



EUROPEAN CENTRAL BANK

EUROSYSTEM

Peter Praet

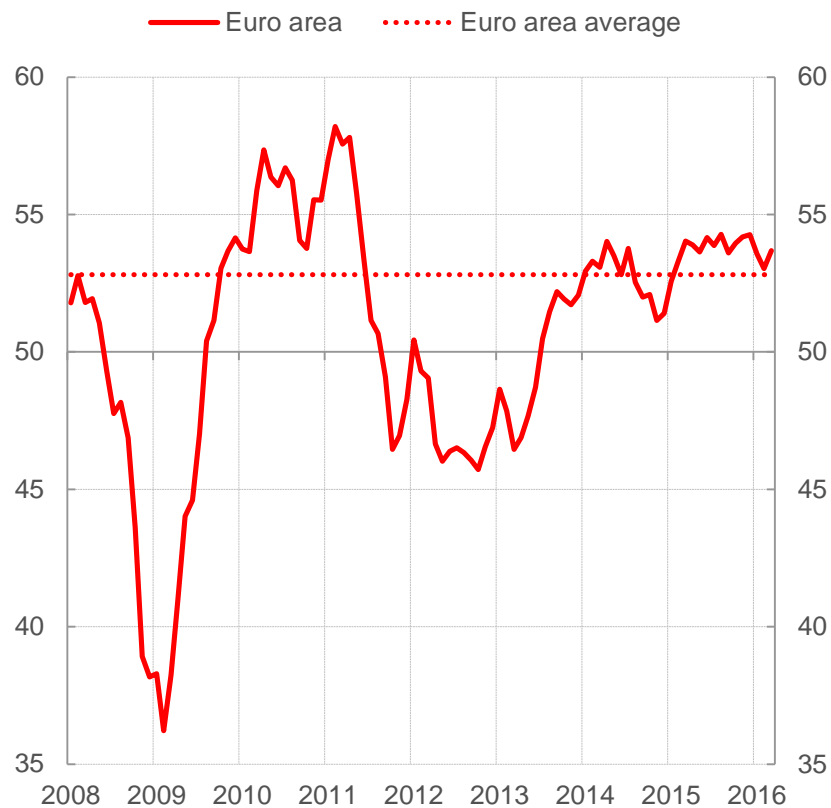
The ECB's fight against low inflation: reasons and consequences

**LUISS School of European
Political Economy**

Rome, 4 April 2016

PMI Composite output

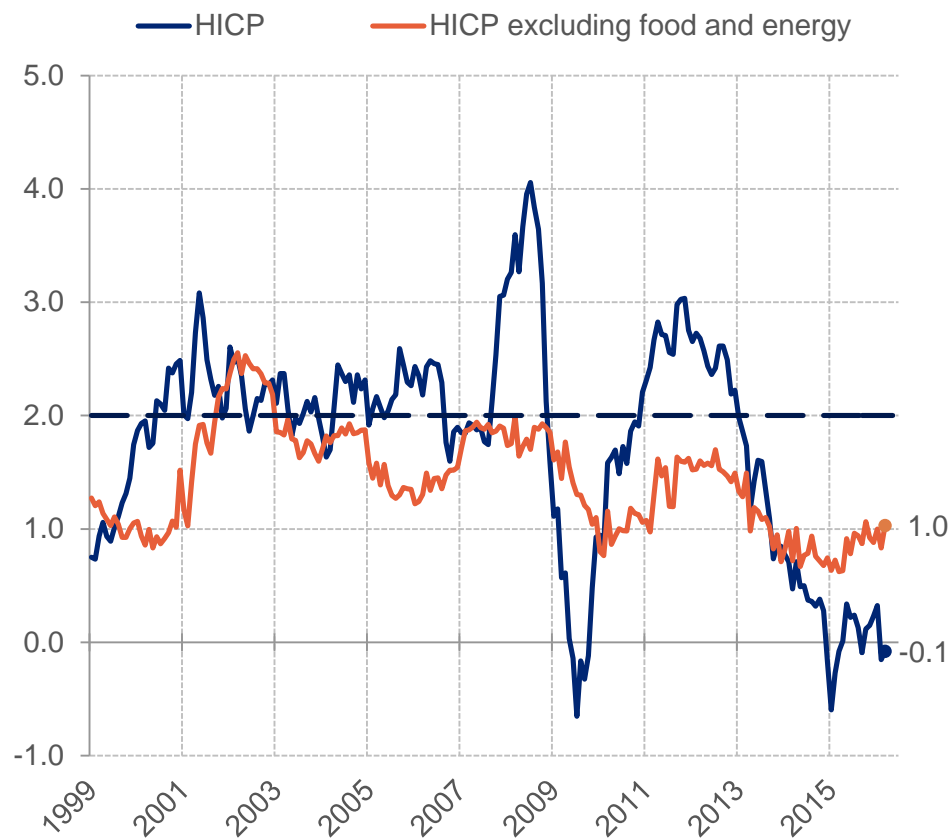
diffusion index, SA



Sources: ISM, Markit.
Latest observation: March 2016.

