

# **Implications of QE and Tapering – What will the ECB and the FED focus on going forward?**

**October 24, 2013**

**Intervention of Francesco Papadia**

**With the assistance of Mădălina Norocea and Helen Thomas**

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# Thoughts on the ECB

ECB



**Forward guidance:**  
Markets vs. the ECB

**€-area supervisory**  
Risk Analysis, Asset Quality Review,  
Stress Test

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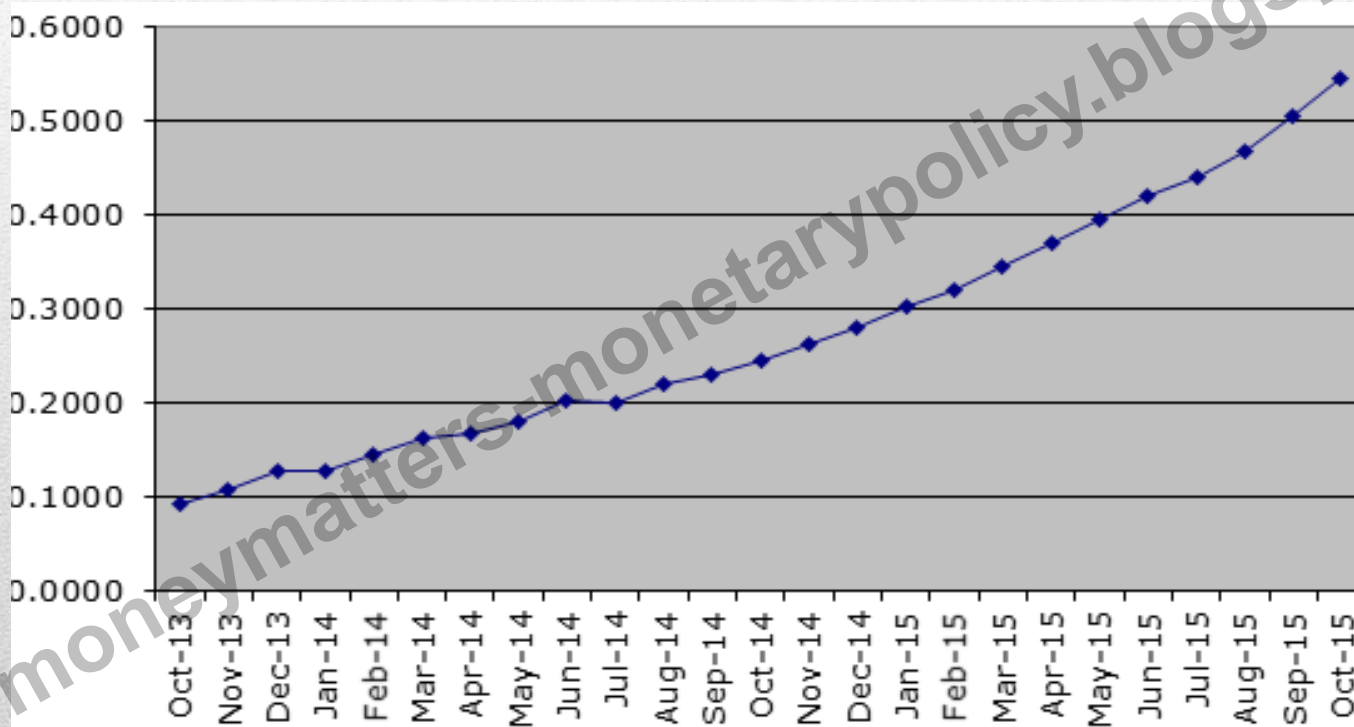
*money matters - monetary policy blogspot*

# Downward basis vs. upwards basis

## -Interest rates-

*"The Governing Council expects the key ECB interest rates to remain at present or lower levels for an extended period of time."*

