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# Policy panel: Current issues for monetary policy transmission in Europe

Inaugural conference of the Challenges for Monetary Policy Transmission in a Changing World (ChaMP) Research Network

April 2024

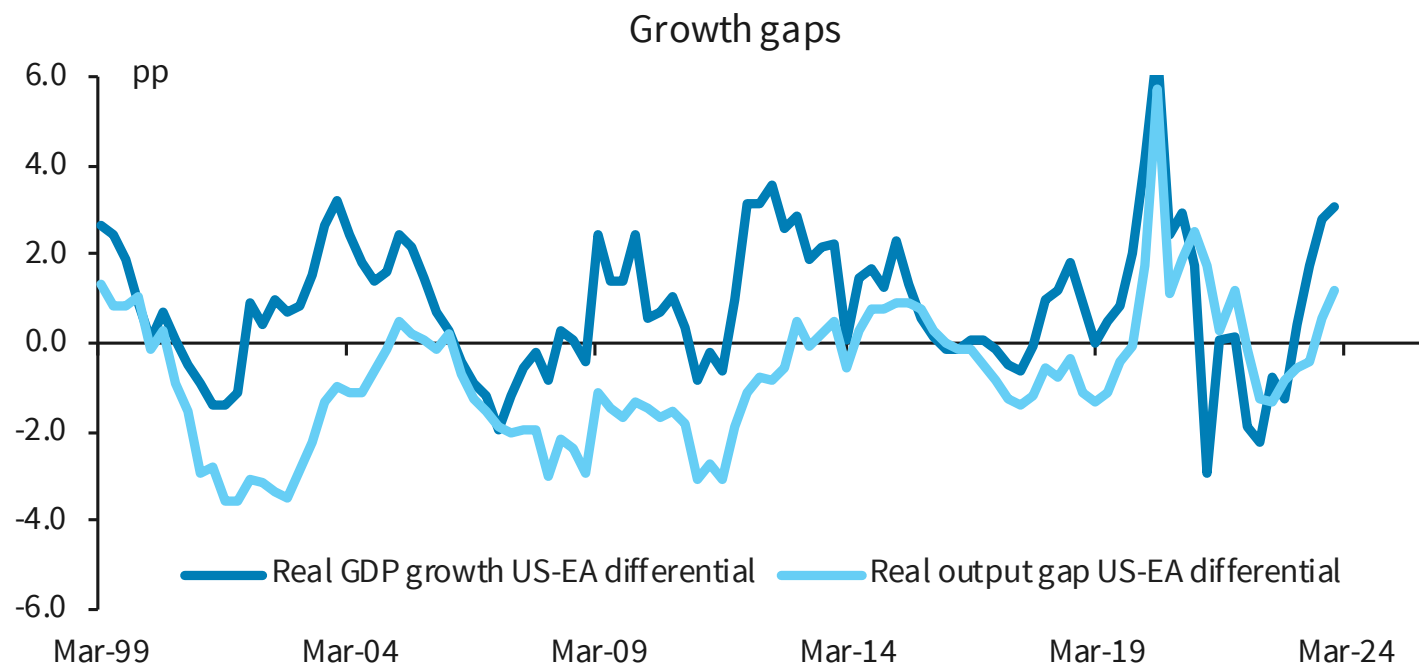
## The Transatlantic Rift

[US – EA Monetary Policy Divergence, The transatlantic rift, Barclays Economic Research, 19 April 2024](#)

1. A potential divergence in monetary policy actions between the Fed and the ECB leading to a wider nominal and real rates gap would reflect contrasting macro conditions.
2. A wider nominal and real rates gap would not be unprecedented.
3. The wider nominal and real rates gap (that we and the market price) would not likely trigger such a large depreciation of the euro that would call into question the inflation outlook and put off the normalisation of monetary policy in the euro area.

