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The pandemic emergency: the three challenges for the ECB

“Navigating the decade ahead: implications for monetary policy”
Jackson Hole Economic Policy Symposium
Federal Reserve Bank of Kansas City

27 August 2020

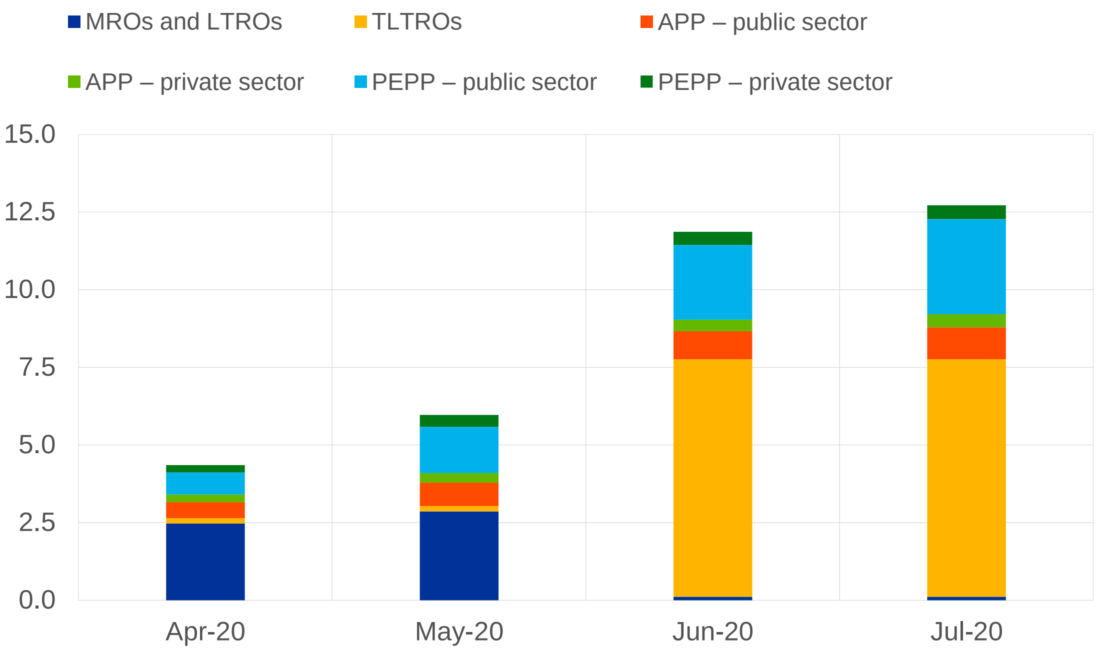
Overview of the ECB policy measures taken since the outbreak of the COVID-19 crisis

	March 2020	April 2020	June 2020	July and August 2020
Asset purchases	**Asset purchase programme (APP) envelope extended by EUR 120 bn in 2020** • in addition to ongoing APP purchases of EUR 20bn per month and reinvestments • NFC commercial paper made eligible			
	Pandemic emergency purchase programme (PEPP) launched • EUR 750 bn envelope until at least Dec. 2020 • flexible allocation across time, assets, countries		**PEPP expanded** • envelope increase by EUR 600 bn to EUR 1,350 bn and extension by 6 months until at least Jun. 2021 • reinvestments at least until end of 2022	
Lending programmes*	**Conditions for targeted lending programme (TLTRO-III) eased** • borrowing rate -25 to -75 bps (Jun. 2020 to Jun. 2021), depending on lending performance • borrowing allowances raised, etc.	**Further easing of TLRO-III conditions** • borrowing rate -50 to -100 bps (Jun. 2020 to Jun. 2021), depending on lending performance • further easing of terms and conditions		
	Additional longer-term refinancing operations (LTROs) • facilitating switch into TLTRO-III	**Pandemic emergency longer-term operations (PELTROs) introduced** • 7 ops. from May 2020, maturing by Sep. 2021 • interest rate of -25 bps		
		Temporary easing of collateral requirements • reduction of collateral valuation haircuts • mitigation of impact of potential rating changes • wider eligibility of credit claims • eligibility of Greek sovereign debt instruments		
Swap/repo lines	**EUR swap lines reactivated** • with the central bank of Denmark	**EUR swap lines set up** • with central banks of Croatia and Bulgaria	**EUREP repo facility and EUR repo line set up** • new Eurosystem repo facility to provide euro liquidity to non-euro area central banks (EUREP) • repo line with central bank of Romania set up	**EUR repo lines set up** • with central banks of Albania, Hungary, Serbia, Republic of North Macedonia and San Marino
	US dollar swap lines reactivated • with Federal Reserve and other major central banks, USD provision through liquidity swap line • daily 7-day and weekly 84-day operations		**Frequency of 7-day USD operations reduced** • to three per week	**Frequency of 7-day USD operations reduced** • to one per week as of 1 September
Supervisory measures	**Temporary capital, liquidity and operational relief** • facilitating use of capital and liquidity buffers • flexible prudential treatment of loans backed by public support measures and mitigation of procyclicality in accounting • recommendation against dividend payments	**Temporary reduction in capital requirements for market risk**		**Further guidance** • guidance against dividend payments and for moderation in remuneration • clarification on restoration of capital/liquidity buffers and supervisory expectations on addressing debtor stress