Mario Draghi, July 2013



**Chart 1: 1 month EONIA forwards**

# Downward basis vs. upwards basis

## -Inflation expectations-

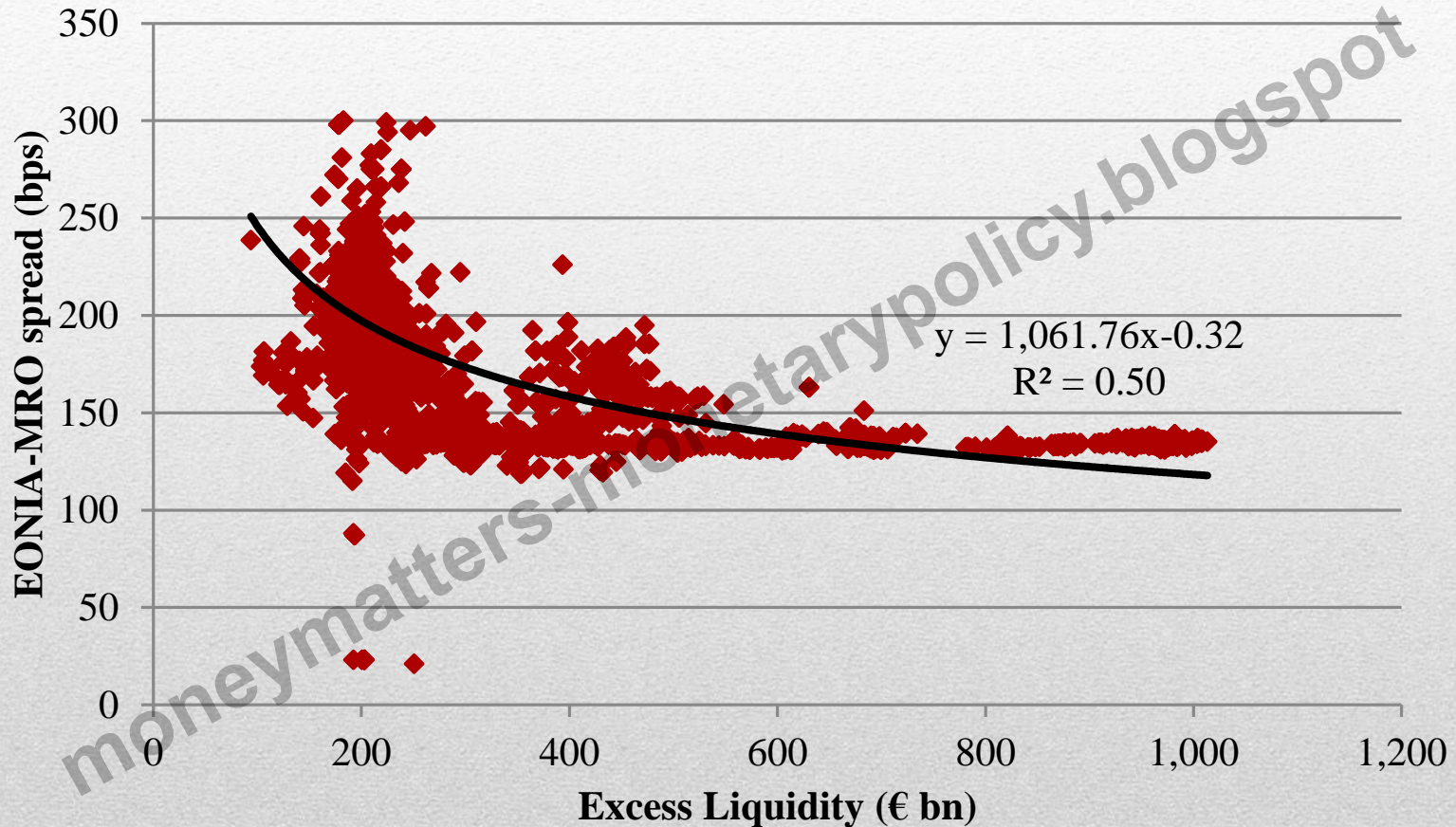
*“Underlying price pressures in the euro area are expected to remain subdued over the medium term”*

Mario Draghi, October 2013

Causes for steepening of the money market yield curve:

1. The evaporating excess liquidity
2. Confirmation that the recession is over and that the financial crisis has lost in intensity
3. The initial spill-over from the rate increase of FEDs’ “tapering”

# Downward basis vs. upwards basis



**Chart 2: Excess liquidity (period 1999-2013)**

# Downward basis vs. upwards basis



vs.