# The transatlantic rift: contrasting macro conditions

## US – Euro area growth gap

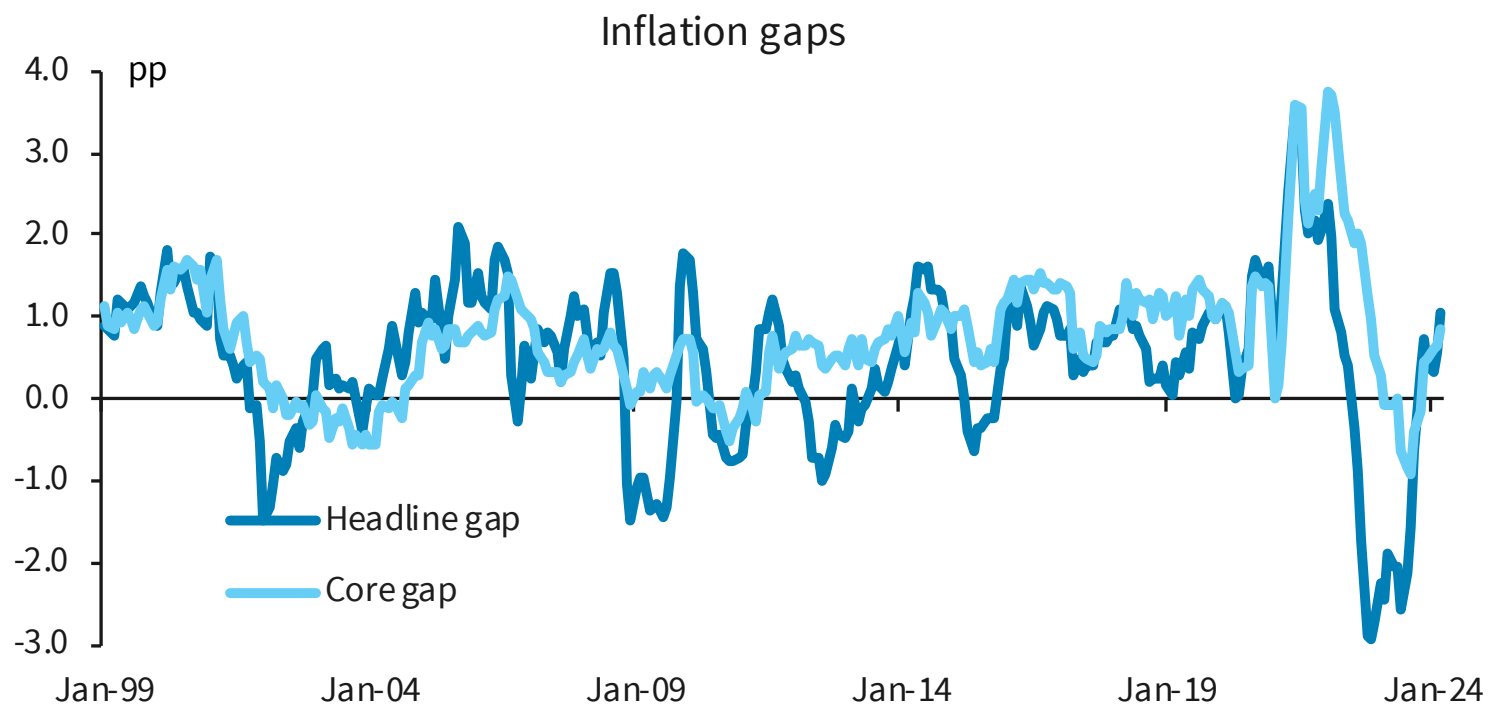


- Q4 2023: real GDP growth/real output gaps 3.06/1.20pp
- Average since 1999: real GDP growth/real output gaps 0.86/-0.7pp

Source: Bureau of Economic Analysis, Congressional Budget Office, Eurostat, European Commission, Haver Analytics, Barclays Research

