

# Monetary policy and financial stability

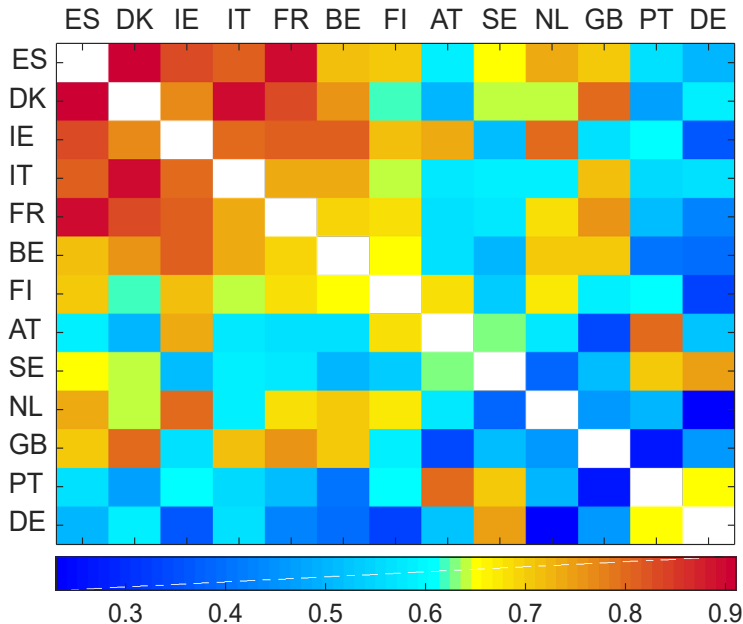
Isabel Schnabel, Member of the ECB's Executive Board

*Remarks at the fifth annual conference of the  
European Systemic Risk Board, 8 December 2021*

# Macroprudential policy provided limited policy space in the pandemic

## Concordance of financial conditions

(index)

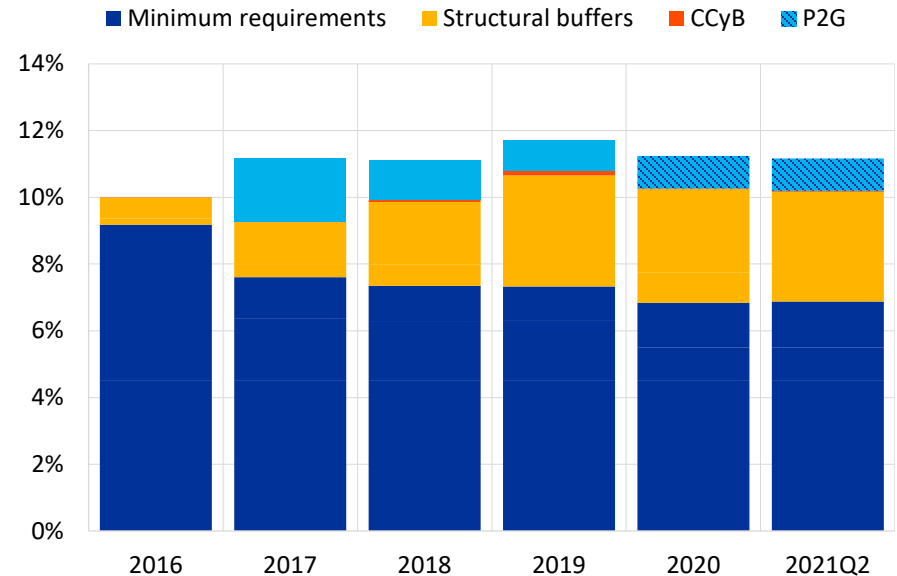


Source: Schüler, Hiebert and Peltonen (2015), ECB Working Paper No 1846.  
Latest observation: 2020Q2.

Note: "Concordance" is an indicator of cross-country synchronisation of financial cycles. It measures how often two financial cycles are in the same phase, peak-to-trough or trough-to-peak, where phases are computed using the classical turning point algorithm. Concordance is defined between 0 and 1, where 0 denotes perfect discordance and 1 is perfect concordance. The financial cycle is proxied by a range of macro-financial indicators, including loans and debt securities provided to the private nonfinancial sector, house prices, equity prices, benchmark government bond yields, real GDP, the unemployment rate, and consumer price inflation.