Source: ECB. Notes: *The interest rates on the lending programmes are linked to the key ECB interest rates. The ECB reconfirmed its forward guidance on the path of policy interest rates and the asset purchase programme (APP) throughout this period. The Governing Council expects the key ECB rates to remain at current or lower levels until the Governing Council has seen the inflation outlook robustly converge to a level that is below, but close to, 2 percent, and such convergence has been consistently reflected in underlying inflation dynamics. The Governing Council also expects net purchases under the APP to continue at a monthly pace of €20 billion for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before the Governing Council starts raising the key ECB interest rates. In addition, the Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Eurosystem balance sheet in 2020

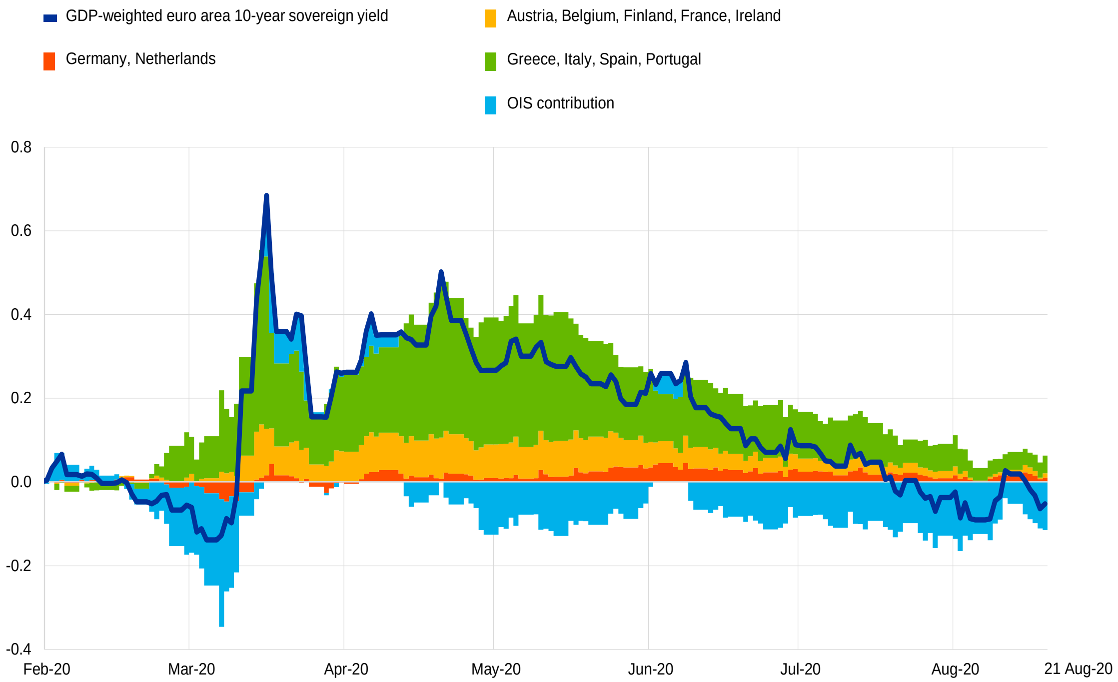
(percentages of euro area GDP in Q4 2019, cumulative changes relative to January 2020)



Source: ECB.
Notes: “MROs” stands for “main refinancing operations”, “LTROs” for “longer-term refinancing operations”, “APP” for “asset purchase programme”, “TLTROs” for “targeted longer-term refinancing operations” and “PEPP” for “pandemic emergency purchase programme”. Monthly data. The latest observations are for July 2020.

