

HIGH LEVEL PANEL: FUTURE OF EMU AND MONETARY POLICY

KEY CHALLENGES OF THE INSTITUTIONAL SETUP OF EMU. – KEY REFORMS NEEDED

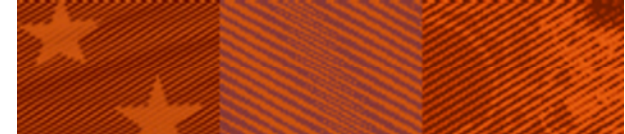
Pablo Hernández de Cos
Governor

THE BANK OF FINLAND CONFERENCE ON MONETARY POLICY AND FUTURE OF EMU
Helsinki, 1 July 2019



1. Future of EMU

2. Monetary policy issues



**Need to increase
financial integration**

- **Reinforcing the Banking Union**
- **Reinforcing the Capital Markets Union**

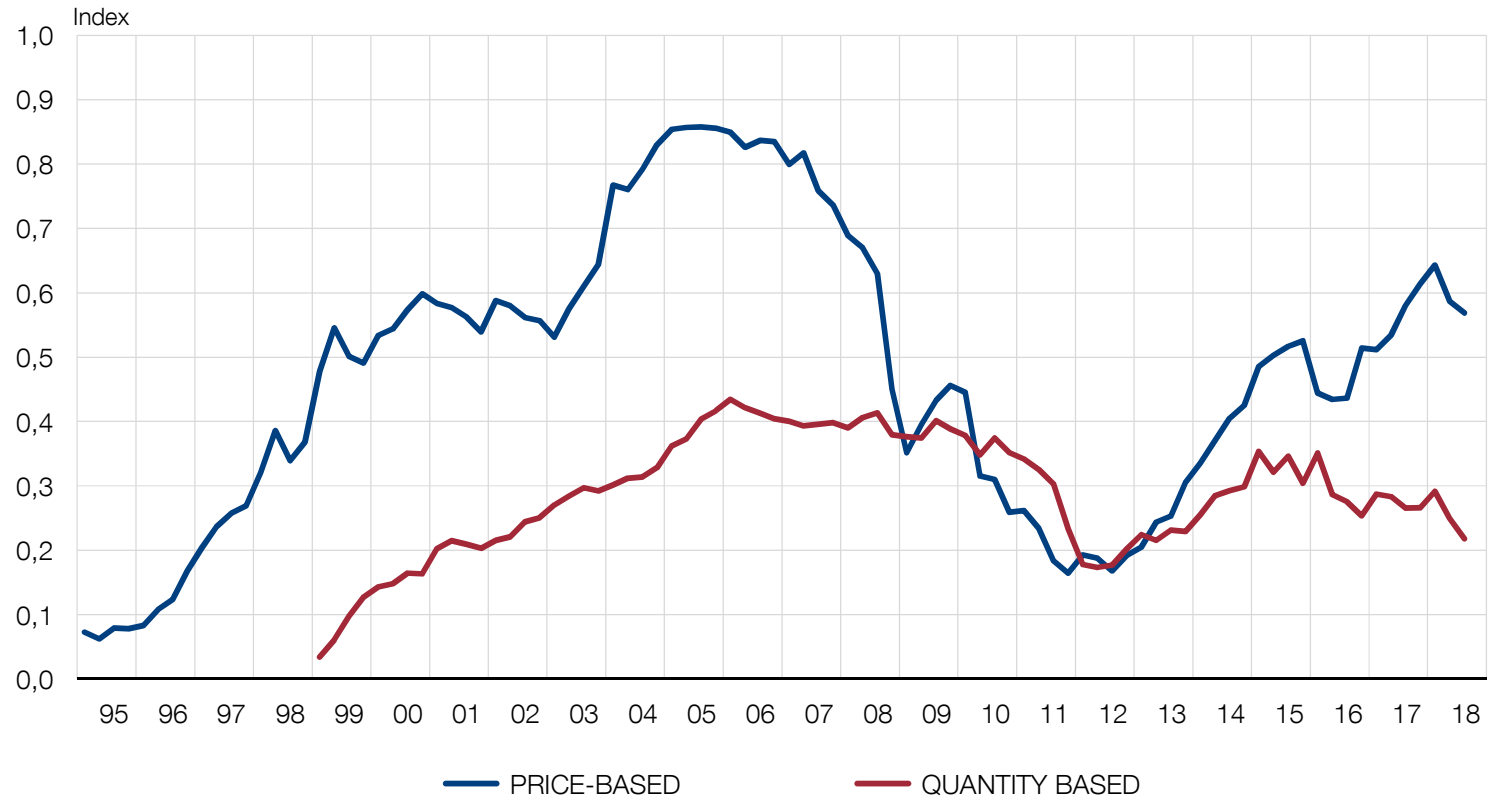
**Need to achieve a
more comprehensive
fiscal stabilisation
capacity**

