Monetary Dialogue - 24 September 2018

Questions proposed by the Monetary Expert Panel


Topic 1: Central bank communication at times of non-standard monetary policies

- What is the ECB’s communication strategy regarding exiting non-standard monetary policy measures?
- How does the ECB ensure the coherence of its communication regarding the use of non-standard monetary policy tools?
- What were, if any, the mistakes of the ECB when it comes to communication regarding the use of non-standard monetary policy instruments?

Topic 2: Abundant liquidity and banks’ lending activity: an assessment of the risks

- From the point of view of financial and economic stability, it would pay to give the ECB an explicit mandate to ensure stability in the financial system (beyond monitoring the systemically largest banks). Can that be done effectively within the banking union framework, or do we need to charge a new (or separate?) institution with the responsibility?
- Macro-prudential requirements of potentially powerful ways to steer financial stability across the Euro System. Who can best monitor compliance and decide which macro-prudential instruments to use in conjunction with general monetary policy?
- Is it fair to say that macro-prudential regulation is best used as a long run policy, and general monetary policy a short run one?
- Under the APP, the Eurosystem NCBs have effectively fixed the interest income on some of the bonds purchased at low or negative rates. As monetary policy will normalise, there may be potential risks related to a Eurosystem asset-liability mismatch, in particular, as the costs of the associated liabilities may result greater than the income from the purchased assets, with the deposit facility rate and the MRO rate increasing over time. In other words, in the context of rising policy rates, the potential for a widening interest rate gap may result in the cost of associated liabilities being greater than the revenue from purchased assets. Does the ECB see any risks in this respect?
- The interaction of remaining risk aversion, the investment opportunities created by yield differences across the euro area versus the current negative rate on the deposit facility, and the incentives created by new regulations leave excess liquidity in much the same countries as before, with banks in lower-rated countries finding more attractive to invest liquidity in home bonds or assets with higher yields, exacerbating the home bias. Is the ECB considering the distribution (as opposed to the volume) of excess liquidity and the extent to which this may contribute to the concentration of vulnerabilities and/or risk-taking in some countries?