Euro area headline inflation and inflation excluding food and energy

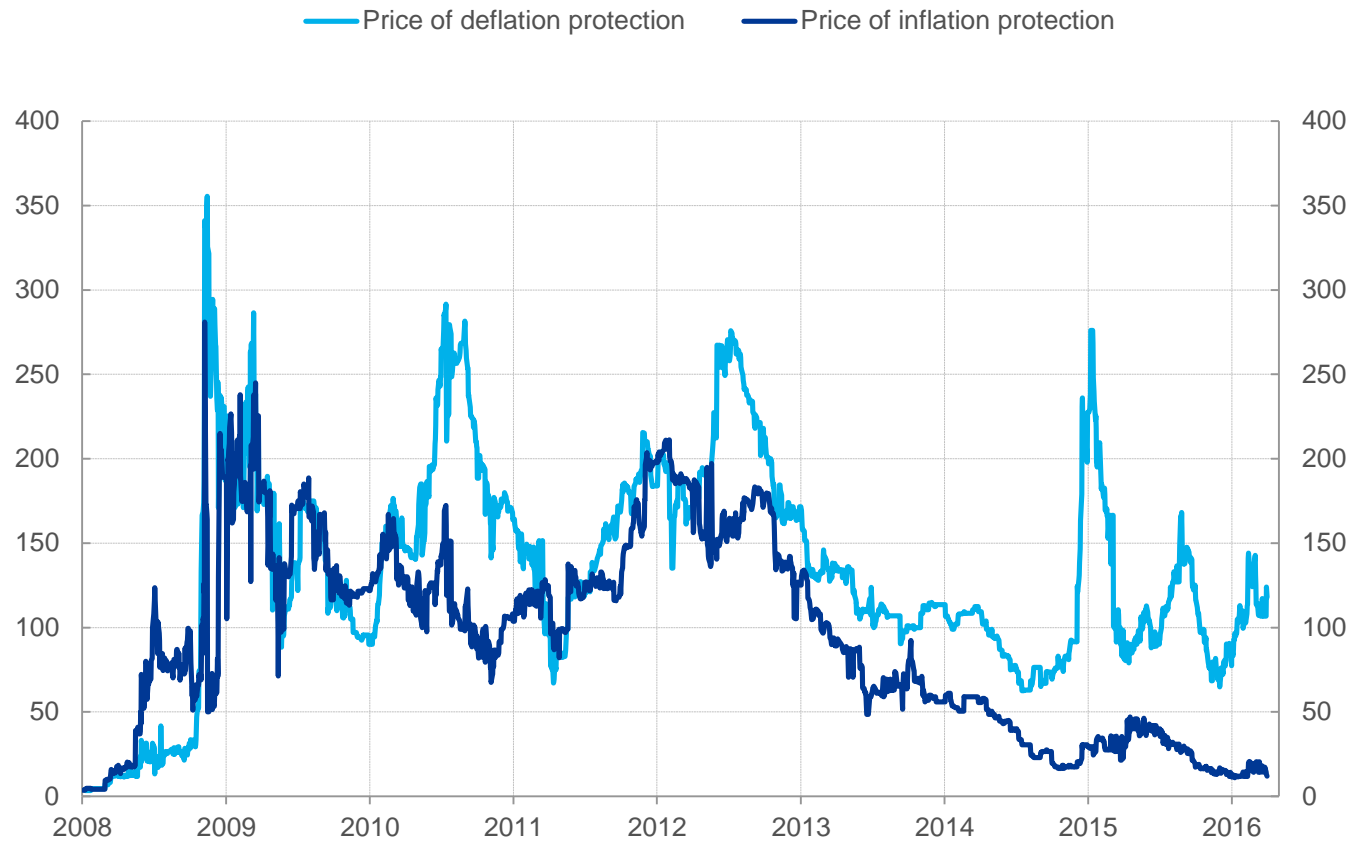
annual growth rates



Sources: Eurostat and ECB calculations.
Latest observation: March 2016 (flash estimates).

Price of inflation and deflation protection in the euro area

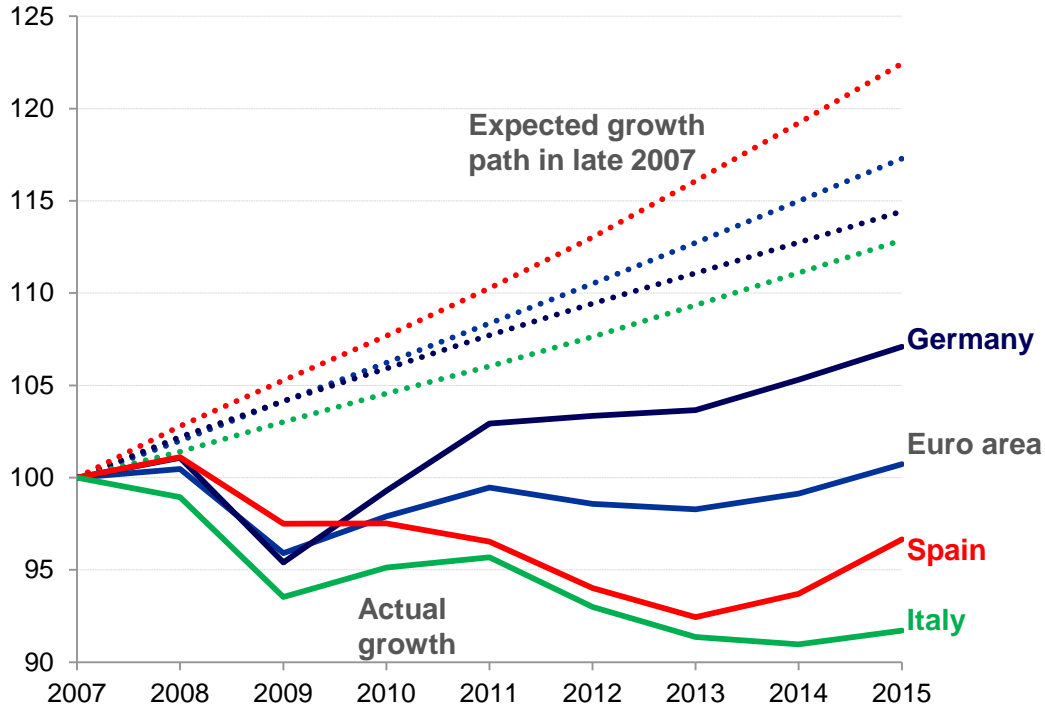
basis points



Source: Bloomberg. Notes: Price of 0% floor and 4% cap options (year-on-year) on euro area HICP inflation – 5Y maturity. Developments should be interpreted with caution due to limited market liquidity. Last observation: 30 March 2016.