## Evolution of bank capital requirements and their components in the euro area

(percentages of risk-weighted assets)

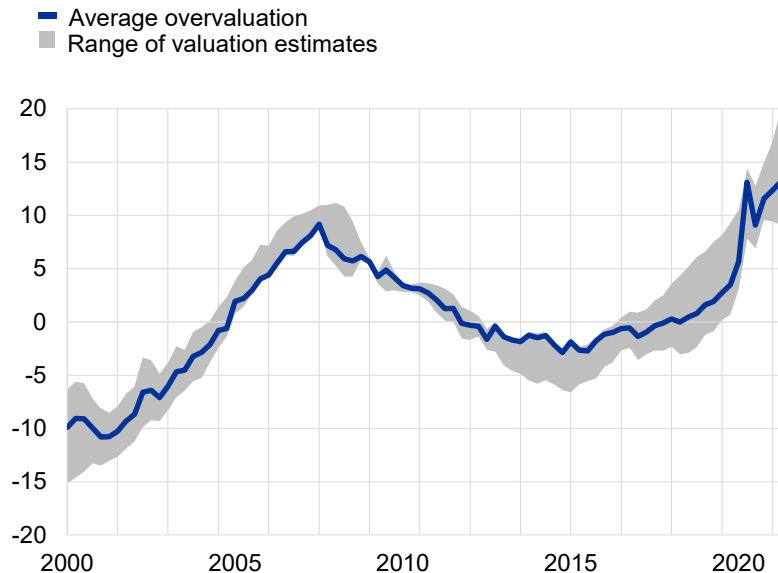


Source: ECB supervisory statistics and ECB calculations. Note: Based on CET1 requirements and guidance for a sample of about 2,300 significant and less significant institutions reported at the highest level of consolidation available in the euro area. Latest observation: 2021 Q2. P2G refers to Pillar 2 Guidance (shaded in 2020-21, reflecting ECB BS communication that it is fully usable in the pandemic). CCyB refers to the Countercyclical Capital Buffer. Structural buffers are the sum of the Capital Conservation Buffer and the maximum rate among O-SII/G-SII buffers and the Systemic Risk Buffer. Minimum requirements are the sum of minimum Pillar 1 and Pillar 2 requirements and any application shortfall in AT1/Tier2 capital that must be covered with CET1 capital.

# Euro area house prices are increasingly overvalued while lending remains buoyant

## Overvaluation of euro area house prices

(percentage)

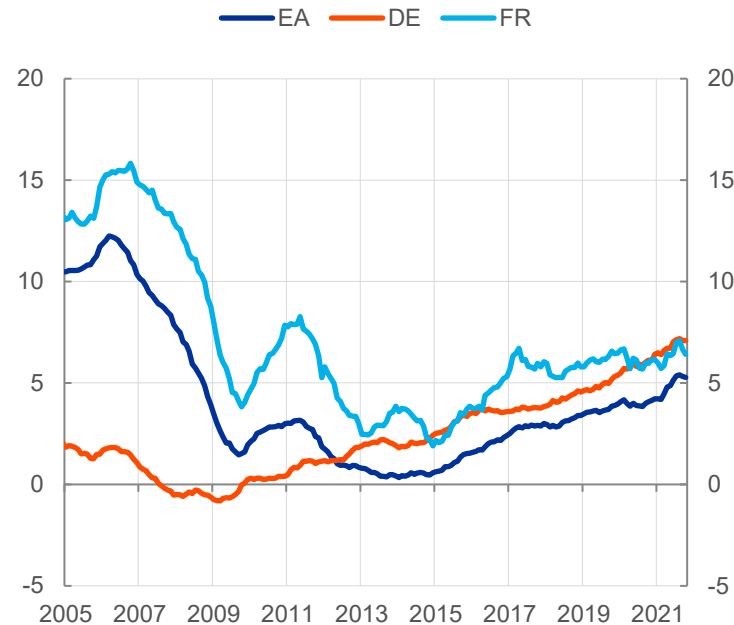


Source: ECB and ECB calculations.

Notes: The valuation estimate is the simple average of the price-to-income ratio and an estimated Bayesian vector autoregression model. For details of the methodology, see Box 3 in Financial Stability Review, ECB, June 2011, and Box 3 in Financial Stability Review, ECB, November 2015.