- **Creating a centralised fiscal capacity**

FINANCIAL INTEGRATION IN THE EURO AREA REMAINS LIMITED



INDICATORS OF FINANCIAL INTEGRATION IN THE EURO AREA

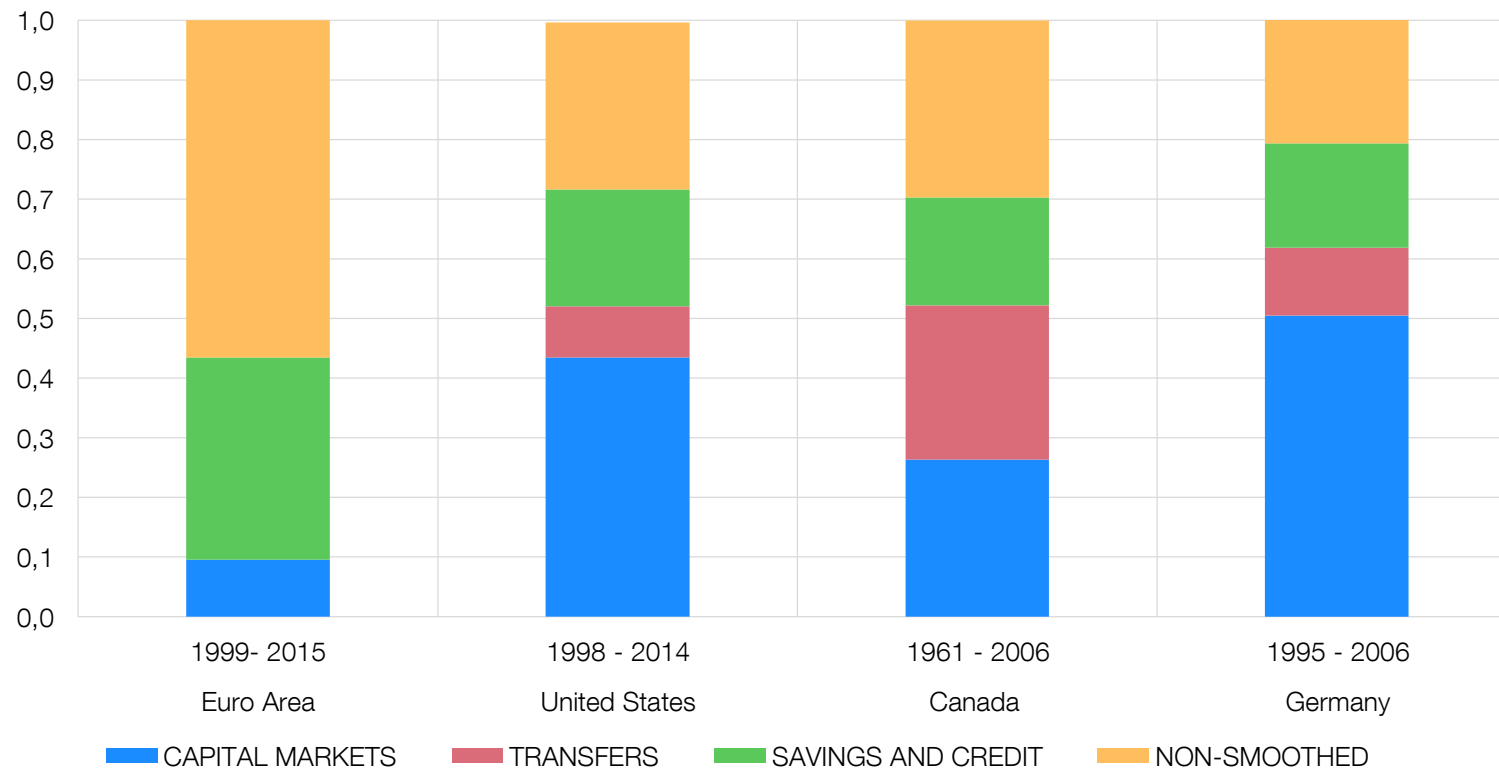


SOURCE: ECB

PRIVATE RISK SHARING CHANNELS IN THE UEM REMAIN VERY MODERATE AND THE PUBLIC CHANNEL IS NON-EXISTENT

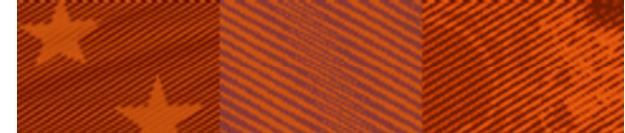