Euro area sovereign yields

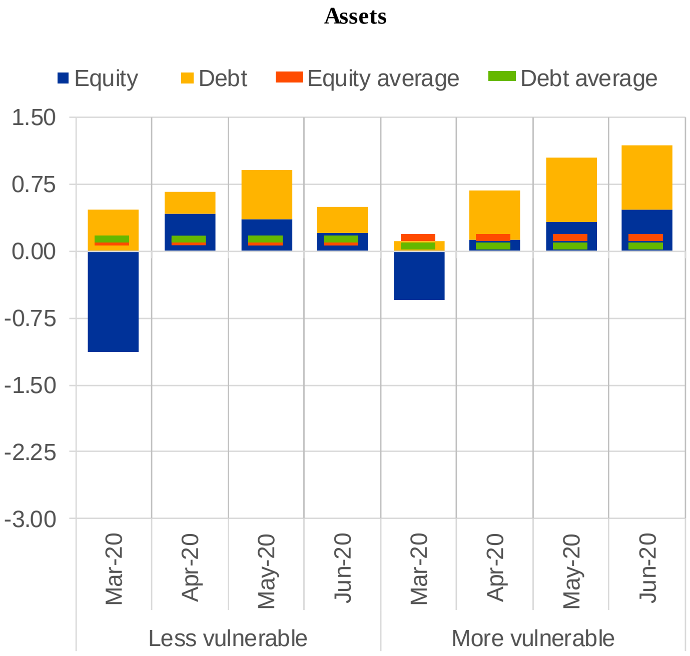
(cumulated changes since 1 February 2020, percentage points)

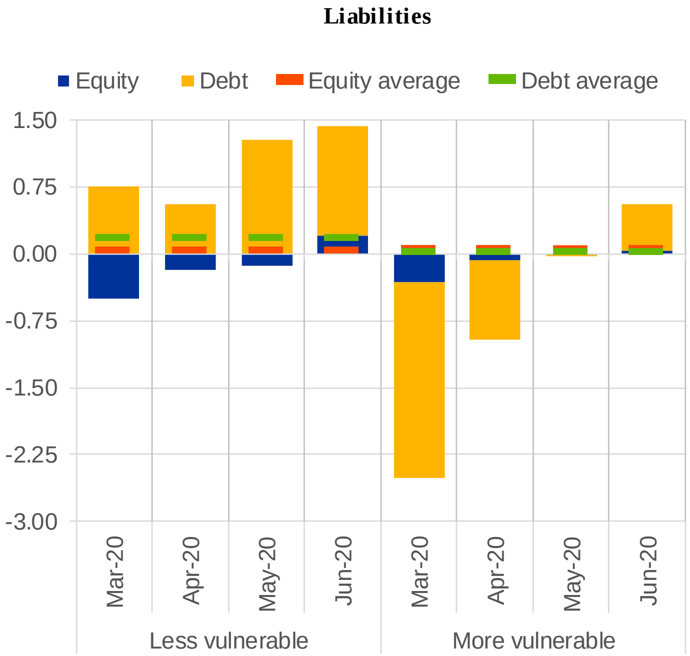


Sources: Bloomberg and ECB calculations.
Note: The latest observations are for 21 August 2020.

Cross-border portfolio investment flows

(monthly flows as a percentage of each group's aggregate GDP)