## Loans to households for house purchase

(annual percentage changes)



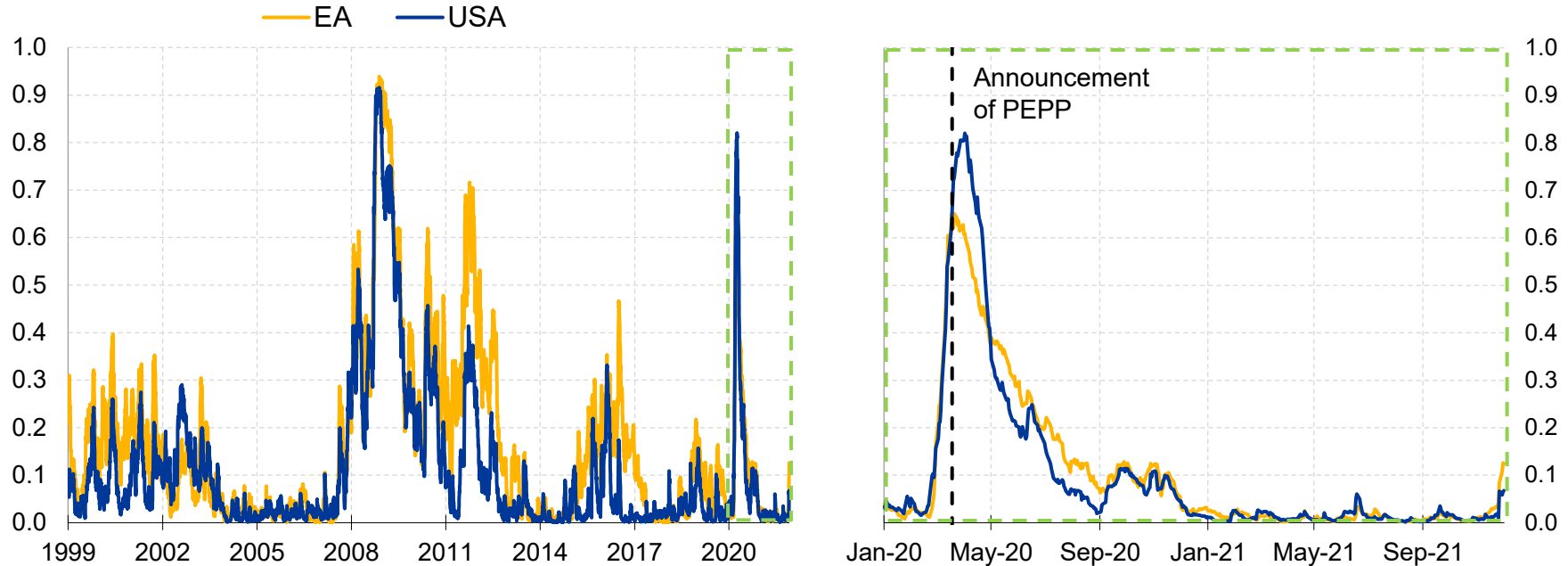
Sources: ECB and ECB calculations.

Notes: Country data includes lending to all euro area households. The adjustment for sales and securitisation for the total loans to households is allocated to loans to households for house purchase according to their weight on the former type of loans. For France, data for May 2014 is adjusted to reflect a large securitisation operation. The euro area figure for that month has been also adjusted.  
Latest observation: October 2021.

# PEPP successfully reduced systemic stress during the pandemic

## Composite Indicator of Systemic Stress (CISS)

(0=No Stress,1=High Stress)



Source: ECB Working Paper No 1426. The CISS aggregates stress symptoms across money, bond, equity and foreign exchange markets and is computed from time-varying correlations among individual asset returns.

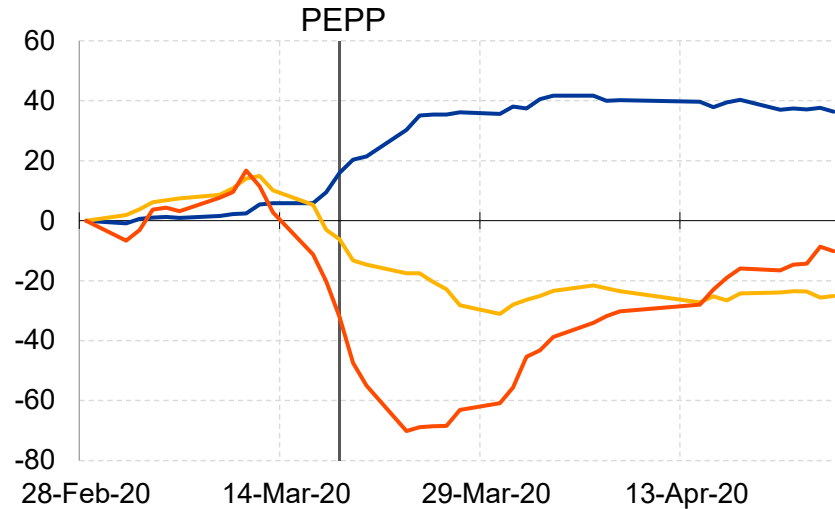
Last observation: 1 December 2021.