## **Macroeconomic nature:**

No need for higher rates in the foreseeable future

## **Financial nature:**

Liquidity and spill-over effects

*“In any event, we would – as I said – stand ready to take appropriate action as needed.”*

Mario Draghi

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# Supervision -challenges-



1. Logistics
2. Pressure from national supervisors

**Credibility  
risk**

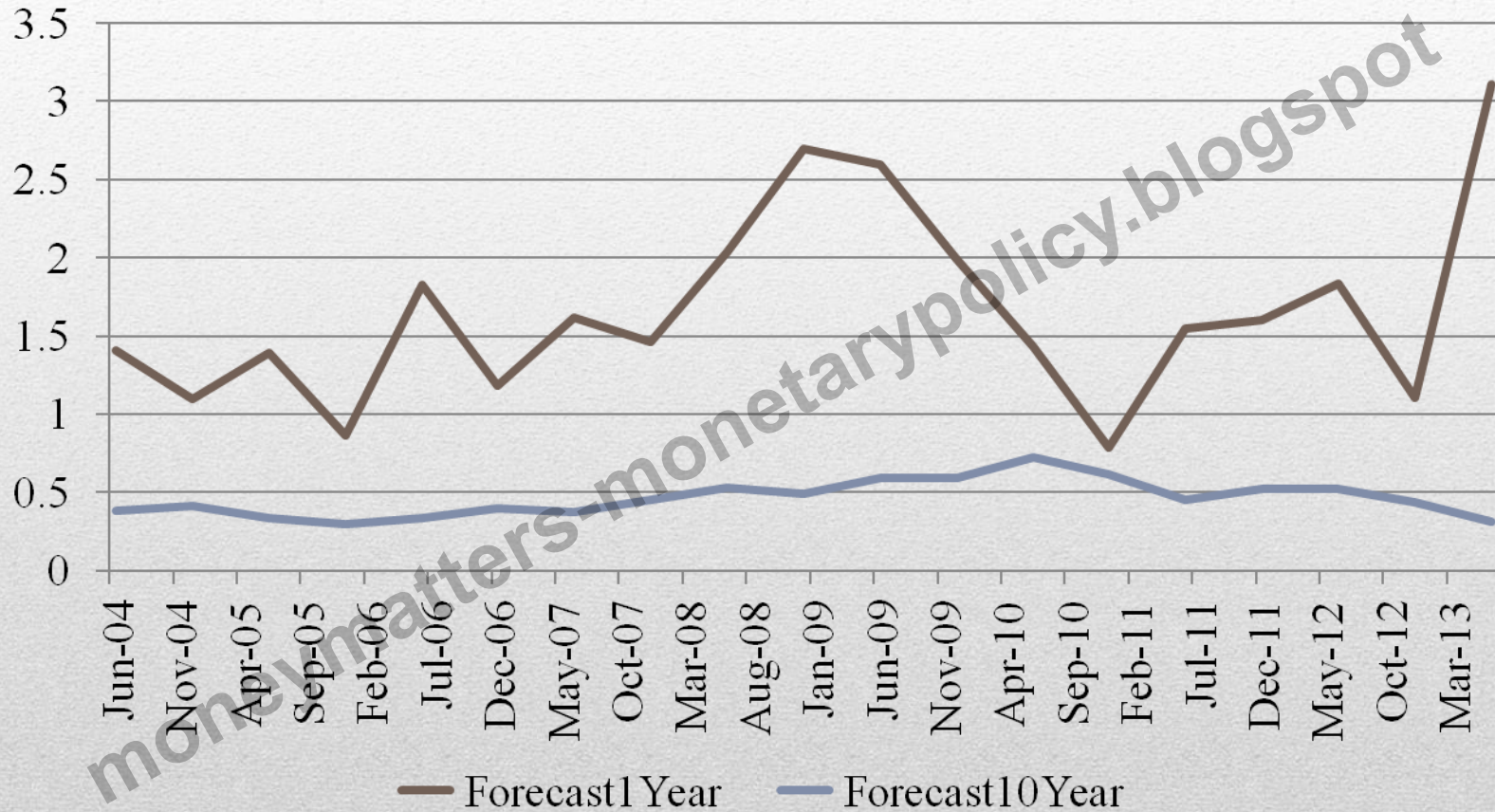


# Thoughts on FED -Inflation expectations-



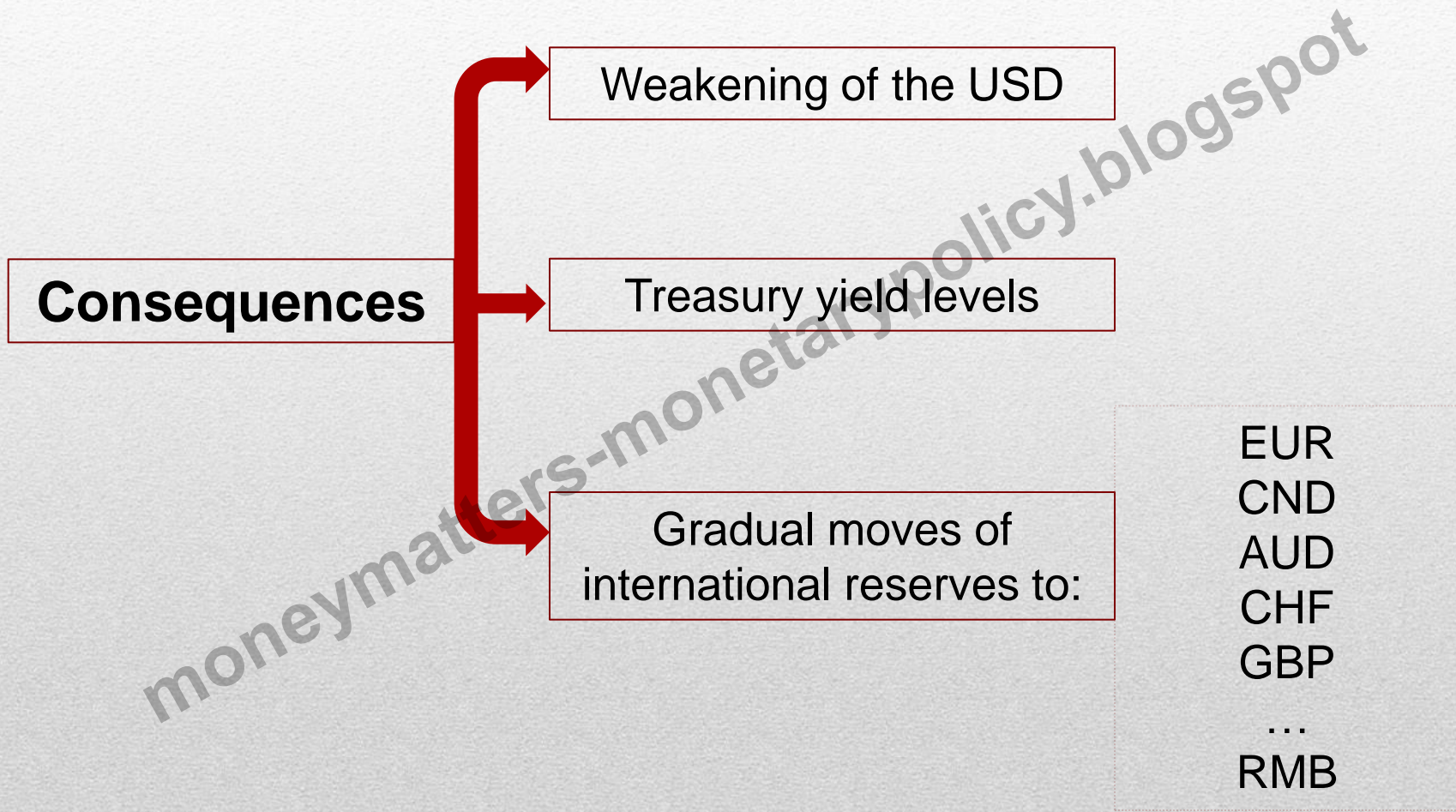
**Chart 3: US 5 years forward inflation breakeven rates**