# The transatlantic rift: contrasting macro conditions

## US – Euro area inflation gap

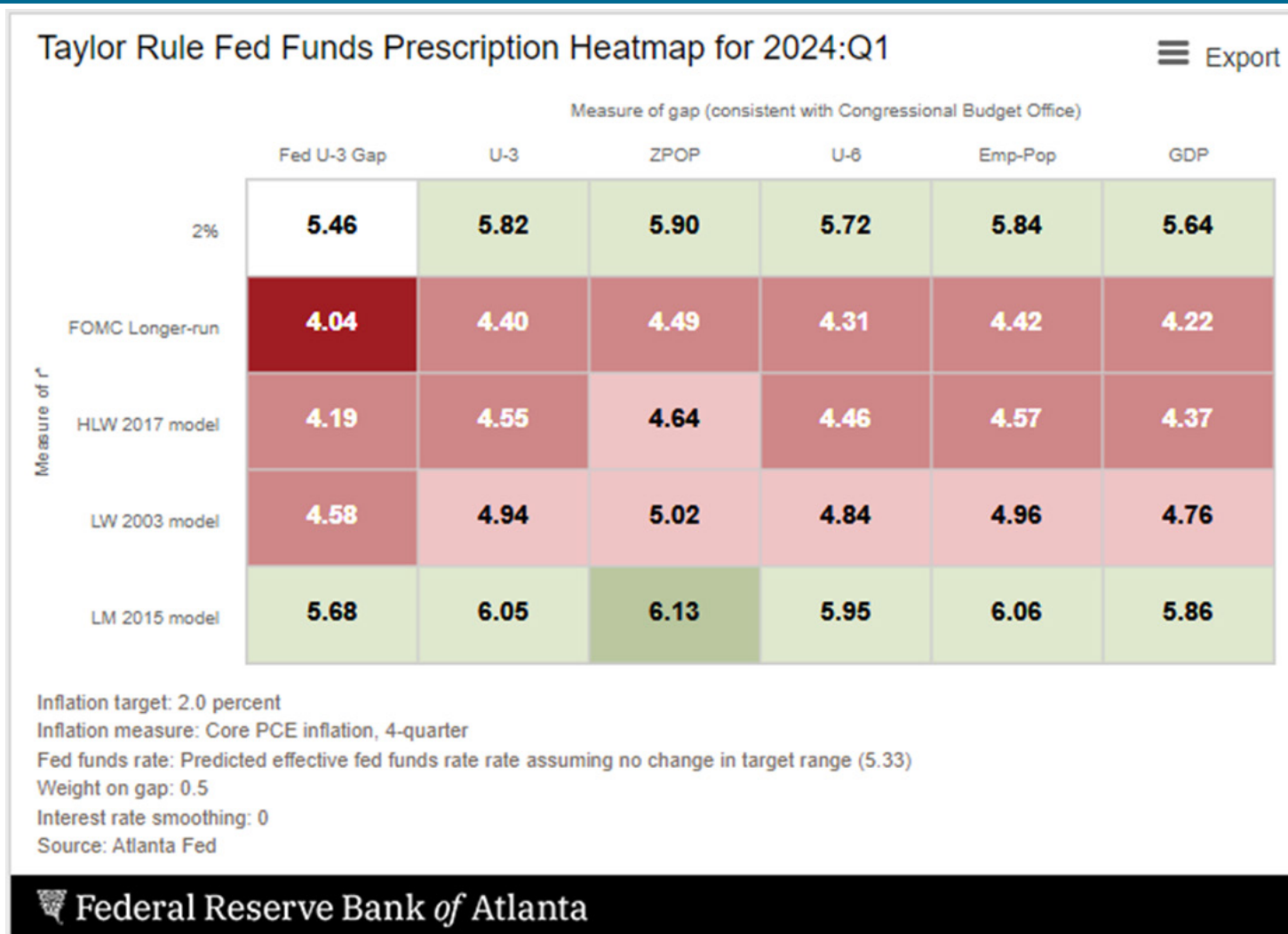


- March 2024: headline/core inflation gaps 1.05/0.86pp
- Average since 1999: headline/core inflation gaps 0.46/0.75pp