STRENGTH OF RISK SHARING CHANNELS. INTERNATIONAL COMPARISON

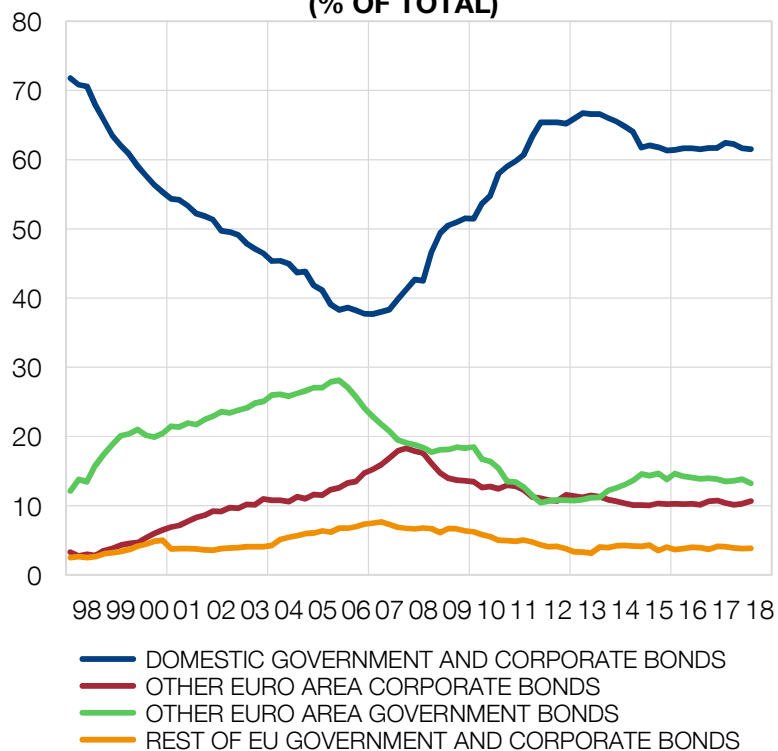


SOURCE: Banco de España for EA and US, Hepp and von Hagen (2013) for Germany and Balli, Kalemli-Ozcan & Sørensen (2012) for Canada.

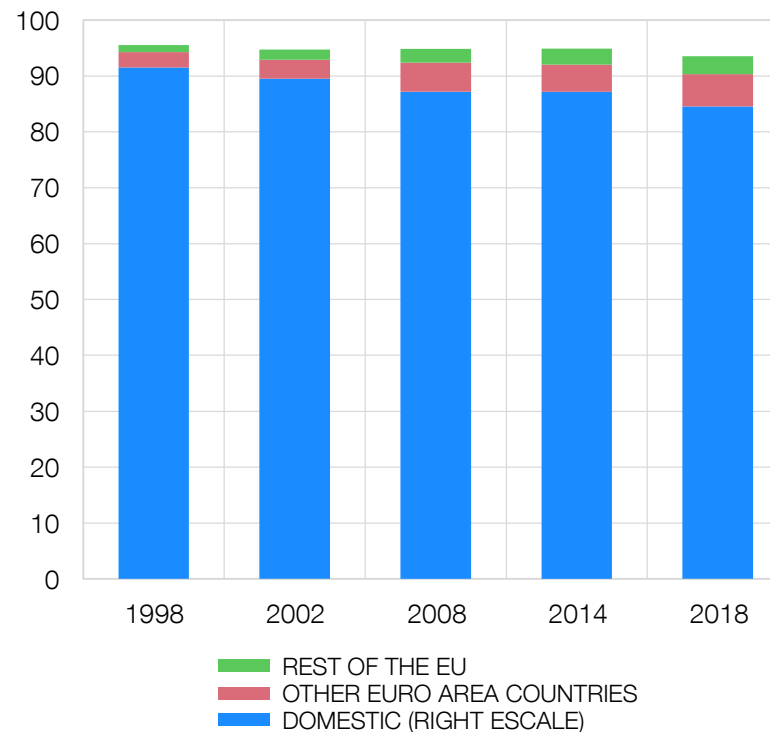
IN THE EURO AREA GOVERNMENTS, FIRMS AND HOUSEHOLDS ARE HIGHLY DEPENDENT ON DOMESTIC BANKS