# Sharp outflows from money market funds paralysed commercial paper market

## Cumulative net in- and outflows of euro area MMFs around COVID-19 outbreak

(EUR billion)

— CNAV — VNAV — LVNAV



Source: Refinitiv and ECB calculations.

Notes: CNAV – Constant Net Asset Value money market fund, LVNAV – Low Volatility Net Asset Value money market fund, VNAV – Variable Net Asset Value money market fund.

## Euro area 3-month commercial paper issuance rates

(percentage)

— Financials — Non-Financials



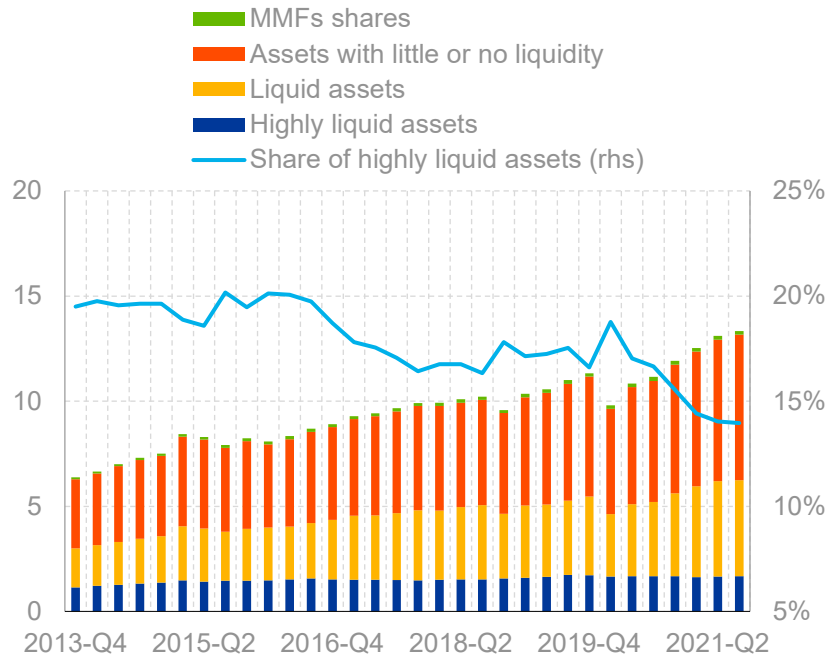
Source: NEU CP data.

Note: 4-weeks moving average.

# Liquidity risks of investment funds are compounded by rising credit risks

## Liquid asset holdings of investment funds

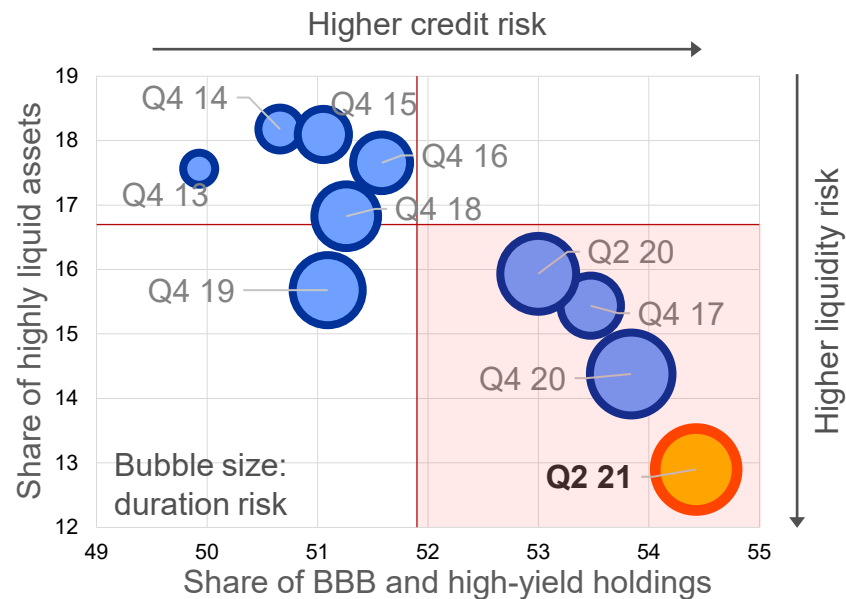
(left-hand scale: EUR trillion, right-hand scale: percentage)



Source: Securities Holdings Statistics.  
Latest observation: 2021 Q3.