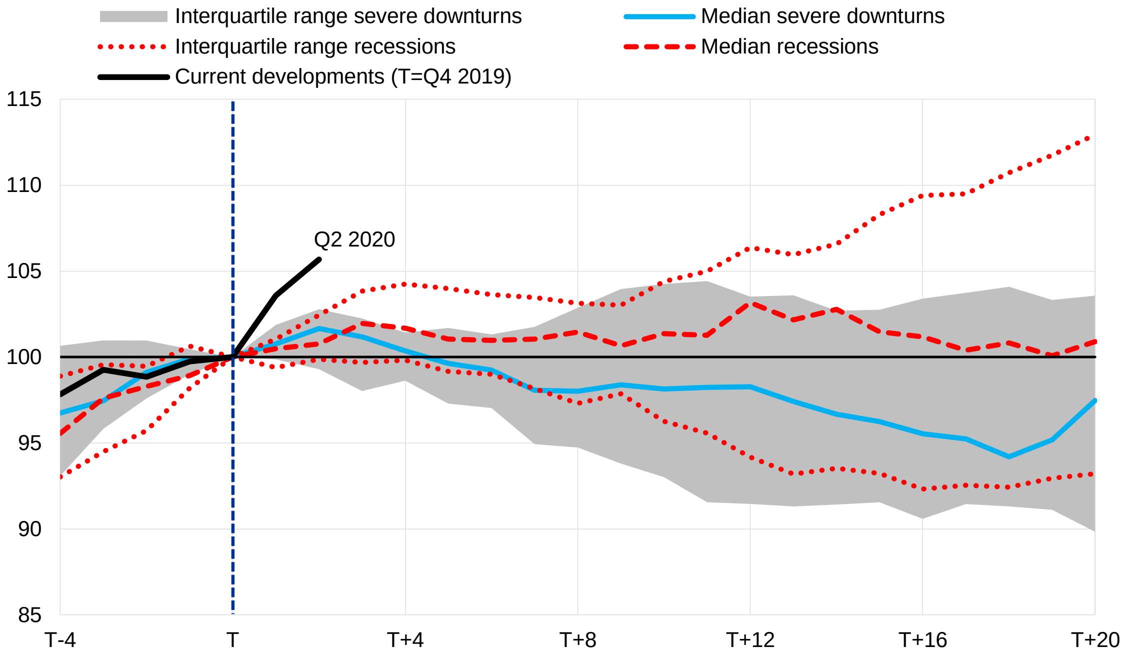




Sources: ECB and Eurostat.
Notes: Data recorded on the basis of the Sixth Edition of the IMF Balance of Payments and International Investment Position Manual (BPM6). Averages calculated from January 2008 to June 2020. "Less vulnerable" countries are Austria, Belgium, Finland, France, Germany and the Netherlands; "more vulnerable" countries are Greece, Italy, Portugal and Spain.

Euro area loans to firms

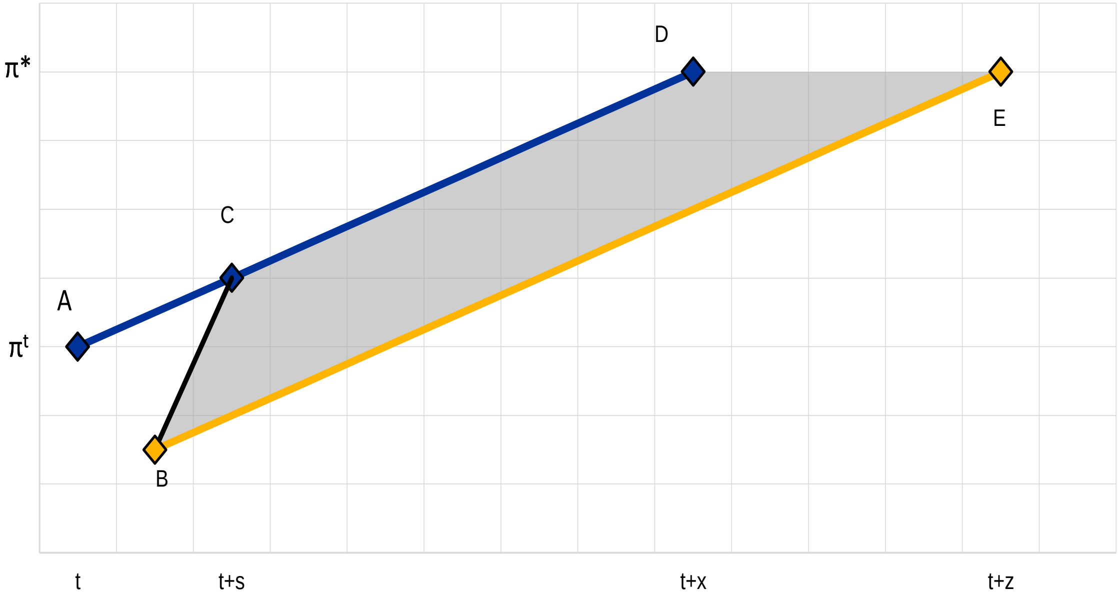
(indices, with T=100 for period of peak in economic activity)



Sources: ECB and ECB calculations.
Notes: Non-financial corporation (NFC) loan data deflated by the HICP. Derivation of interquartile range and median for recessions and severe downturns based on quarterly data from Q1 1980 to Q2 2020 for France, Germany, Italy and Spain. Recessions defined by business cycle chronologies. Severe downturns defined as periods of one or more quarters of real GDP declining by 1 percent or more quarter-on-quarter (whether part of a recession or not). The latest observations are for Q2 2020.

The future inflation path

(percentages per annum)



Source: ECB.

Notes: “AD” (the blue line) represents the expected inflation path before the pandemic shock. The initial negative impact of the pandemic shock – in the absence of additional monetary policy accommodation – is captured by the downward shift in the expected path from “A” to “B”. The “BE” path (the yellow line) illustrates a transition path of inflation that is even lower than originally envisaged. By providing additional monetary policy accommodation, the central bank can aim towards the upper region of the “BCDE” zone, so that the adjustment is closer to the “BCD” path.