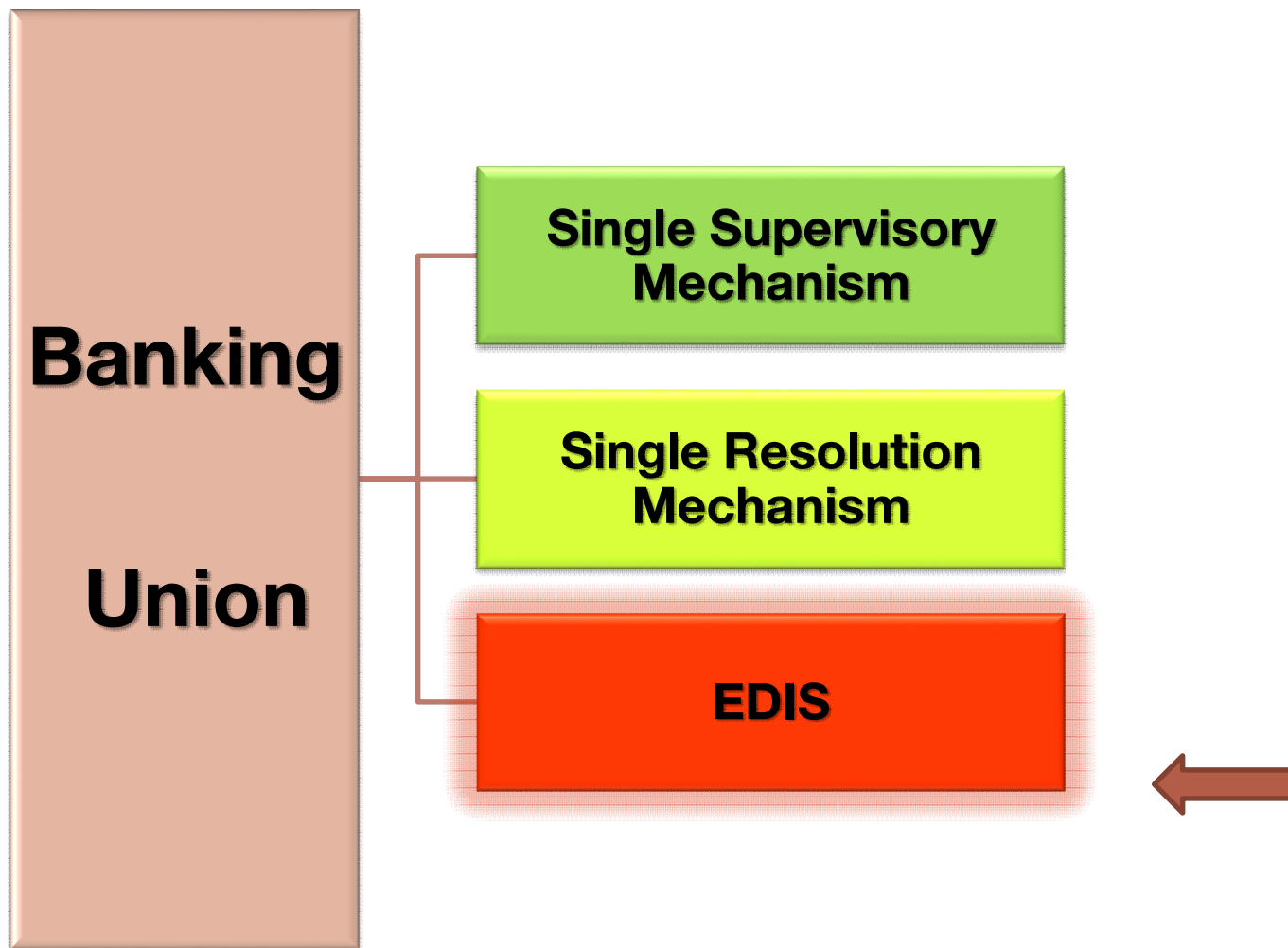
EURO AREA. HOLDINGS OF SECURITIES BY MONETARY FINANCIAL INSTITUTIONS (% OF TOTAL)