Source: Bureau of Labor Statistics, Eurostat, Haver Analytics, Barclays Research

# The transatlantic rift: contrasting macro conditions

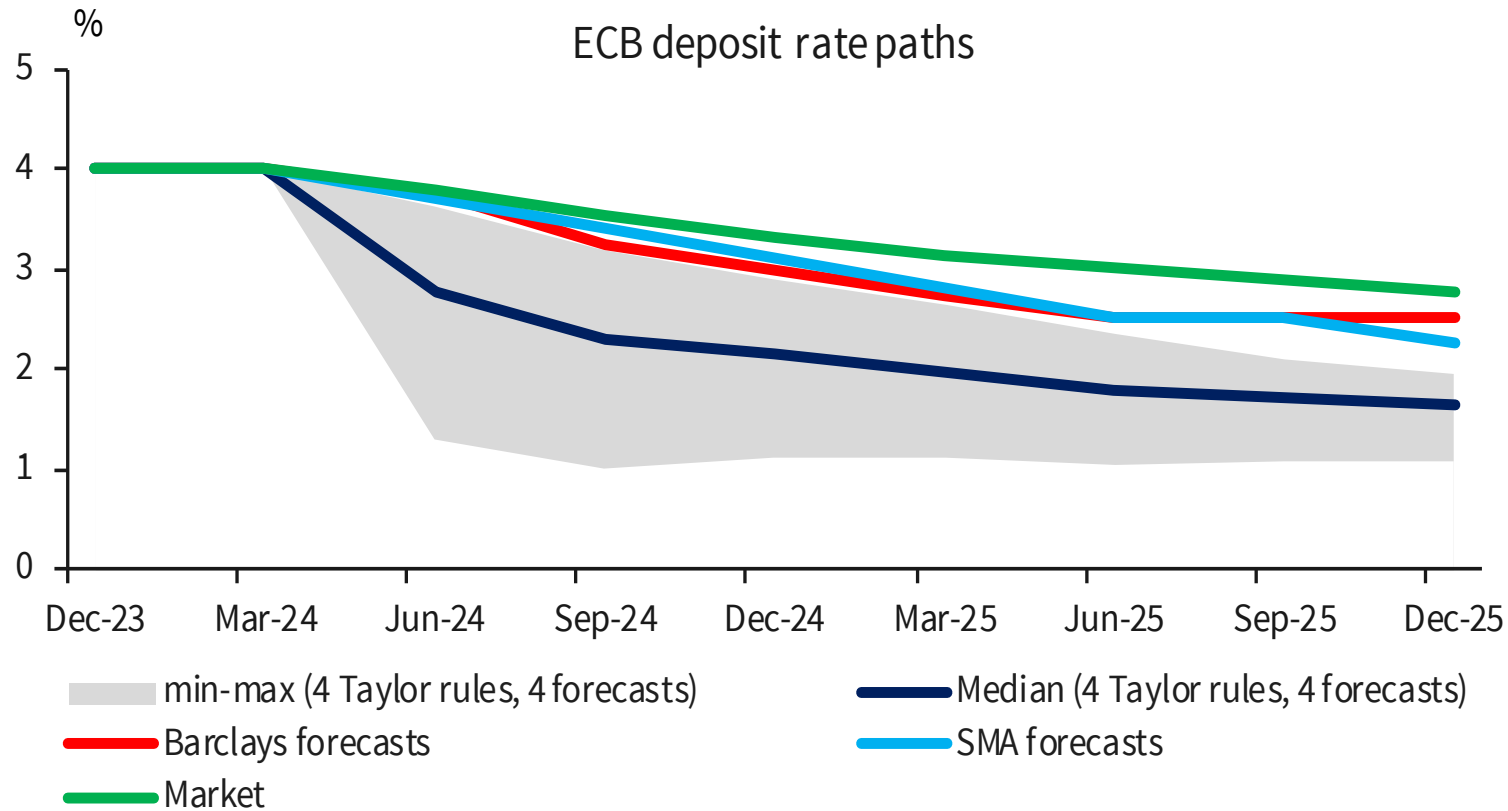
## US: Atlanta Fed Taylor Rules



Source: Federal Reserve Bank of Atlanta

# The transatlantic rift: contrasting macro conditions

## Euro: Taylor rules

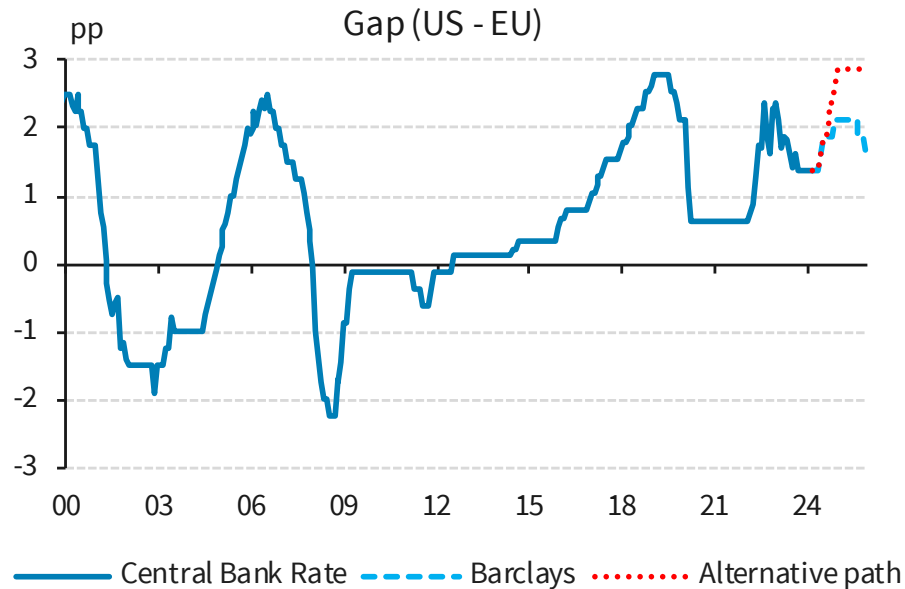


[Euro Themes: The ECB's policy rules compass, Barclays Research, 15 April 2024](#)

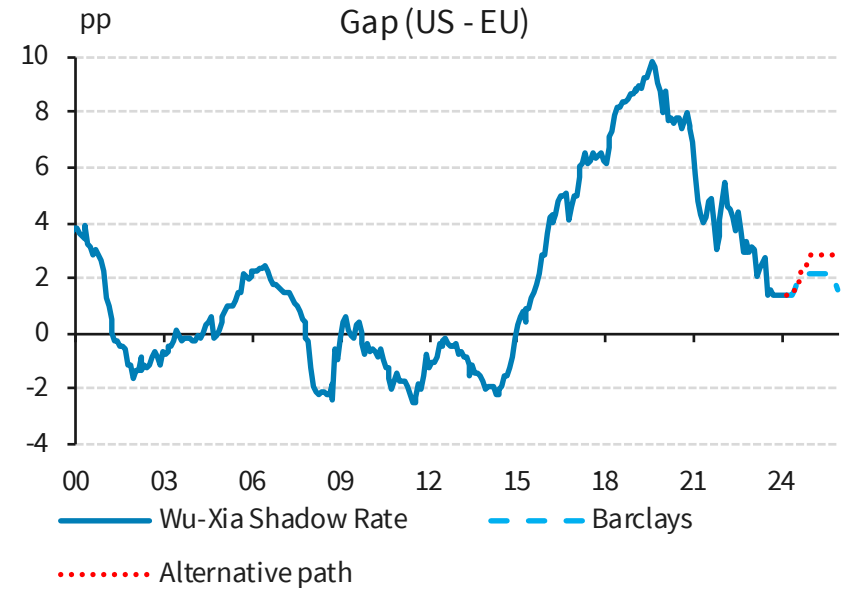
Source: Eurostat, Bloomberg, Haver Analytics, Barclays Research

