baker, Bloom & Davis.

Latest observation: 3 December 2024 for TPU, 2 December for WUI.

Remaining risks from sticky services inflation and sluggish productivity growth

Month-on-month services inflation

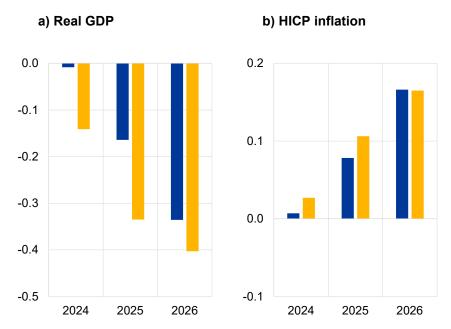
(percentage changes)



Sources: Eurostat and ECB calculations. Notes: Calculated using seasonally adjusted data. Latest observation: November (flash) 2024.

Alternative scenarios on productivity growth

- Negative labour productivity shock
- Negative transitory productivity shock

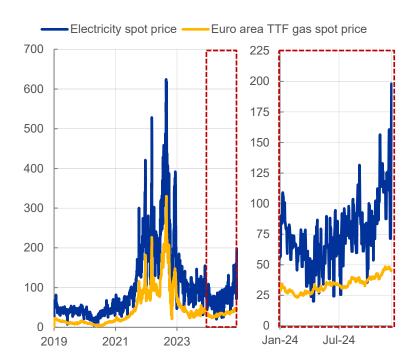


Source: ECB (2024), Alternative paths for euro area productivity developments and their impact on the economy, Eurosystem staff projections, June. Notes: The two scenarios assume that there are structural factors adversely affecting capital and total factor productivity, possibly related to high energy prices, geopolitical tensions, regulatory costs or a more negative impact of environmental policies. They are implemented using a negative labour productivity shock and a negative transitory technology shock.

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New shocks keep hitting the euro area, many of which are posing upside risks

Electricity and gas prices in the euro area (EUR/MWh)



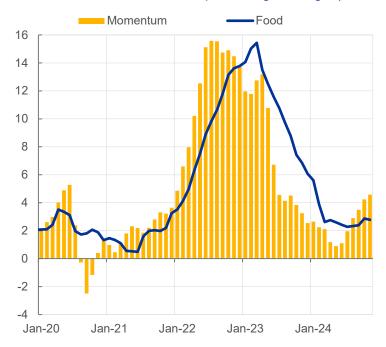
Sources: LSEG and ECB staff calculations.

Notes: Wholesale electricity prices for the euro area are calculated as a weighted average (weighted by net electricity generation) of prices observed in the five biggest euro area economies.

Latest observation: 11 December 2024.

Food price inflation

(annual percentage changes and annualised 3 month-on-3-month percentage changes)



Sources: Eurostat and ECB calculations.

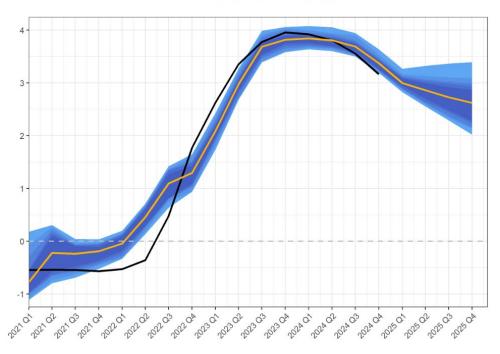
Notes: Calculated using seasonally adjusted data. Latest observation: November (flash) 2024.

Taylor rule estimates suggest gradual removal of restriction and are skewed to the upside

Three-month Euribor path implied by Taylor rules

(percentage points)





Sources: ECB, European Commission, IMF WEO, OECD and ECB staff estimates based on various models.

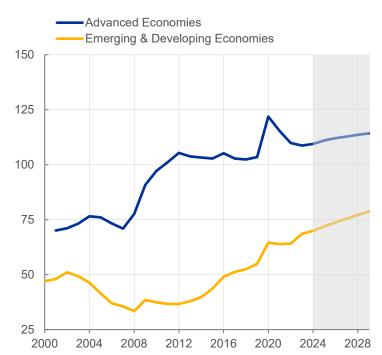
Notes: The fan chart shows the paths of the 3-month Euribor implied by the various Taylor rule specifications. The ranges in the fan chart encompass specifications using 1-year ahead inflation forecasts, different estimates of the real natural rate and output gaps (both rules with level and change of the gap). The yellow line is the median outcome across all specifications; the solid black line represents the observed 3-month Euribor, the last observation of which is reported for 2024Q4 (average of daily data). Shaded areas refer to the range of estimates from the 10th to the 90th quantile.