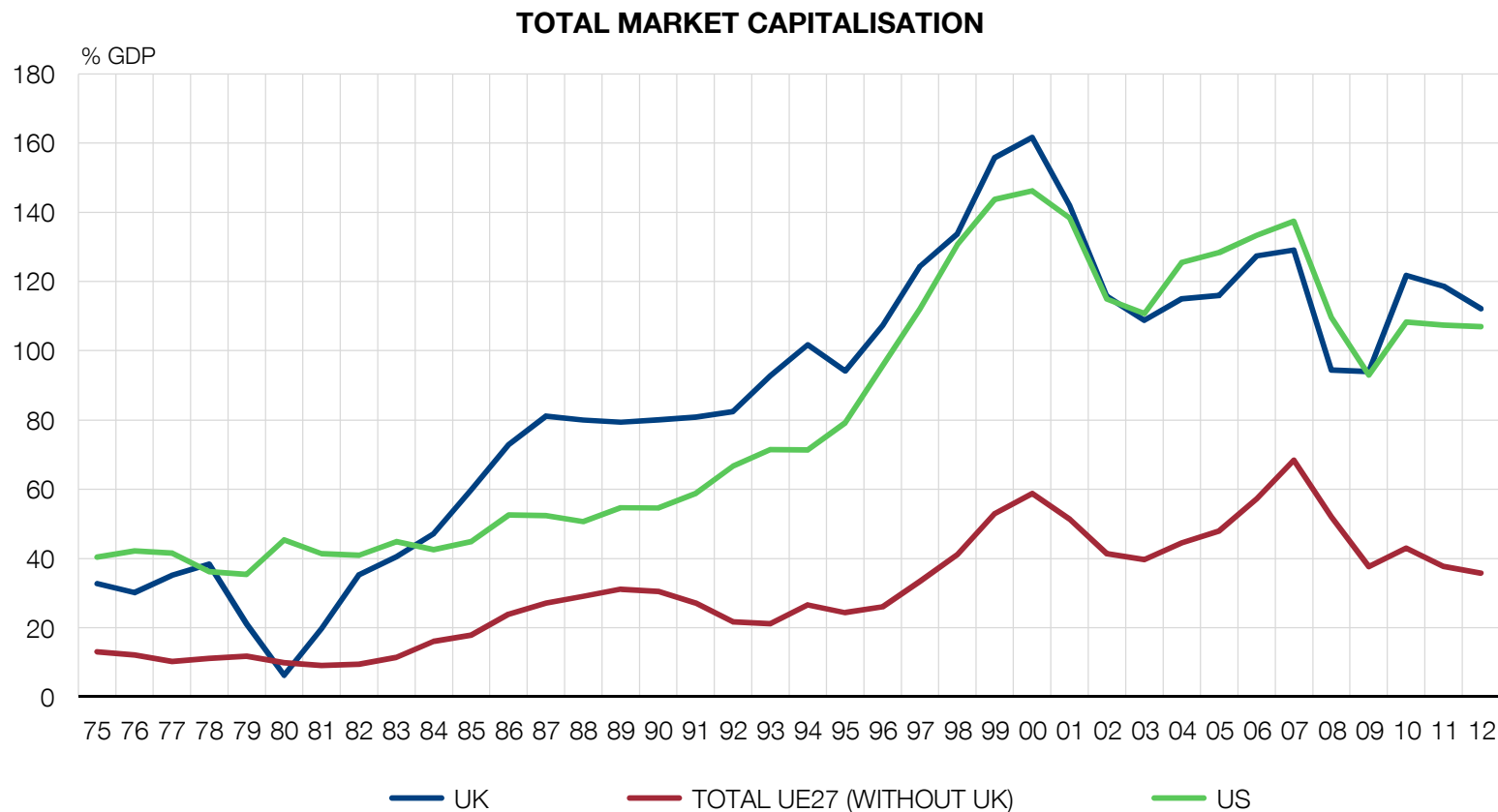
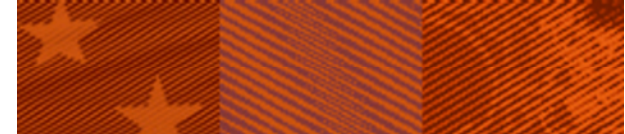
EURO AREA. LOANS FROM MFIs TO NON-MFIs (% OF TOTAL)