# The transatlantic rift: not unprecedented

US - Euro area nominal policy rate gap



US - Euro area shadow rate gap



Source: Federal Reserve, European Central Bank, Haver Analytics, Bloomberg, Barclays Research

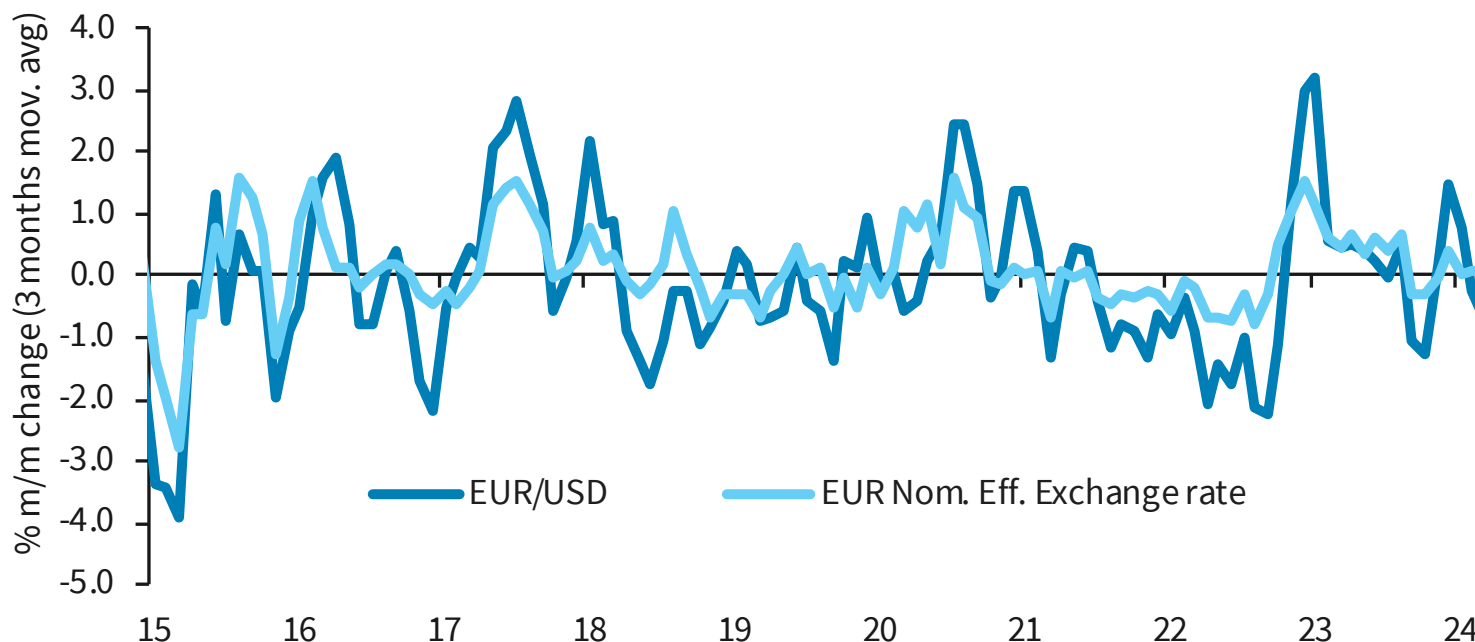
Source: Federal Reserve, European Central Bank, Cynthia Wu, Haver Analytics, Bloomberg, Barclays Research

Note: For the ECB, the effective policy rate is the main refinancing rate before October 2008 and the deposit rate thereafter.  
See Hartmann and Smets (2018): The European Central Bank's Monetary Policy during Its First 20 Years, Brooking Papers on Economic Activity.

# The transatlantic rift: policy rates gap $\Rightarrow$ FX

Which central bank will “deviate”?

EUR/USD and EUR nominal effective exchange rate



Source: ECB, Bloomberg, Barclays Research

Global Economics Paper: Forecasting G10 FX returns with real-time macro factors, February 2017, coefficients in Table 4, col. 1 and Table 7 col. 1 and 2, imply that a 0.5% decline in EA inflation are associated with a *ceteris paribus* 0.25% decline in 2-year EA swap rate and a c.2% depreciation of the EUR/USD



# The transatlantic rift: FX $\Rightarrow$ inflation

Research	FX	Prices
Eurosystem staff macroeconomic projections for the euro area, December 2019, Box 4 Sensitivity analyses	10% EUR/USD depreciation	Positive impact on inflation of c.15bp in the year in which the shock happens, and 30-40bp the subsequent year.
Euro Themes, The FX bump for inflation, Barclays, 15 June 2022	10% EUR/USD depreciation	HICP inflation +15bp in year t; +60bp in year t+1
Eva Ortega, Chiara Osbat and Ieva Rubene, ECB Economic Bulletin, Issue 3/2020	10% depreciation of the nominal effective EUR exchange rate	<p>Import prices in the euro area increase, on average, about 3% within a year,</p> <p>Consumer prices increase by only 0.4% within the same time horizon.</p> <p>Estimates of the exchange rate pass-through to euro area consumer prices are not statistically significant for most of the period 1997-2019</p>
Colavecchio, R. and Rubene, I., "Non-linear exchange rate pass-through to euro area inflation: a local projection approach", Working Paper Series, No 2362, ECB, Frankfurt am Main, 2020.		