Latest observation: Q4 2025. 7 www.ecb.europa.eu®

Demand for global savings by governments has increased and is expected to rise further

General government gross debt

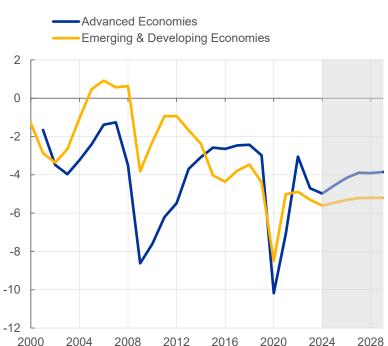
(% of GDP)



Source: October 2024 IMF World Economic Outlook (WEO) via Haver Analytics. Note: Government debt refers to gross debt as a percentage of GDP. Latest observation: 2023.

Fiscal balance

(% of GDP)



Source: October 2024 IMF World Economic Outlook (WEO) via Haver Analytics. Note: Fiscal balance refers to general government net lending / borrowing as a percentage of GDP

Latest observation: 2023.

Shift in global savings demand and supply is contributing to rising asset swap spreads

Share of foreign official holdings of US Treasury securities

(percent)

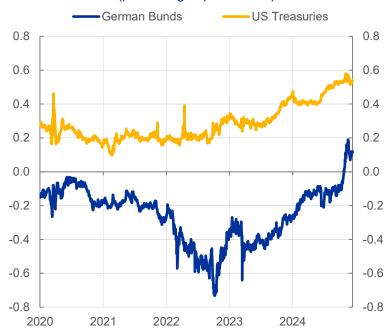


Sources: LSEG and ECB staff calculations.

Notes: Share calculated over the total marketable US Treasury securities outstanding. Latest observation: September 2024.

Spreads of 10-year US Treasury securities and German Bunds over OIS

(percentages per annum)



Sources: Bloomberg, LSEG and ECB calculations.

Latest observation: 11 December 2024.

Real interest rate gap turns negative, suggesting that policy stance may be neutral soon

Euro area real interest rate gap (r-r*) based on financial market prices

(percentages per annum)



Sources: LSEG, Bloomberg and ECB calculations.

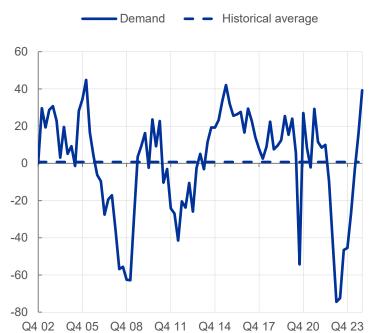
Notes: Real rates are calculated by subtracting the inflation-linked swap rate from the nominal OIS rate.

Latest observation: 11 December 2024.

Strong pick-up in mortgage demand as interest rates fall and house prices recover

Change in demand for loans to households for house purchase

(net percentages of banks reporting an increase in demand)



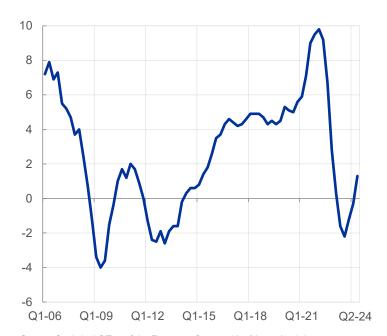
Source: ECB Bank Lending Survey.

Notes: Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding "decreased somewhat" and "decreased considerably".

Latest observation: Q3 2024.

Euro area house price index

(annual percentage changes)



Source: Statistical Office of the European Communities/Haver Analytics.

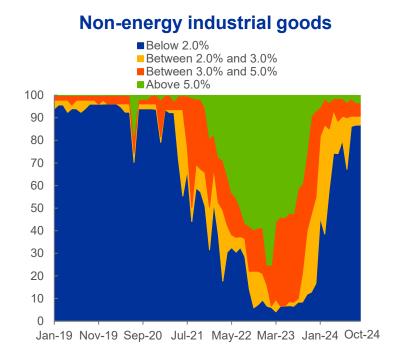
Notes: The data is non-seasonally adjusted.