SOURCE: ECB

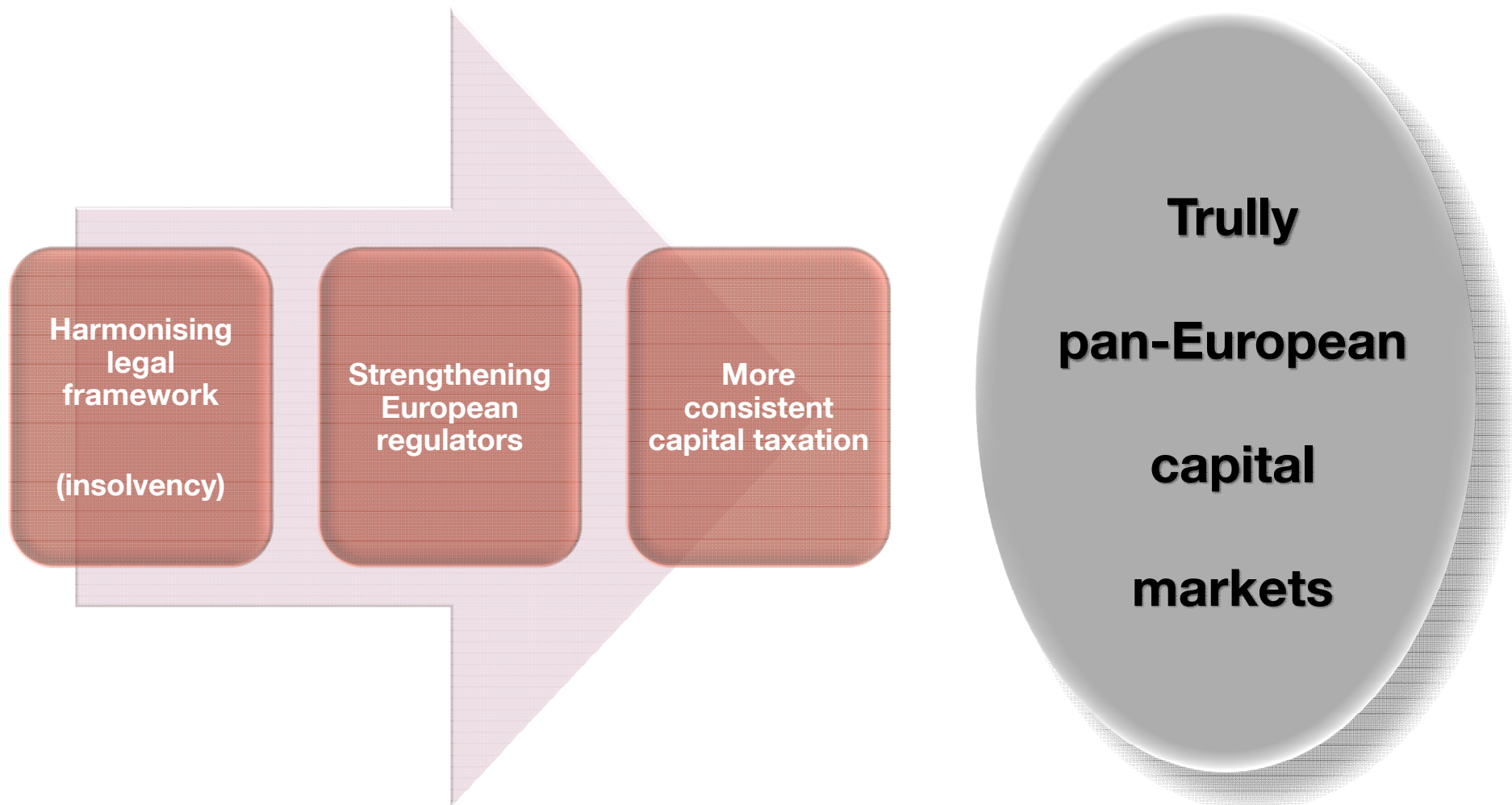
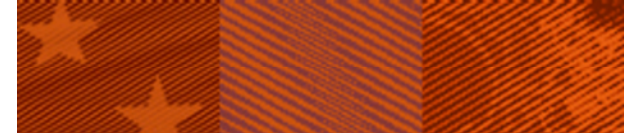