## Liquidity, credit risk and duration risk of investment funds

(Q4 2013-Q2 2021; percentages)



Sources: ECB SHSS and ECB calculations.

# Risks to economic growth are rising over medium term amid stretched asset valuations

## Return deviations of basket of global assets from long-term average

(number of standard deviations)



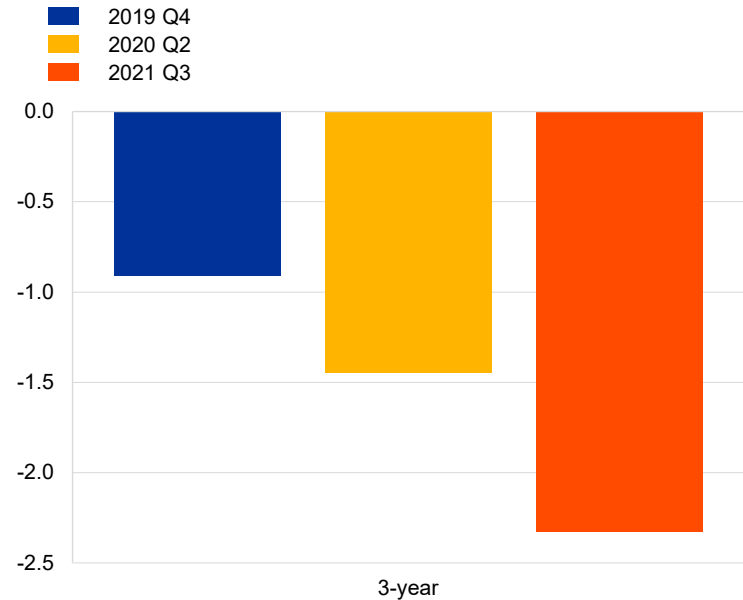
Source: Refinitiv, Bloomberg, ECB calculations.

Latest observation: 30 November 2021.

Note: The basket of global financial assets includes: real yields in the euro area, Japan, UK and US; ten-year government bonds; euro area and US investment-grade and high-yield bonds; euro area, Japanese, UK and US equity; US real estate investment trusts and mortgage-backed securities; and emerging market sovereigns and equity.

## Medium-term growth-at-risk estimates for the euro area

(percentages)



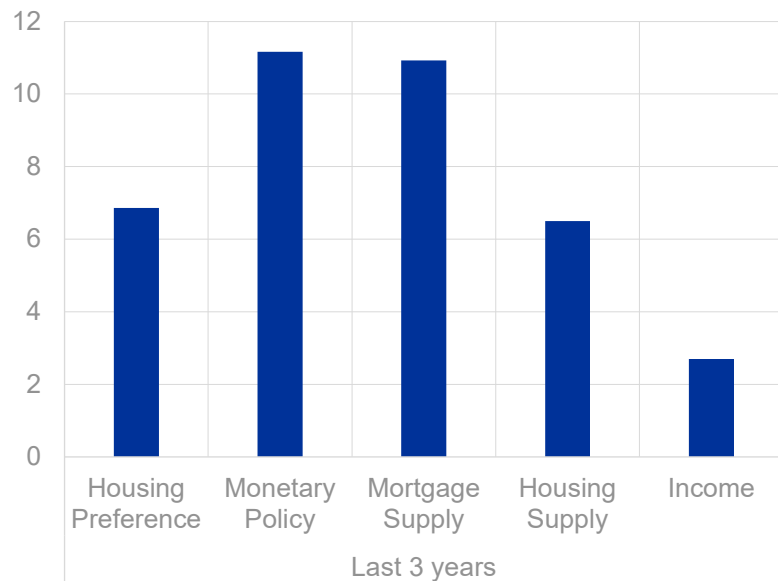
Source: ECB and ECB calculations.

Note: Growth-at-risk is the 5th percentile prediction of the quantile regressions model estimated for a panel of euro area countries. Explanatory variables include a lag of GDP growth and indicators of cyclical systemic risk, financial stress and economic sentiment.