Real GDP & pre-crisis expected path

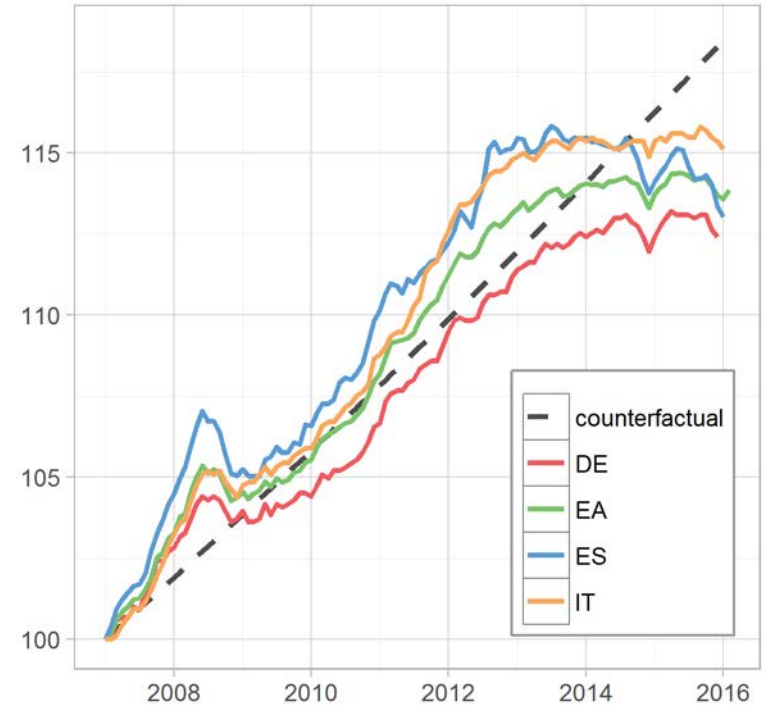
index, 2007 = 100



Sources: European Commission, Consensus Economics and ECB calculations.
 Note: The dotted line represents the evolution of GDP based on private sector expectations as measured by Consensus Economics in October 2007.

Consumer price levels

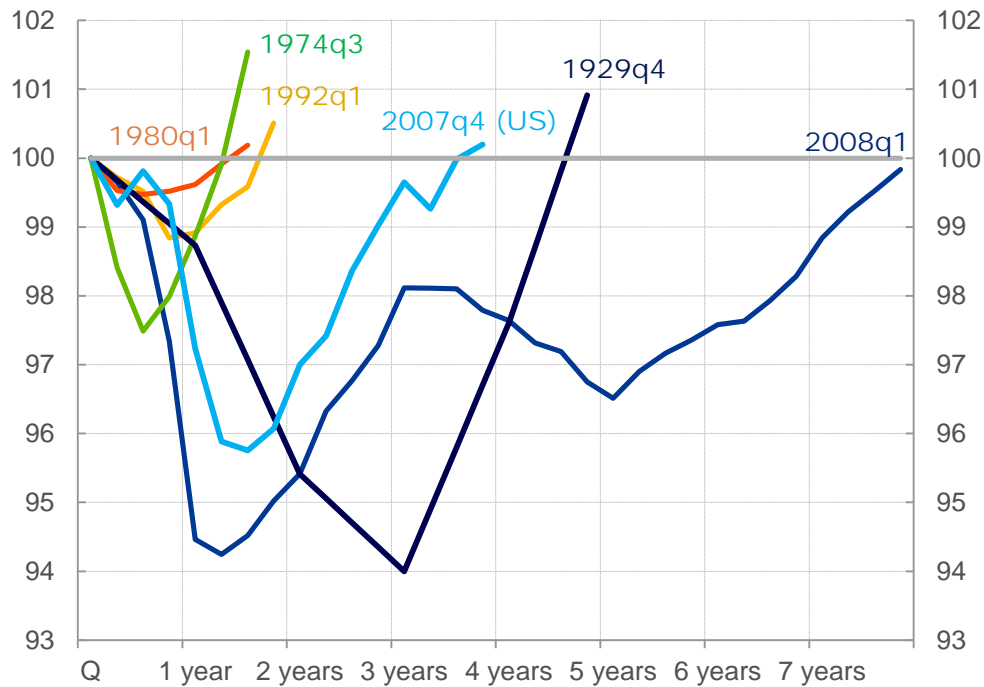
index, Jan 2007 = 100



Sources: Eurostat, ECB staff calculations.
 Note: The dashed line grows at a constant annualized rate of 1.9%.