CAPITAL MARKETS DEVELOPMENT IN THE EU IS LIMITED

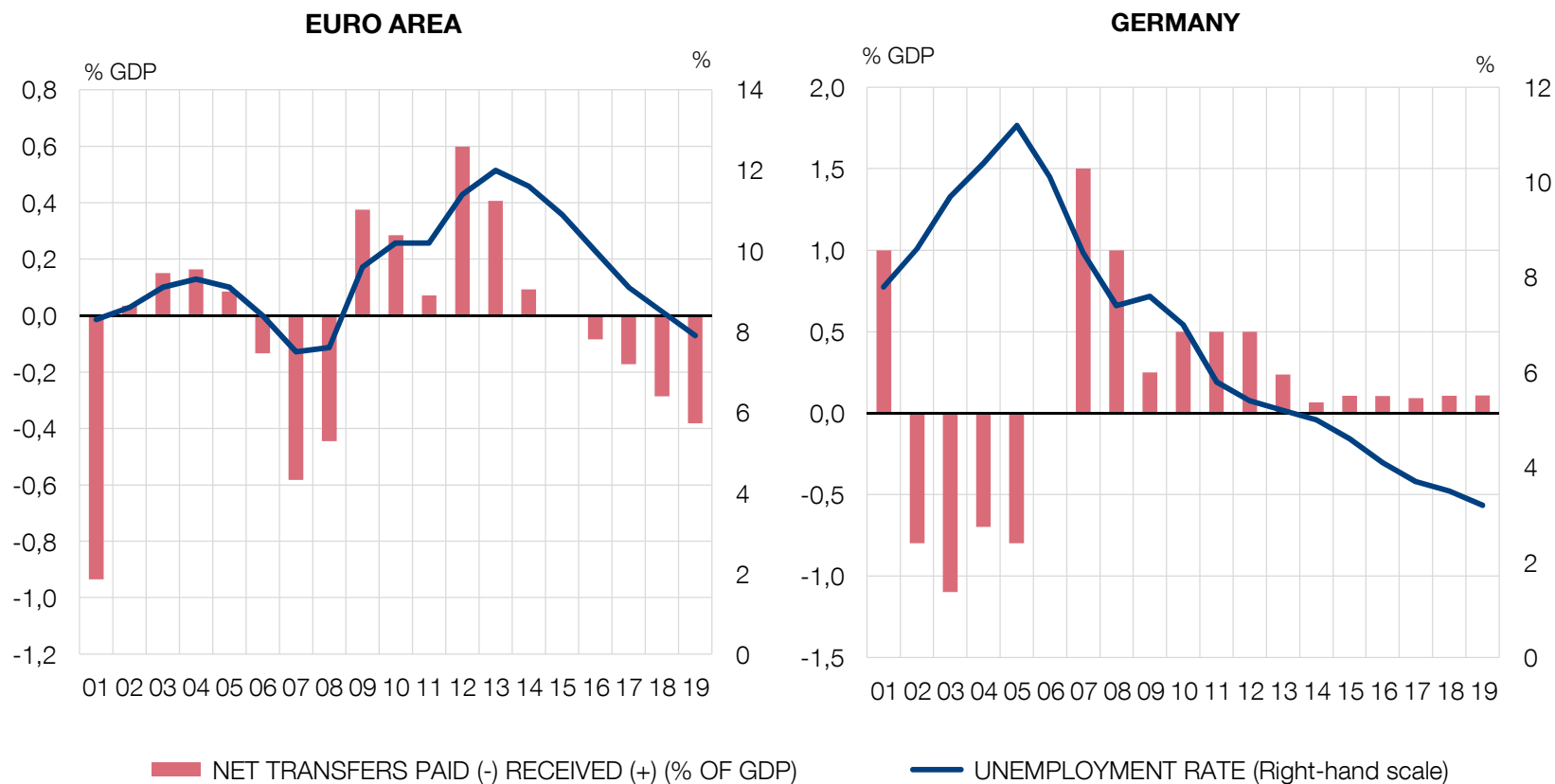
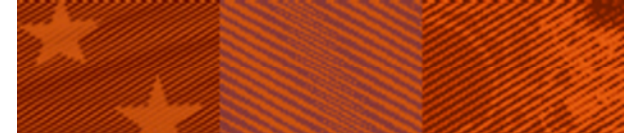