# Euro area wage trackers

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Our forward-looking wage trackers point to:

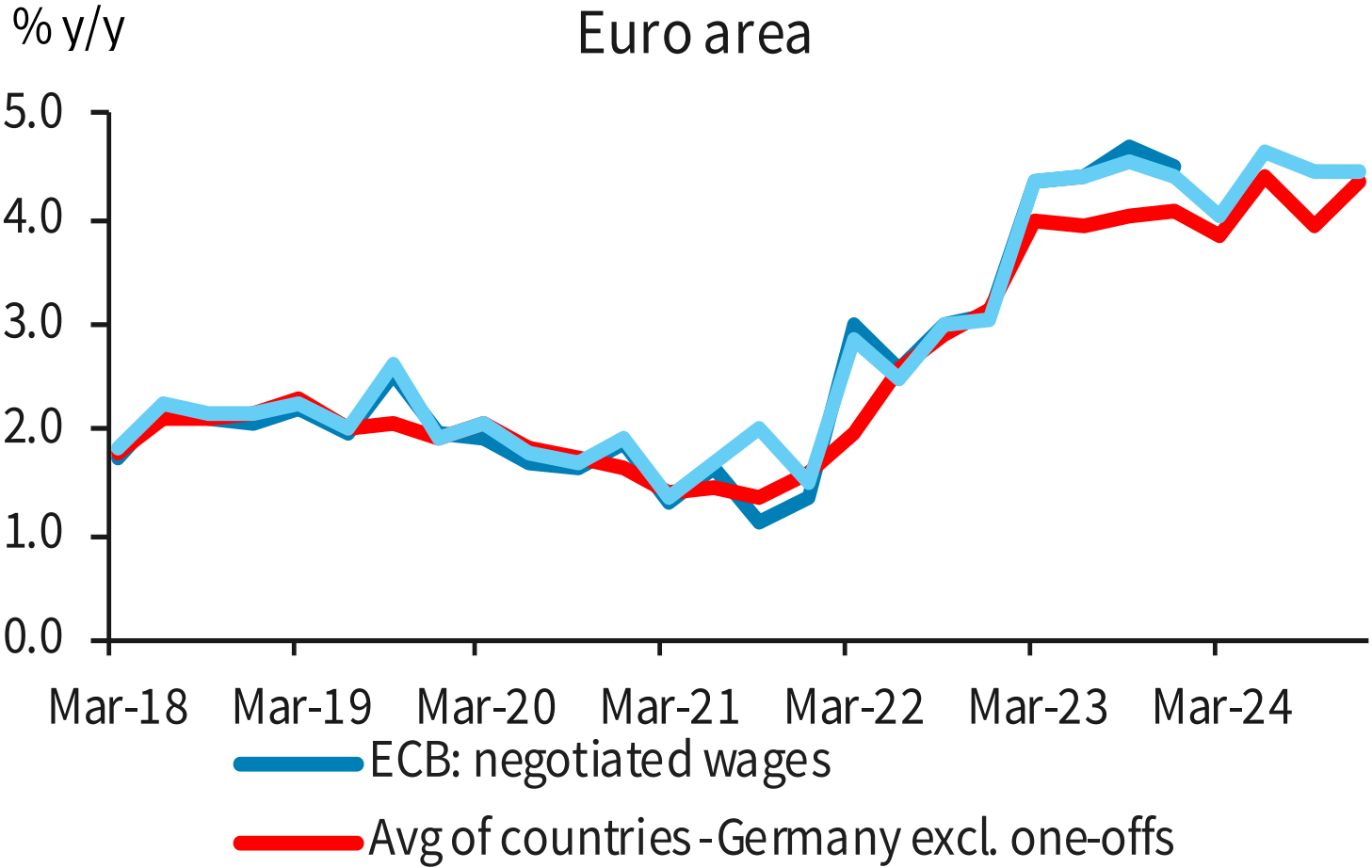
1. Nominal wages catching-up to inflation in countries with long-term contracts.
2. Decline of nominal wage growth in coming years.
3. Anchoring of inflation expectations.