Euro area real GDP over various cycles and compared with the current US cycle

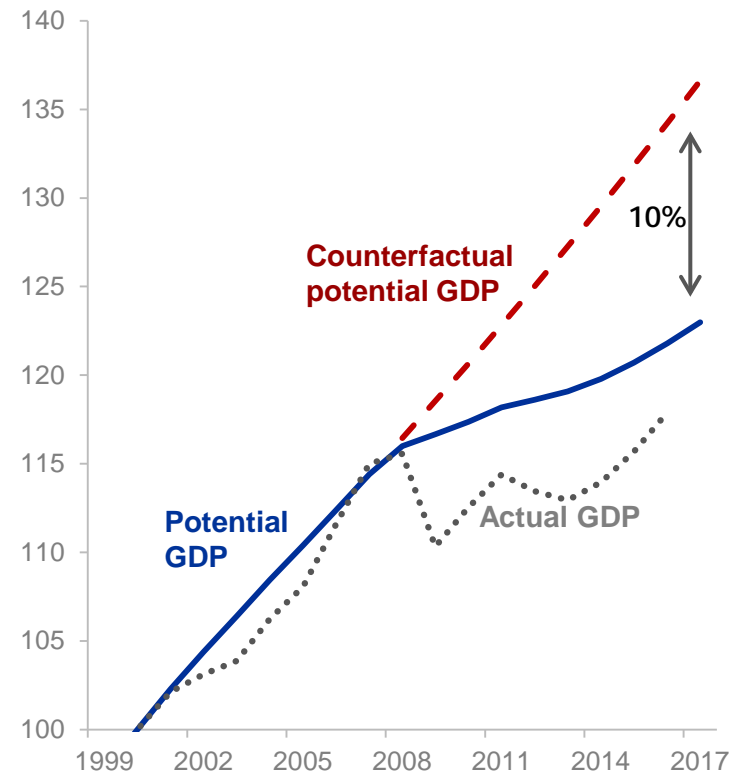
index: business cycle peak = Q = 100



Sources: Eurostat, September 2015 MPE, United States Census Bureau and ECB calculations.

EA: Potential output reduction

index, potential GDP in 1999 = 100

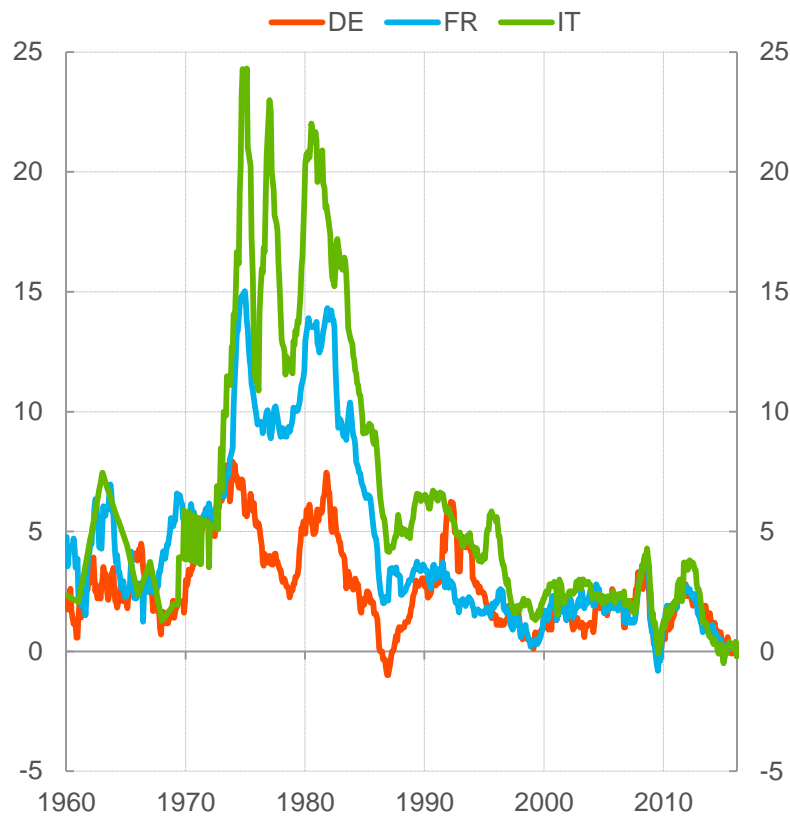


Source: European Commission Spring 2015 forecast, Output Gap Working Group.

Note: counterfactual potential GDP assumes that potential GDP continued to grow at its 2007 growth rate. I.e. it reflects the observation that potential growth has already slowed down before the crisis.

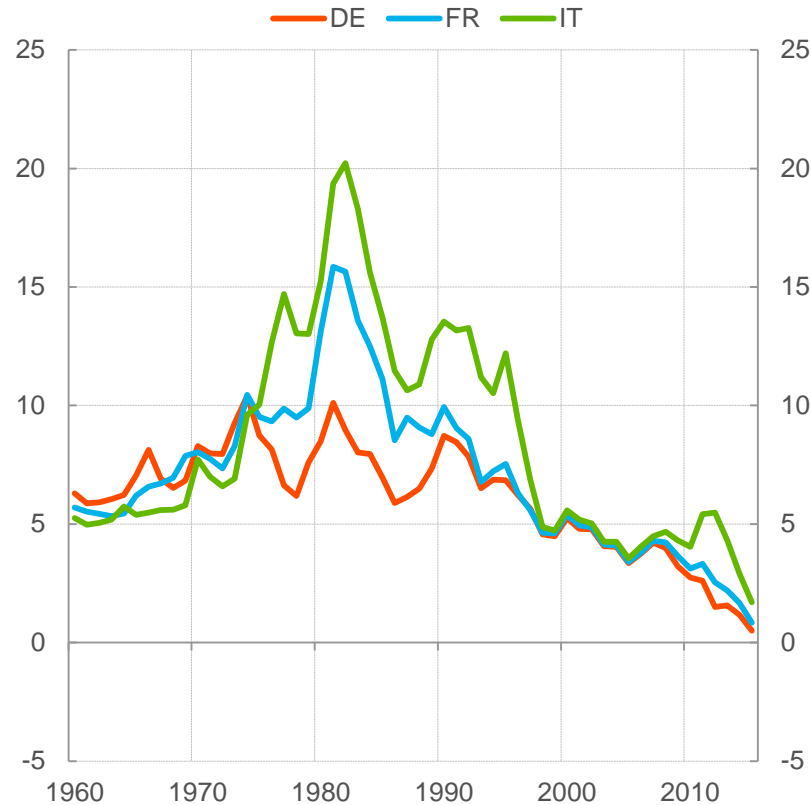
Inflation

% p.a.



Long-term nominal interest rates

% p.a.