# Asset purchases affect house prices more than changes in short-term interest rates

## Relative contributions of different shocks to euro area real house price growth

(percentage)



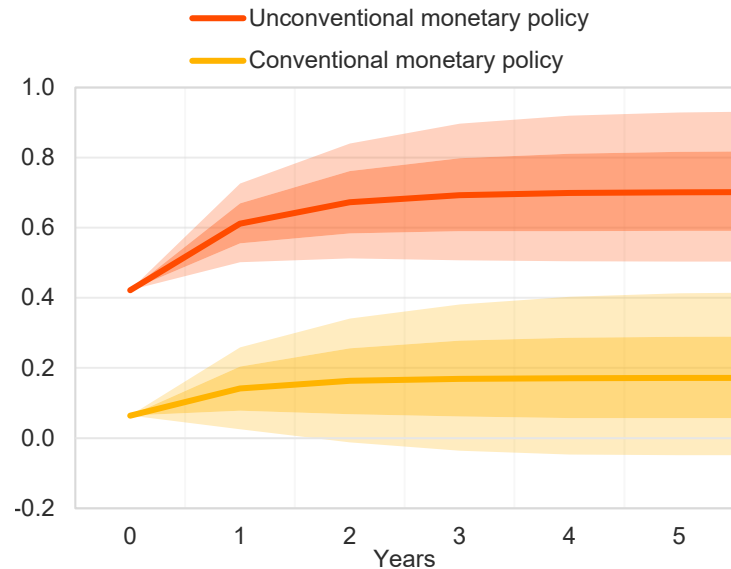
Source: ECB and ECB calculations.

Note: Historical decomposition based on a BVAR model estimated over the period 2003Q1-2021Q1 using 2 lags. The shocks are identified using a set of sign and zero restrictions.

The model includes the following endogenous variables: 1) Real residential investment, 2) Real house prices, 3) Real stock of loans for house purchase, 4) Monetary policy rate (shadow rate), 5) Real lending rate on housing loans, 6) Real disposable income, 7) Household expectations (intention to purchase a house), 8) BLS credit standards on lending for house purchase.

## Effects of unconventional and conventional monetary policy easing on house prices

(impact on annual growth, pp)



Source: Battistini, Falagiarda, Hackmann and Roma, 2021, "Navigating the housing channel of monetary policy across euro area regions".

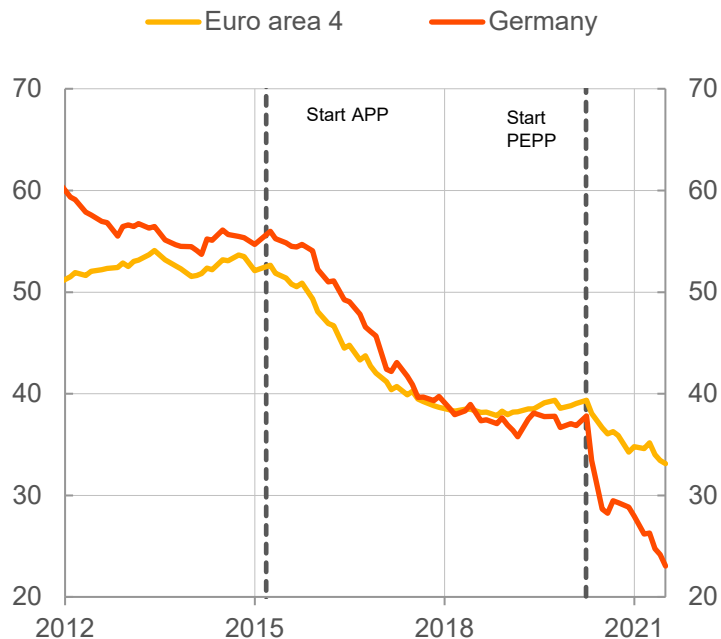
Notes: Response to a 10 basis point accommodative monetary policy shock. A *conventional* monetary policy shock is defined as the average of the short-term (1 week to 1 year) OIS rate changes around a monetary policy event. An *unconventional* monetary policy shock is defined as the average of the long-term (4 to 20 years) OIS rate changes around a monetary policy event.