SOURCE: Federal Reserve Bank of St. Louis

MOVING TOWARDS A CAPITAL MARKETS UNION



A CENTRAL FISCAL CAPACITY FOR THE EURO AREA COULD CONTRIBUTE TO SMOOTH AGGREGATE AND COUNTRY-SPECIFIC SHOCKS



SOURCE: Banco de España



1. Future of EMU

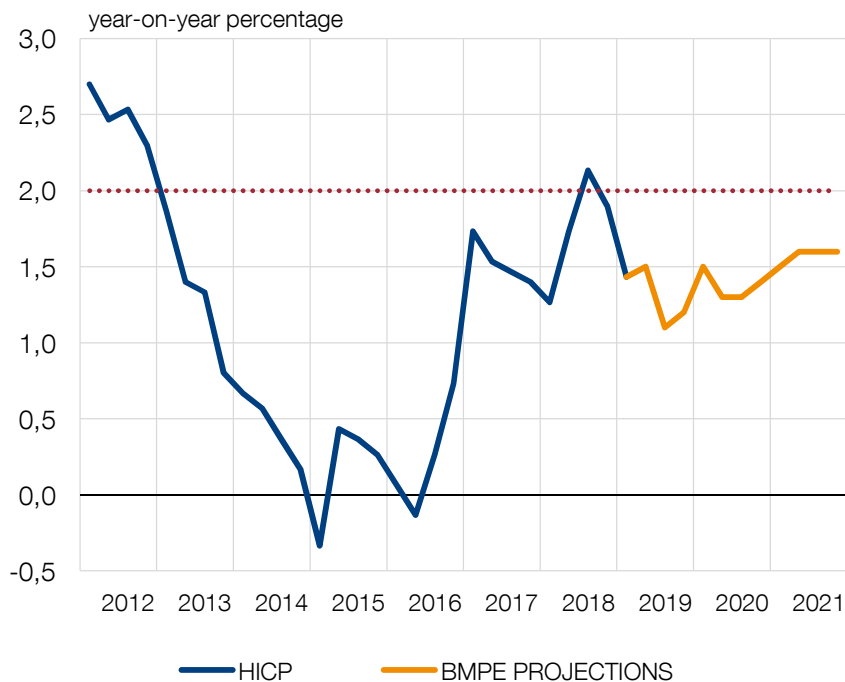
2. **Monetary policy issues**

THERE HAS BEEN A NOTABLE DETERIORATION IN THE INFLATION OUTLOOK IN 2019

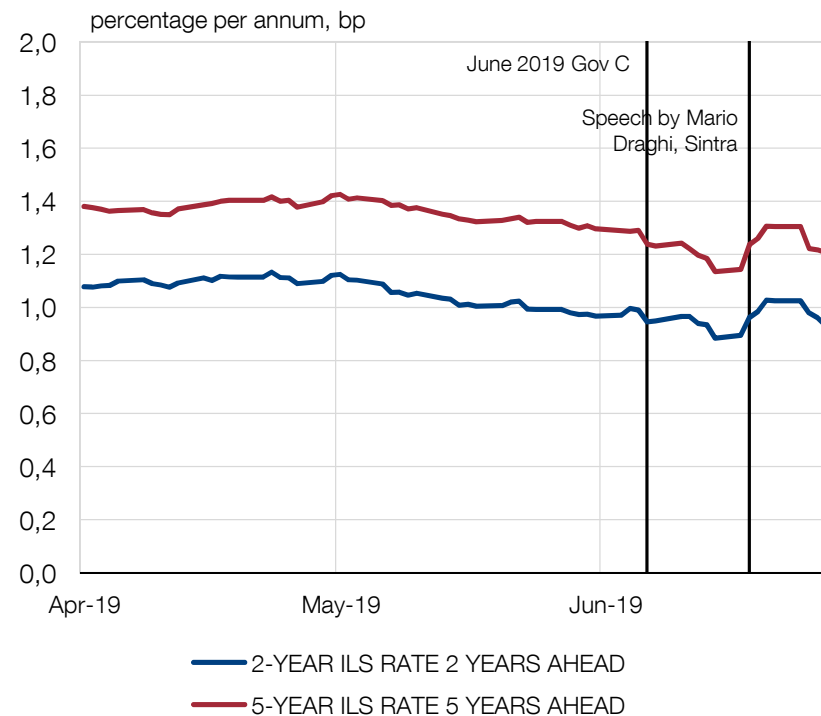


- Market-based medium-term inflation expectations are at historical minima
- Risks are tilted downwards reflecting persistent global geopolitical uncertainty

EURO AREA HICP



EURO AREA INFLATION-LINKED FORWARD SWAP RATES



Sources: Eurostat, ECB, Datastream. Last observation, ILS: 27 June 2019.

IN THE ABSENCE OF IMPROVEMENT IN THE PATH OF INFLATION, ADDITIONAL MONETARY STIMULUS MAY BE REQUIRED



- The ECB is willing to use **all of its instruments** to ensure that inflation continues to adjust towards its medium-term target in a sustained manner
- One possibility would be to consider further **reductions in the Discount Facility Rate (DFR)**.
 - *If necessary, **mitigating measures** could be introduced to preserve the positive net effects of our negative interest rate policy*
- Another possibility is to engage in a **new round of net purchases** under the Asset Purchase Program (APP)
- We could also enhance our **forward guidance**