Source: BIS and Eurostat

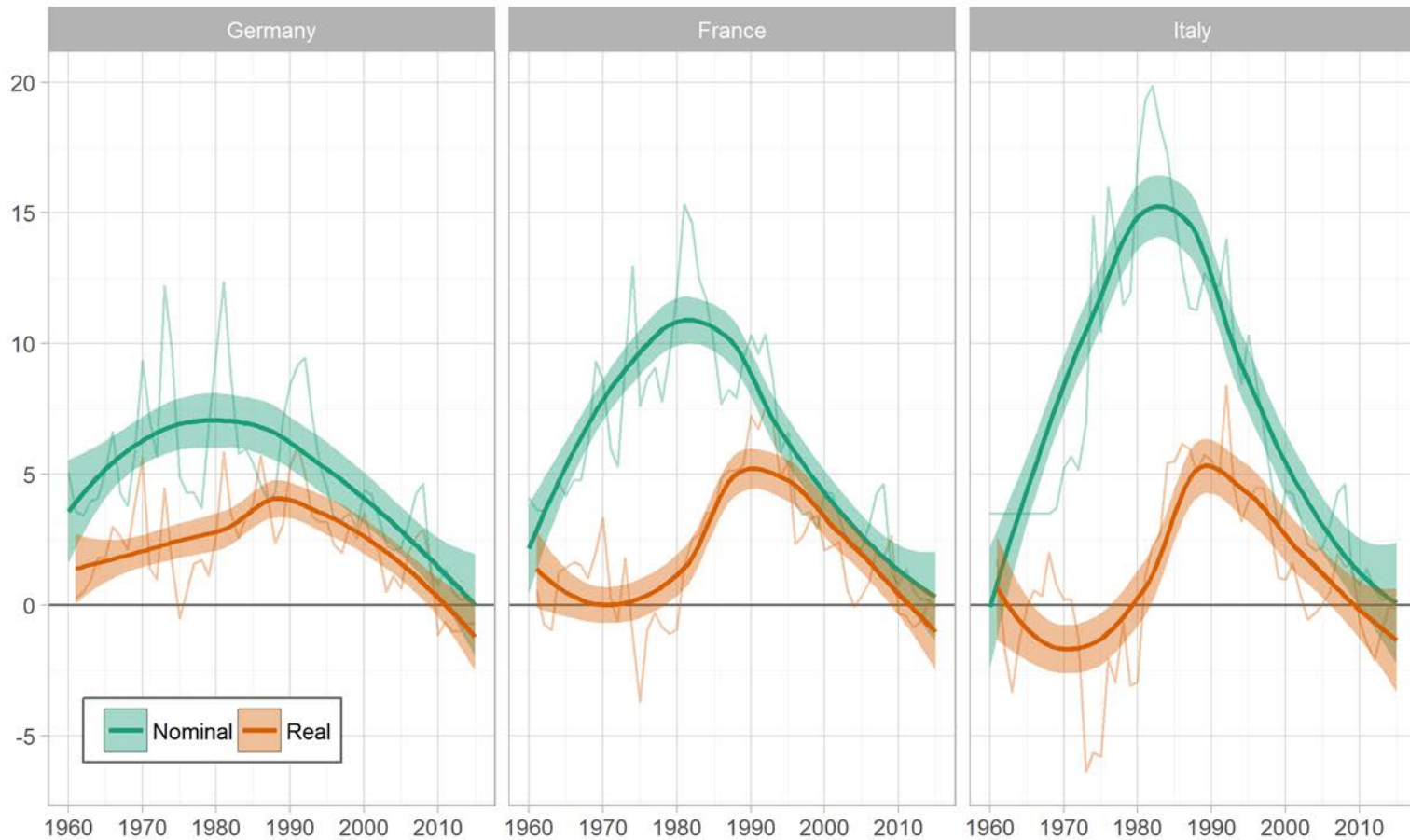
Latest observation: March 2016

Note: CPI inflation from 1960 to 1996 and HICP inflation figures after 1996. Italy figures from 1960 to 1968 refer to yearly CPI inflation which have been linearly extrapolated in monthly format.

Source: Ameco

Latest observation: December 2015

Short-term real and nominal interest rates % p.a.