[Euro Themes, Pay on display - Part I, Barclays Economic Research 10 November 2021](#)

[Euro Themes, Tracking the rebound of negotiated wages - Germany, Barclays Economic Research, 19 January 2022](#)

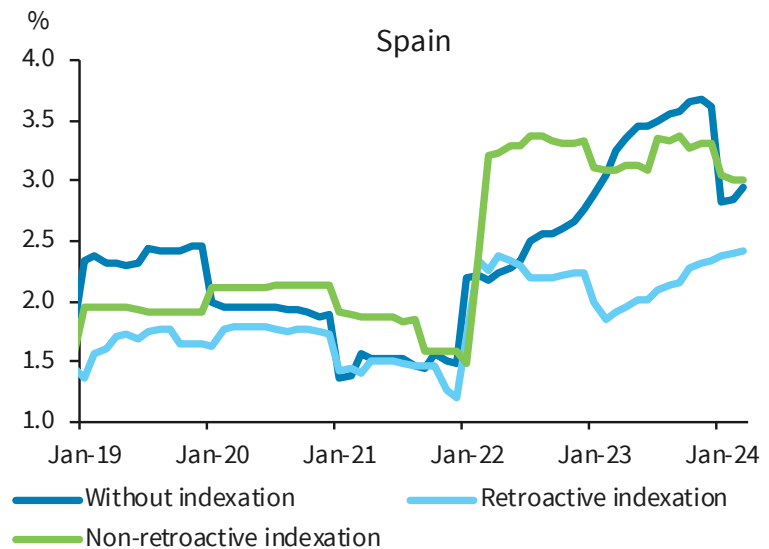
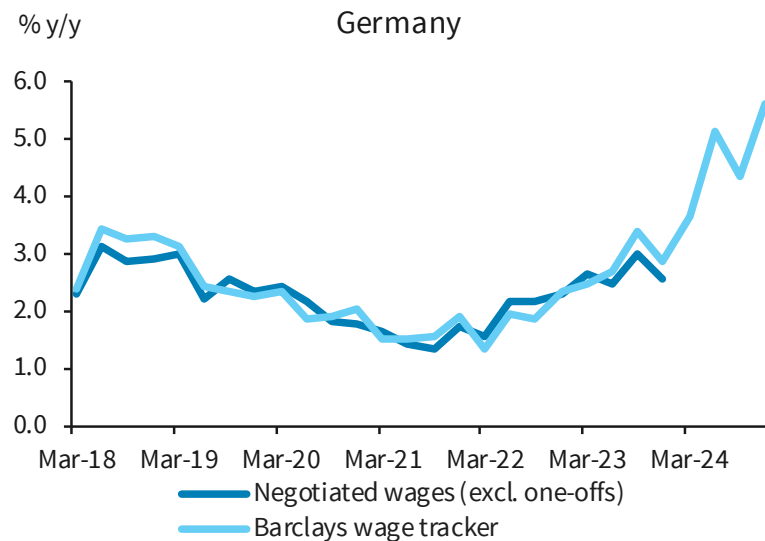
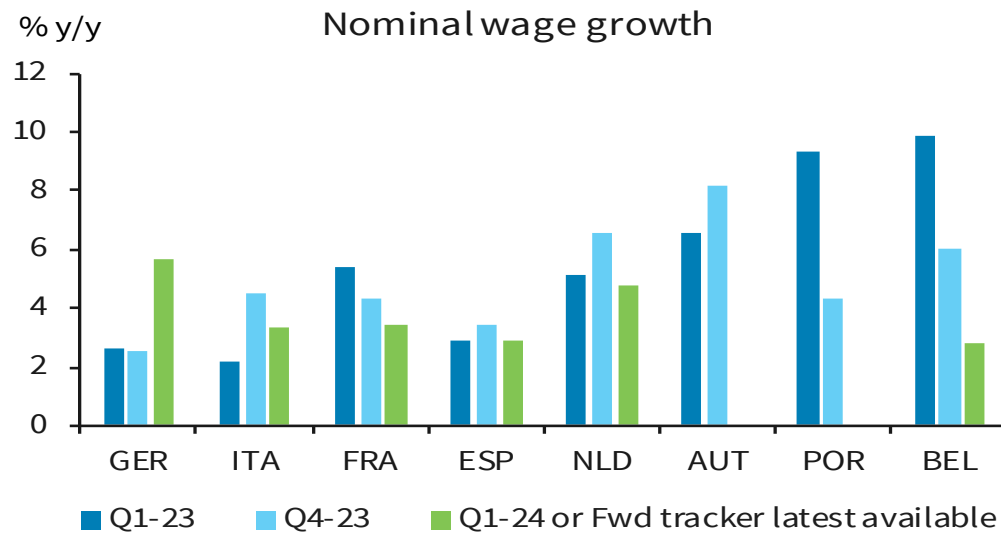
[Euro Themes, Tracking the rebound of negotiated wages -Italy, Barclays Economic Research, 19 January 2022](#)