# Thoughts on FED -Inflation expectations-



**Chart 4: Deviation of Livingston inflation forecast**

# Thoughts on FED -Fiscal difficulties-



*...finally some publicity...*

**Blog:**

<http://moneymatters-monetarypolicy.blogspot.com>

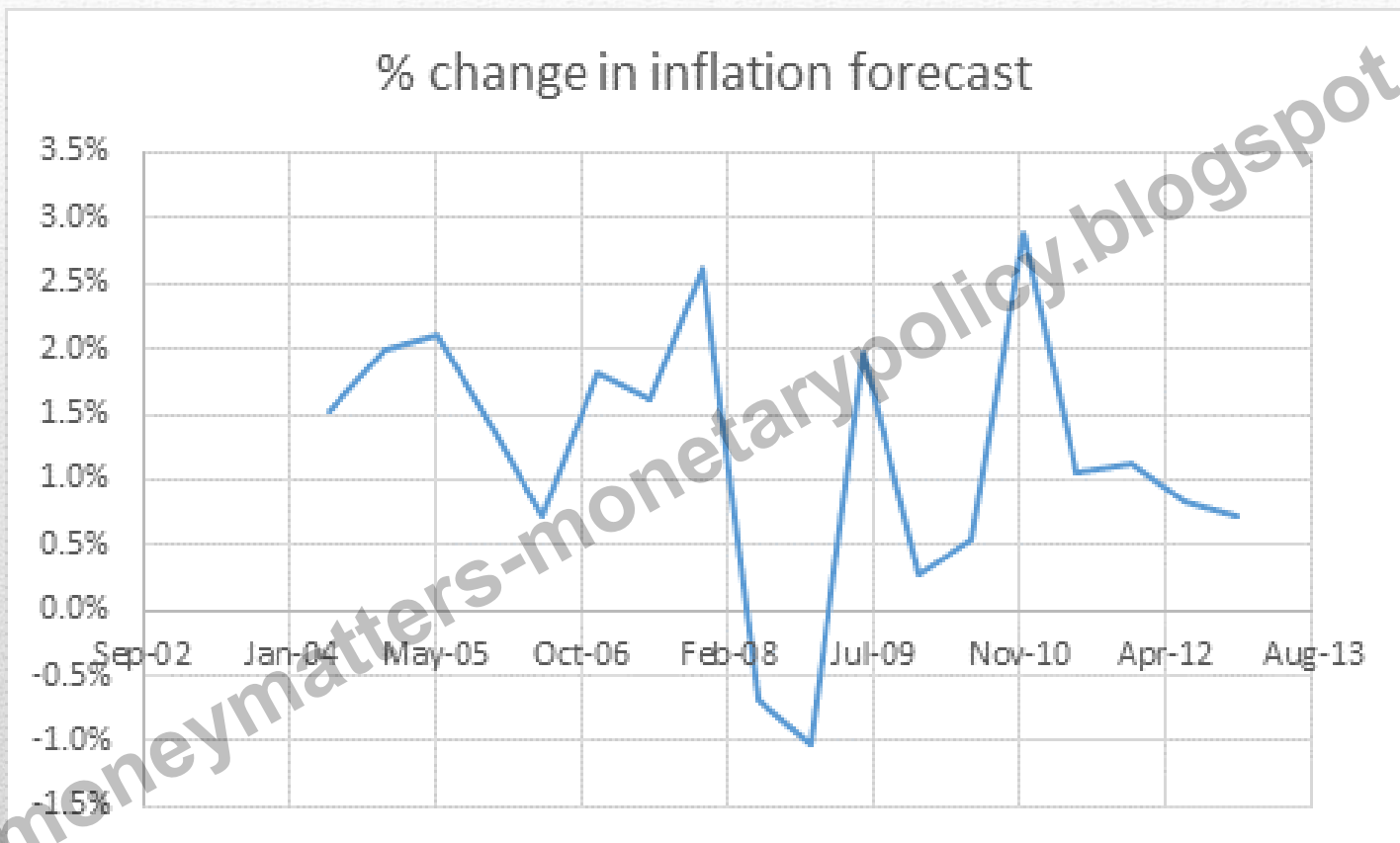
**Twitter:**

[@FrancescoPapad1](https://twitter.com/FrancescoPapad1)