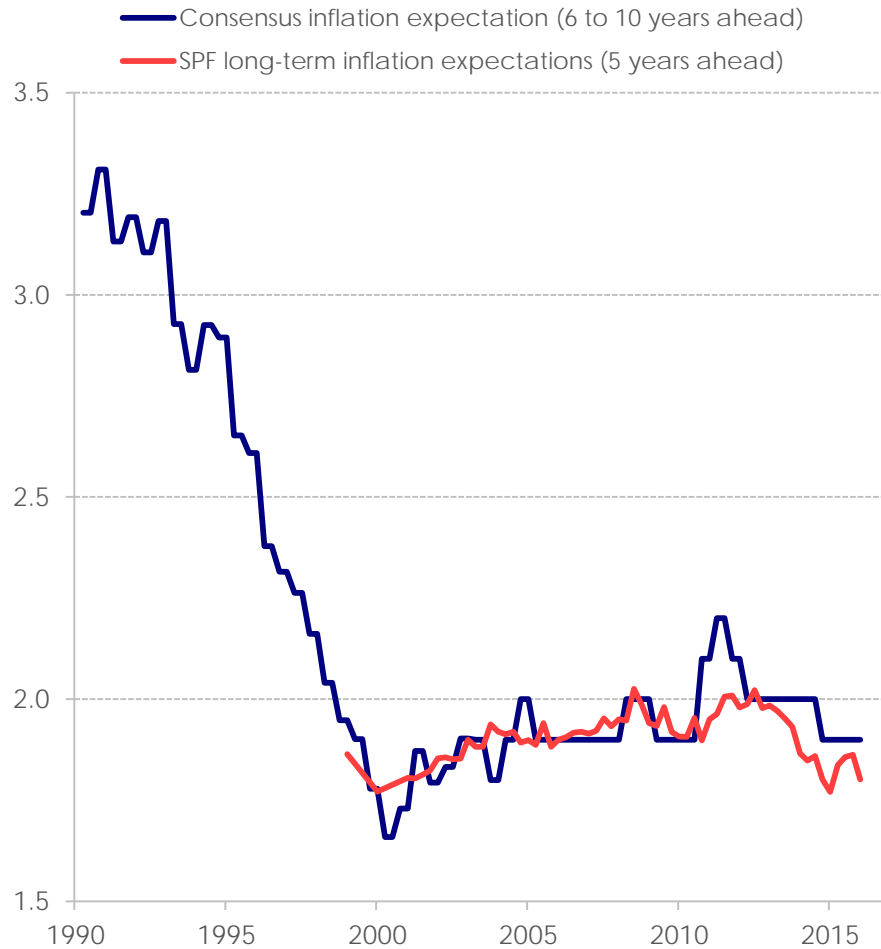
Source: Ameco

Latest observation: December 2015

Note: Short term real interest rates refer to West Germany up to 1991.

Long-term inflation expectations

% p.a.



Sources: Consensus Economics and Survey of Professional Forecasters.

5 years ahead growth expectations for the euro area

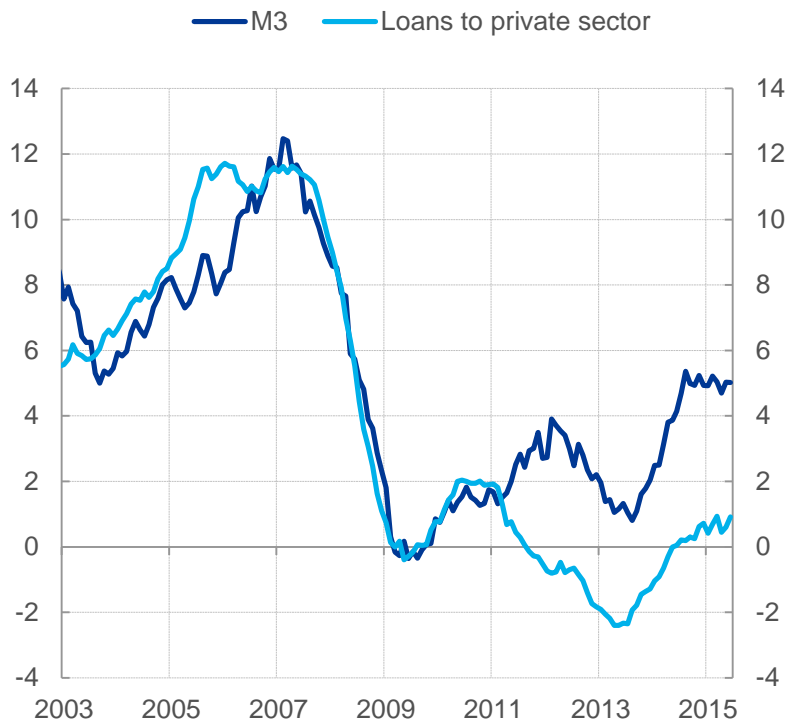
% p.a.



Source: Consensus.

M3 and credit growth

annual percentage changes

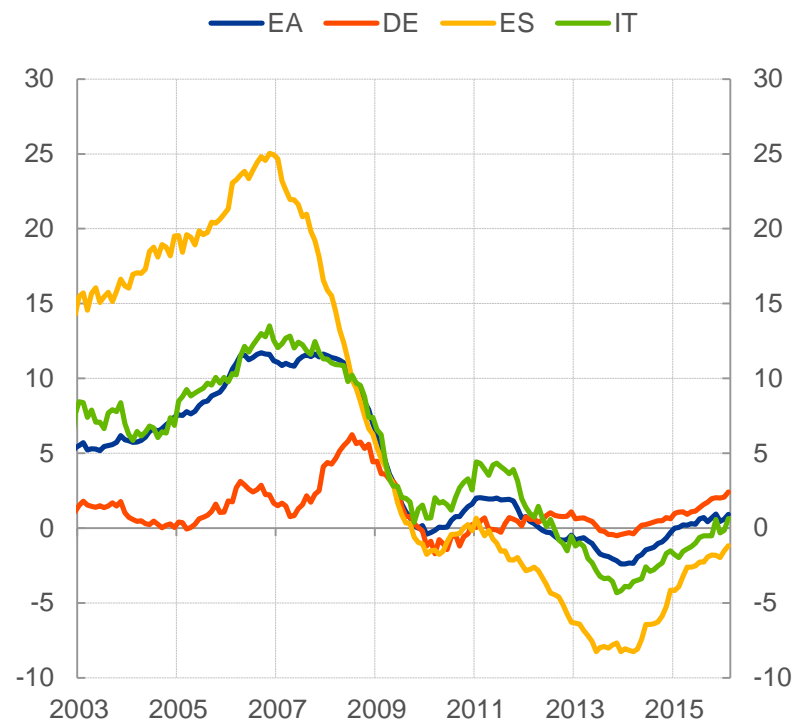


Source: ECB.

Note: Loans to the private sector adjusted for sales and securitisation in accordance with the new method announced on 21 September 2015.
Latest observation: February 2016.