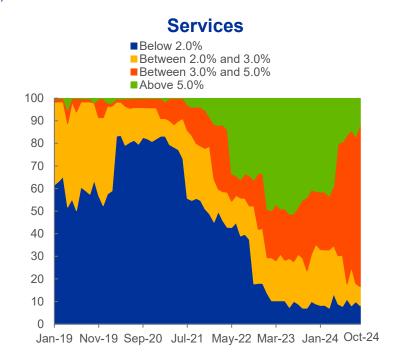
Latest observation: Q2 2024.

Recent inflation episode was broad-based, also reflecting second-round effects

Weighted distribution of price changes

(percentage)





Sources: Eurostat and ECB calculations.

Notes: Based on 39 items for services and 33 items for non-energy industrial goods; the weight of items sums up the weight of items in the HICP basket in the different categories. Latest observation: October 2024.

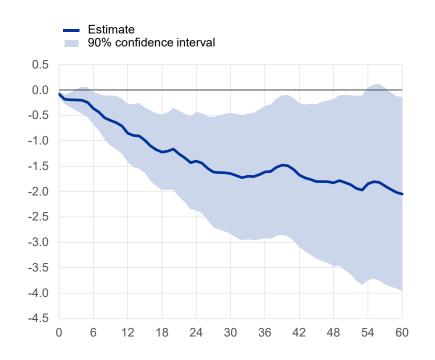
Effectiveness of monetary policy depends on the inflation regime

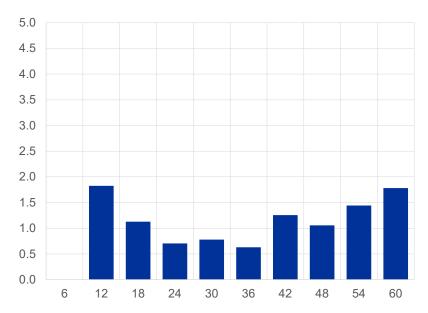
Response of the common component of PCE prices to monetary policy tightening

(x-axis: months after a monetary policy tightening; y-axis: percent)

Statistically significant idiosyncratic price increases in a low inflation regime

(x-axis: months after a monetary policy easing; y-axis: % of PCE)





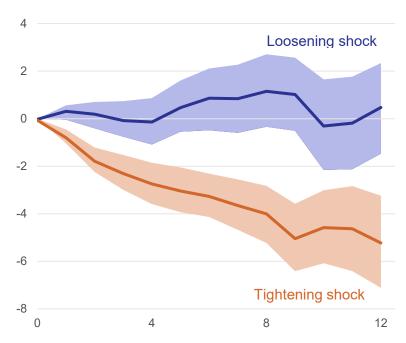
Sources: BIS (2024), Annual Economic Report, Chapter II. Monetary policy in the 21st century: lessons learned and challenges ahead, June.

Notes: The left-hand chart is based on the prices of 131 personal consumption expenditure (PCE) categories for the US. It shows that monetary policy surprises are estimated to have a persistent impact on the common component of price changes. The right-hand chart shows that monetary policy surprises have little impact on idiosyncratic elements in a low inflation regime (blue bars).

Monetary policy cannot boost potential output, while deflationary spirals are unlikely

Real GDP response to unexpected policy rate changes

(x-axis: years since monetary policy change; y-axis: percent)

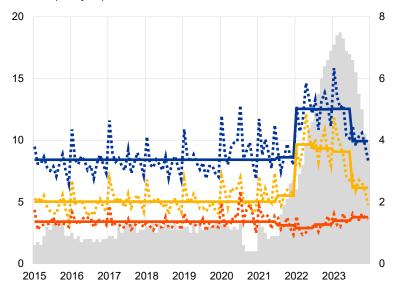


Source: Jordà, O., Singh, S. and Taylor, A. (2020), "The Long-Run Effects of Monetary Policy". NBER Working Paper. No 26666.

Frequency of consumer price changes

(lhs: percentages; rhs: annual percentage change)

- Euro area HICP excl. energy and unprocessed food (right-hand scale)
- Frequency of price changes
- Frequency of price increases
- Frequency of price decreases



Source: Consumer price micro-datasets from the national statistics institutes of Germany, Estonia, Spain, France, Italy, Latvia and Lithuania.

Notes: The chart shows the weighted average frequencies of price changes (excluding sales). VAT changes in Germany (2020-21) and Spain (2020-23) have been excluded. The solid lines plot the average over the period 2015-21 and half-year averages over the period 2021-23. Latest observation: December 2023.

Thank you very much for your attention!