The ECB monetary policy response to the COVID-19 crisis

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The views and conclusions presented in these comments are exclusively those of the commentator and do not necessarily reflect the position of the Central Bank of Chile or any of its Board members

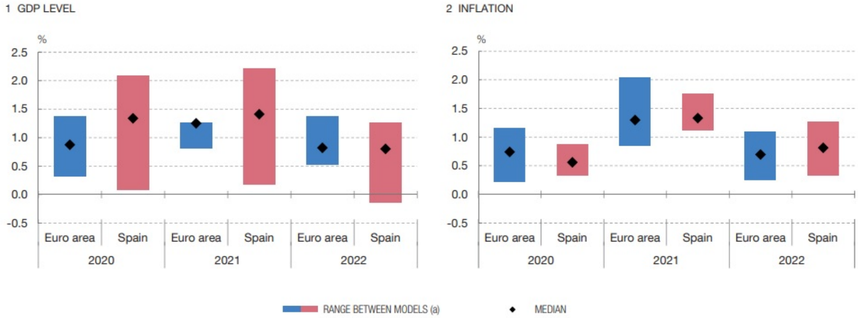
Summary

- The ECB has conducted significant expansionary monetary policy during the pandemic to help sustain euro-area activity levels.
- This has taken place within a context of effective zero-lower bounds on interest rates, forcing non-conventional policies to take place like the pandemic emergency purchase programme (PEPP).
- The authors use two models (a DSGE and a SVAR) to estimate the impact of the PEPP on GDP, inflation, bond yields and employment in Spain and the Euro Area.
    - They calibrate the exercise by doing an event study of the impact of PEPP announcements (March 18 and June 4) on financial markets, such as stocks, bond yields and exchange rates.

Main Results

Chart 9

SIMULATED EFFECTS OF THE PEPP UNDER THE DSGE AND SVAR MODELS



SOURCE: Banco de España.

a Median and results ranges for the effects on the level of GDP and inflation in Spain and the euro area.

Main takeaways and Comments

Main takeaways:

- Maximum impact on Spanish GDP of 1.5% reached in 2021.
- Impact bigger for Spain than Euro Area. This is based on a bigger market reaction for Spain.
- Inflation increased between 0.5% and 1.5% in 2020, 2021 and 2022.

Comments

- Topic is relevant: understanding impact of non-conventional policy is in high demand in a zero-lower bound environment
- Combination of a tailor made micro-founded model and an empirical approach
- Results are heavily dependent on market reaction to PEPP announcement
- Range between models is big regarding GDP in Spain: up to 2% in 2020 and 2021.