Bank loans to private sector

annual percentage changes



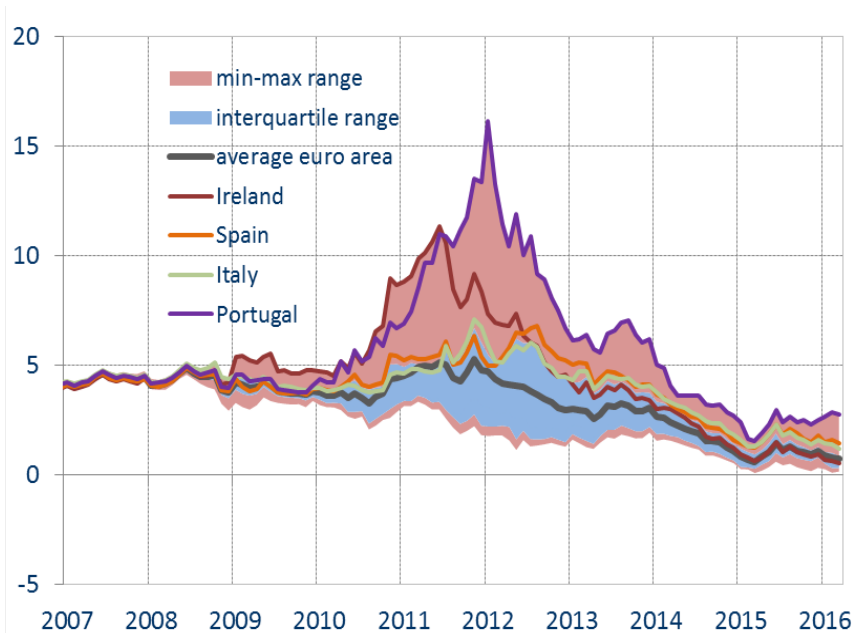
Source: ECB.

Latest observation: February 2016.

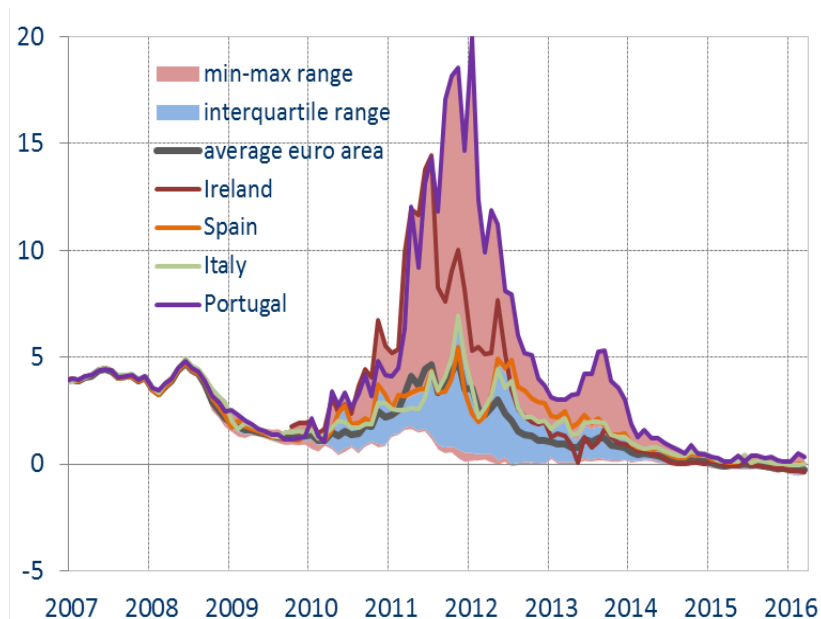
Dispersion of Euro area sovereign bond yields

percentages

10-year maturity



2-year maturity



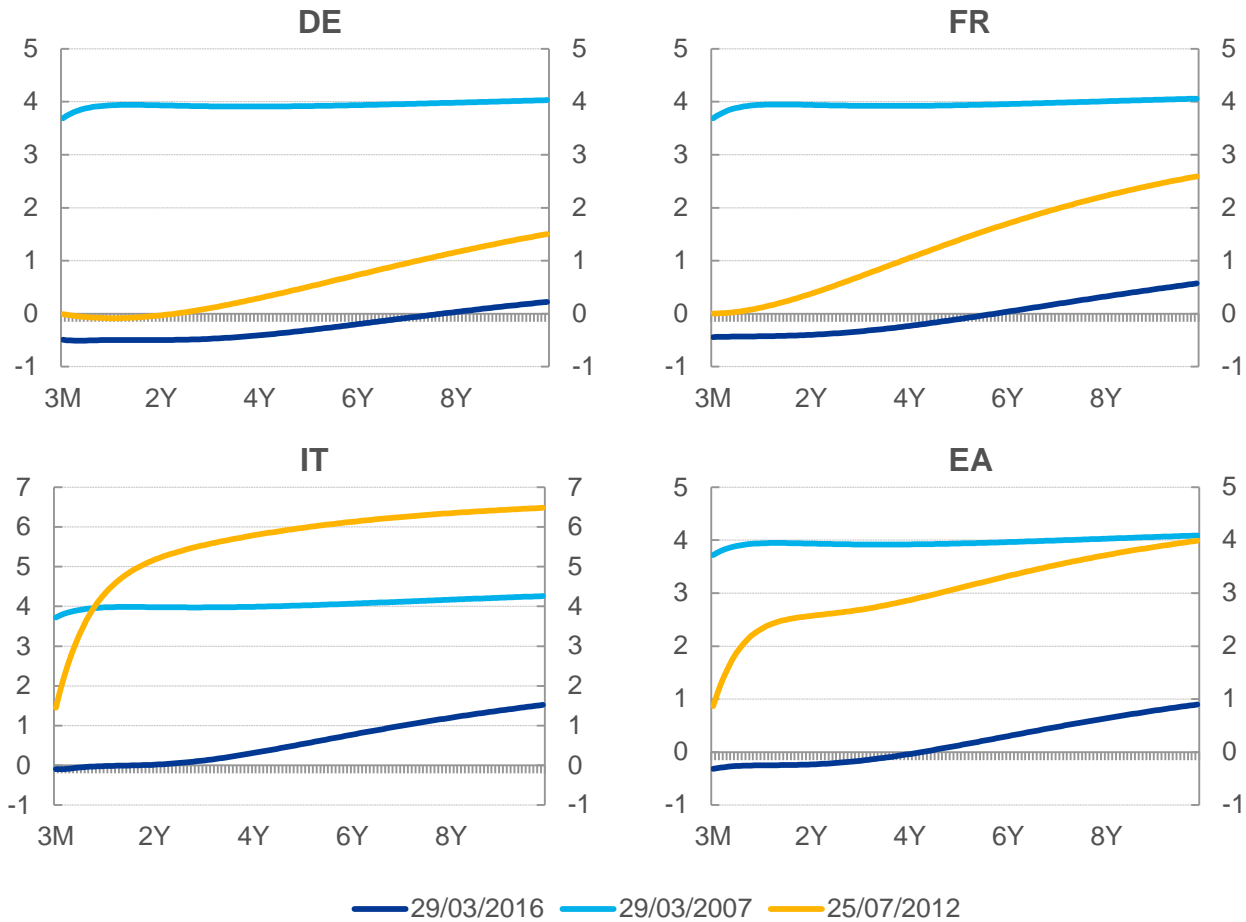
Sources: Thomson Reuters and ECB calculations.