Additional slides

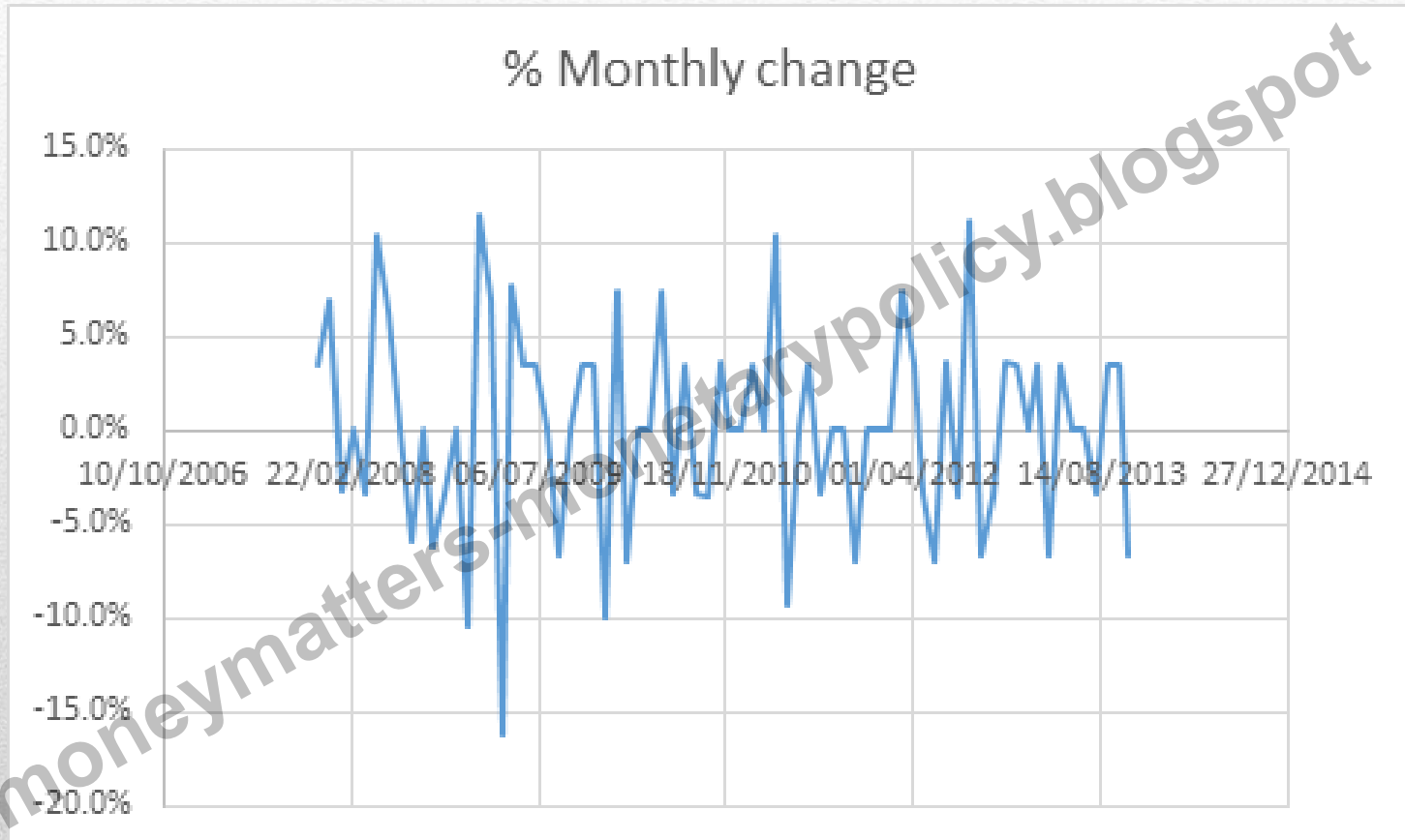
# Thoughts on FED -Inflation expectations-



**Chart 4: 1yr Livingston inflation forecast**



# Thoughts on FED -Inflation expectations-



**Chart 5: 5 yr inflation expectations**  
University of Michigan consumer confidence survey