# Growing scarcity of assets starts to hamper market functioning

## 10-year bond free-float

(percent)

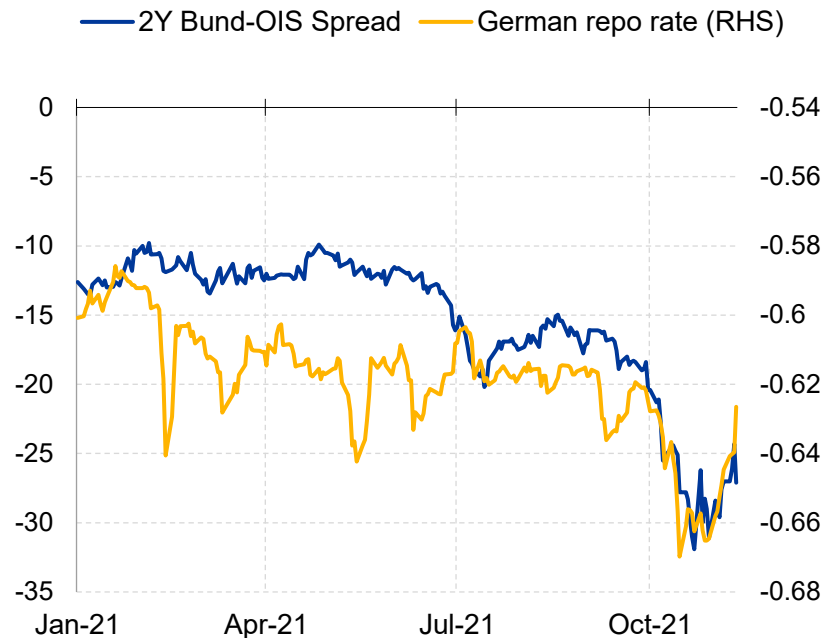


Source: ECB calculations

Notes: The big-4 free float measure is defined as the ten-year equivalent holdings of general government bonds issued by the four largest euro area countries (Germany, France, Italy and Spain) by private price-sensitive investors as a share of total supply. The DE free float measures is defined the same way, but only considers general government bonds issued by Germany. Price sensitive investors are all investors other than the foreign official sector, insurance companies, pension funds and the Eurosystem.  
Latest observation: 30 June 2021.

## 2-year Bund-OIS spread and German repo rate

(lhs: basis points; rhs: percent per annum)



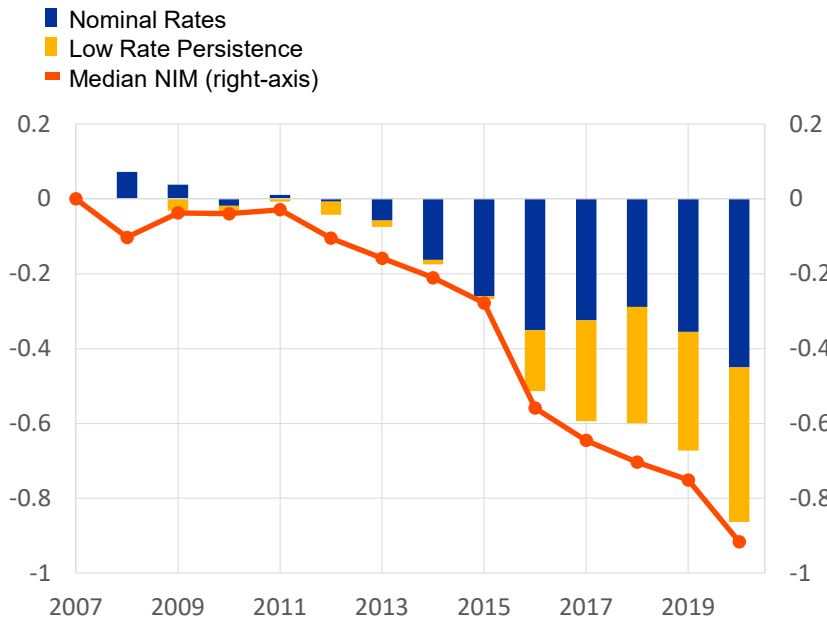
Source: ECB calculations.

Note: Last day of the quarter observations have been taken out of the chart for better readability.  
Latest observation: 02 December 2021.