Note: The data used are based on euro area country composition as in 2011. The yields for GR, CY, EE, LU, MT, SI, are excluded owing to infrequent or a lack of observations.

Latest observation: March 2016.

Yield curves

Yield curve spot rates, % p.a.

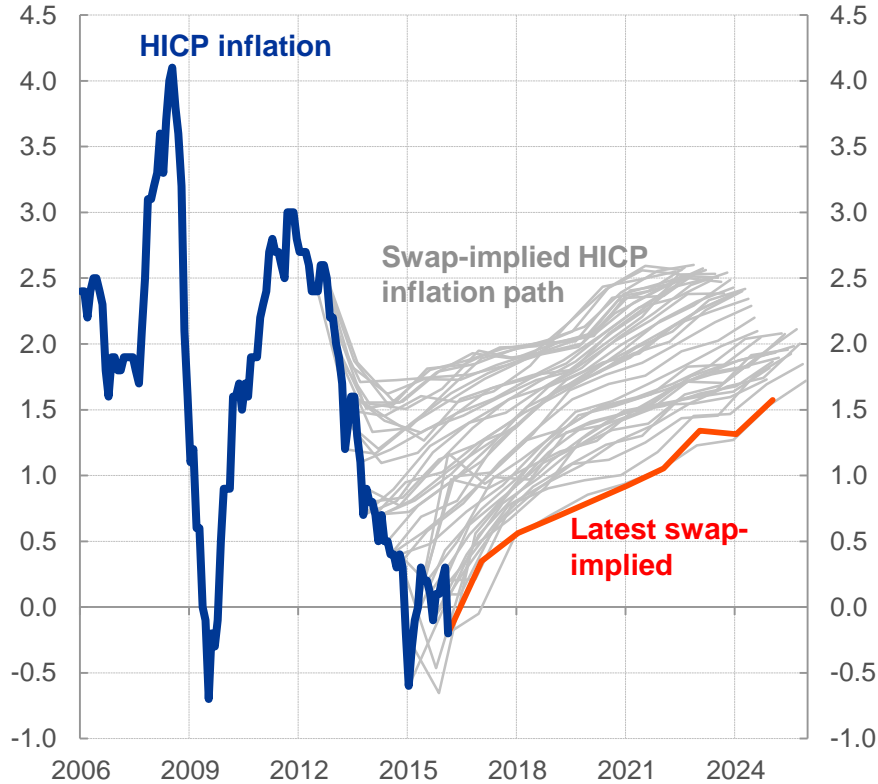


Source: ECB.

Latest observation: 29/03/2016

Euro area inflation: realized and forecast

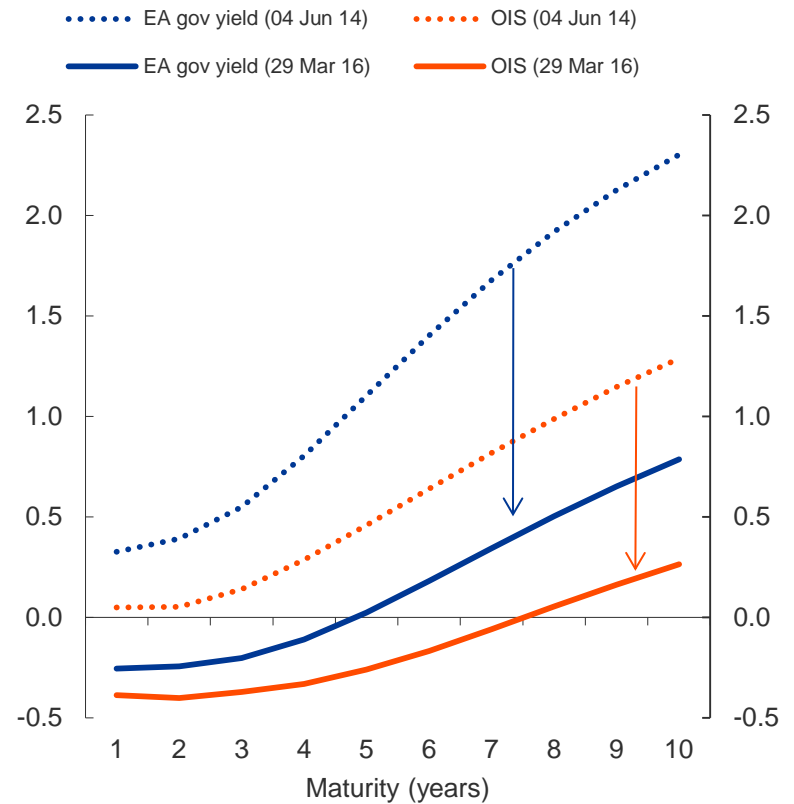
% p.a.



Source: Thomson Reuters, Eurostat and ECB.

Yield curves: OIS and euro area government bonds

% p.a.



Source: Bloomberg, ECB, ECB calculations.
Latest observation: 29 March 2016 (lhs)