# Euro area wages growth: high but unlikely to increase further



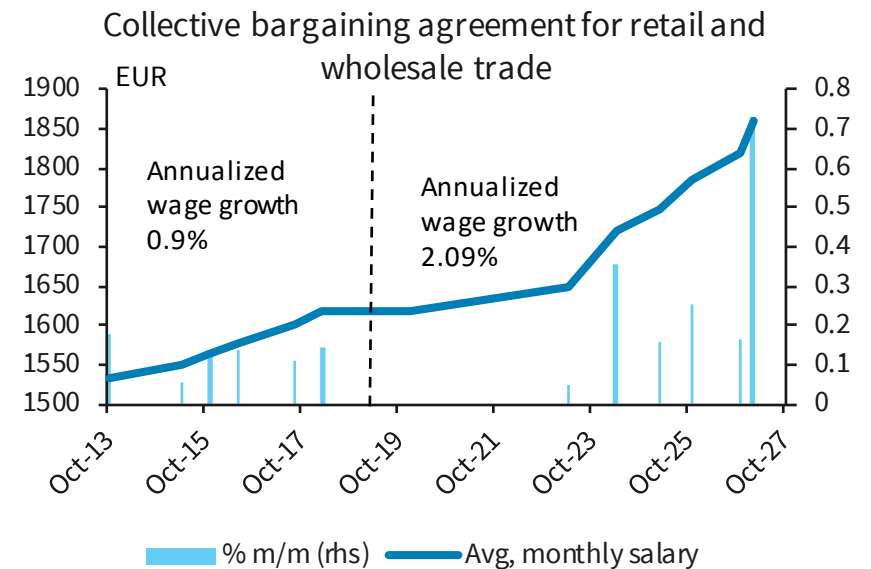
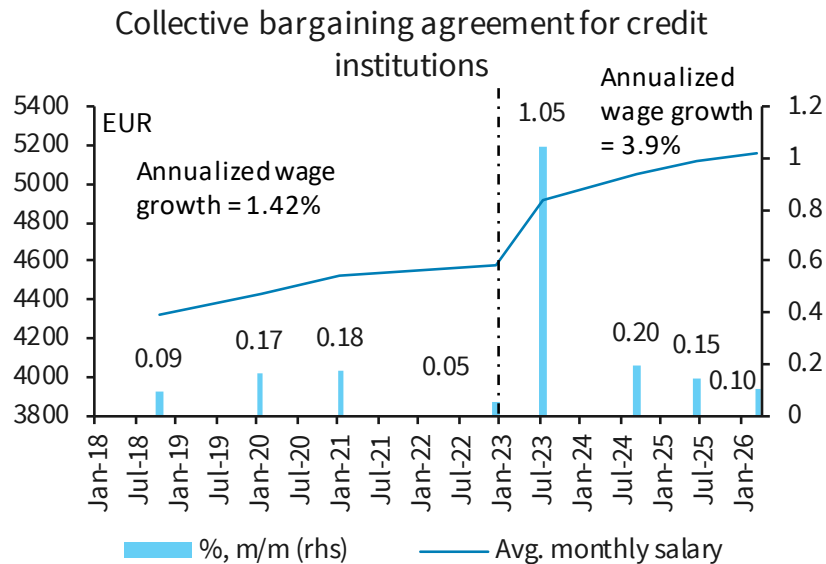
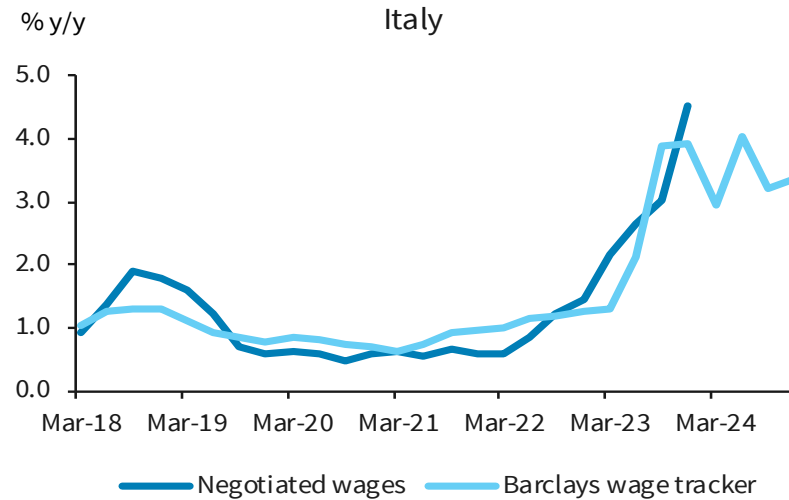
Source: Haver Analytics, ECB, ISTAT, Bundesbank, Bank of Portugal, DARES, Statistics Austria, Ministerio de Trabajo Y Economia, Statistics Netherlands (CBS), Barclays Research

# Euro area wage growth: the outcome of different wage negotiation systems



Source: Haver Analytics, ECB, ISTAT, Bundesbank, Bank of Portugal, DARES, Statistics Austria, Ministerio de Trabajo Y Economia, Statistics Netherlands (CBS), Barclays Research

# Euro area wage growth: the outcome of different wage negotiation systems



Source: Haver Analytics, ECB, ISTAT, Bundesbank, Bank of Portugal, DARES, Statistics Austria, Ministerio de Trabajo Y Economia, Statistics Netherlands (CBS), Barclays Research

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