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Article

"Our study shows that the ECB's measures have been effective": Seven questions to Malte Rieth

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Dr. Malte Rieth, Research Associate,
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SEVEN QUESTIONS TO MALTE RIETH

»Our study shows that the ECB's measures have been effective«

1. Mr. Rieth, your analysis examines the effects of the ECB's unconventional monetary policy measures. How did you go about it? We've conducted an empirical study of how various measures introduced by the European Central Bank (ECB) over the past seven years have impacted the economy in the euro area and in Germany, respectively. We didn't just consider the individual measures: we also calculated their average effect by estimating a macroeconomic model and then running a simulation.
2. How do you define an "unconventional monetary policy measure"? We chose a relatively simple definition and excluded all measures related to the ECB's key interest rate, because this rate has been close to zero since 2009. The ECB was not able to use the interest rate to further stimulate the euro area's economy and had to resort to other measures, like making it easier for the banks to have access to credit or, in some cases, buying government bonds. Another example of such a measure is the OMT program (Outright Monetary Transactions).
3. The public response to the ECB's measures has been quite critical. What are the risks here, theoretically? This is an important point. We look primarily at the "good side" of these measures, so to speak—but at the same time, we don't want to hide the fact that there are also risks. Such risks may include distributional effects, for instance, because the member countries in the euro area—as well as households, groups of people, and companies—are all impacted in different ways by the measures. In the worst-case scenario, these measures could also lead to bubbles in certain financial markets.
4. What effects have these measures had on the euro area? Our research shows that these measures have been very effective—that is, they've had an economically significant effect on prices as well as GDP and inflation expectations. We can therefore conclude that these measures, by stabilizing prices and price expectations, have helped to fulfill the ECB's mandate.
5. How have these measures affected the German economy? The effects in Germany differ very little from those that we've observed in the euro area as a whole. Fears that a monetary policy that's good for Europe is bad for Germany appear unfounded—in fact, we've observed the opposite. Our analysis indicates that the reaction of prices as well as production in Germany is similar to the reaction in the euro area as a whole.
6. How do the ECB's unconventional measures affect German government bonds? Measures that reduce interest rates in other countries lead to an increase in German sovereigns yields—even if it's only minimal. The effect we're seeing here can be explained by a reduction in safe-haven demand for German government bonds. This demand is lower when the ECB does something that is perceived to be beneficial for the euro area as a whole, and therefore German yields tend to increase. Nevertheless, our estimates show that output and prices in Germany also rise. This positive effect is primarily due to the fact that the German economy is closely connected to the rest of Europe, both financially as well as through the real economy.
7. What do your results indicate about the effectiveness of the ECB policy of the past few years? Based on our analysis, we have come to the conclusion that the ECB policy was very effective. It gave the economy a boost and helped the ECB stabilize prices and inflation expectations—and thus combated the risk of deflation quite effectively.

Interview by Erich Wittenberg



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