# Limited pass-through of negative rates puts pressure on bank profitability

## Low-for-long and the net interest margin (NIM) of euro area banks

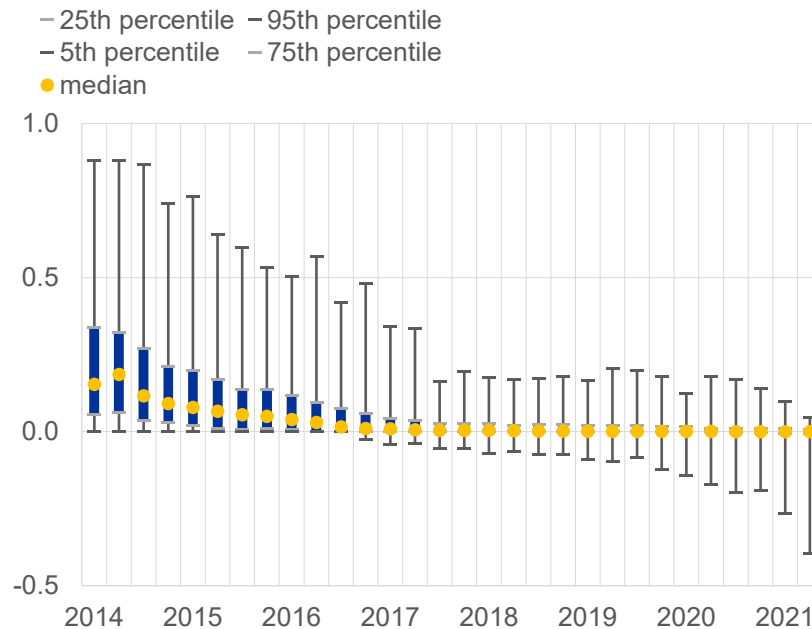
(changes from 2007; percentage points)



Source: Based on Special feature B of the November 2020 edition of the ECB's Financial Stability Review.  
Latest observation: 2020.

## Distribution of overnight NFC deposit rates over time and across banks

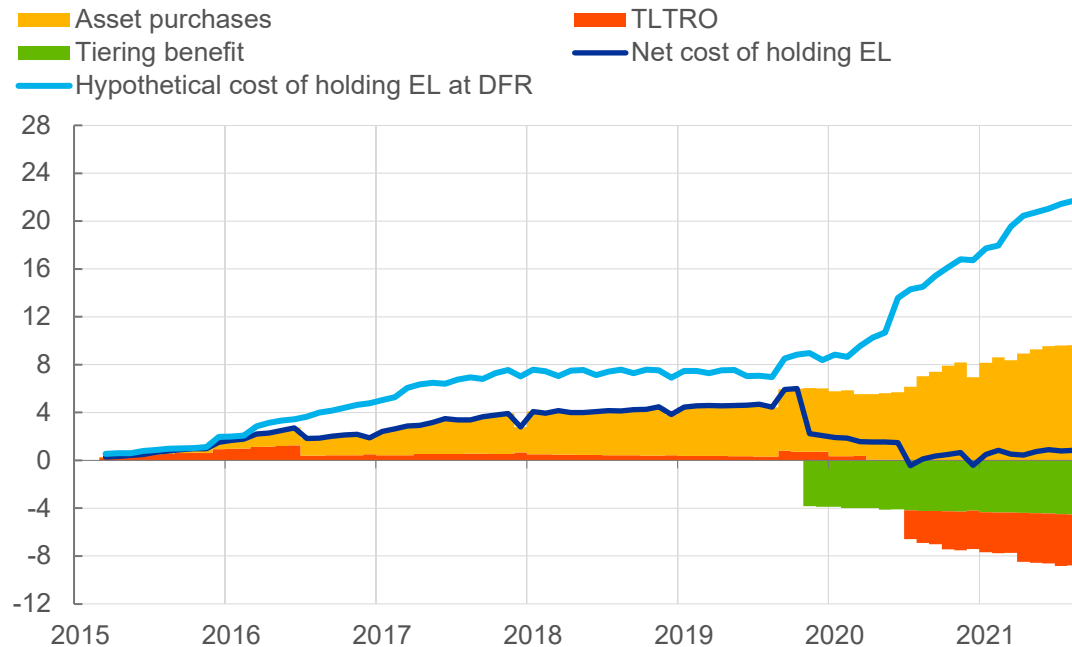
(percentage points)



Source: ECB (IBSI and IMIR datasets) and ECB calculations.  
Latest observation: March 2021.

## Cost of holding excess liquidity (EL)

(EUR bn)



Sources: ECB (IBSI, MOPDB, iMIR, MMSR) and ECB calculations. Notes: The net cost of holding excess liquidity (EL) is model-based and estimates the difference between the price at which EL is, on average, obtained through Eurosystem refinancing operations, asset purchases and interbank transactions and the price at which EL is on average held in Eurosystem accounts (after controlling for reductions in EL through e.g. autonomous factors) and it takes into account the benefit obtained through the two-tier system. Prices are determined by the average TLTRO III borrowing rate, HH and NFC deposit rates and secured and unsecured MM rates. Latest observation: August 2021.

**Thank you for your attention!**