OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Economic and monetary policy issues in the euro area

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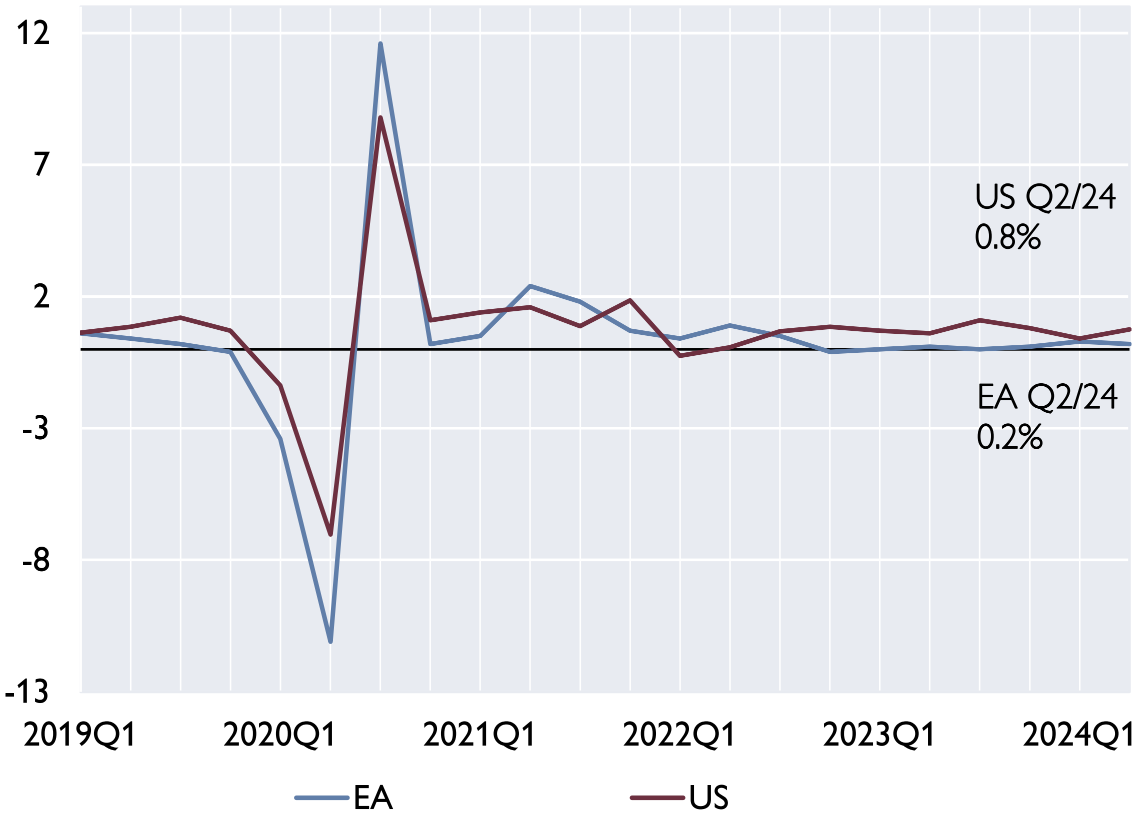
Content

1. **International developments**
2. **Inflation and monetary policy in the euro area**
3. **Recent developments in Austria**

1. Weak growth in the euro area amidst continuing disinflation

Real GDP growth in the euro area and the US

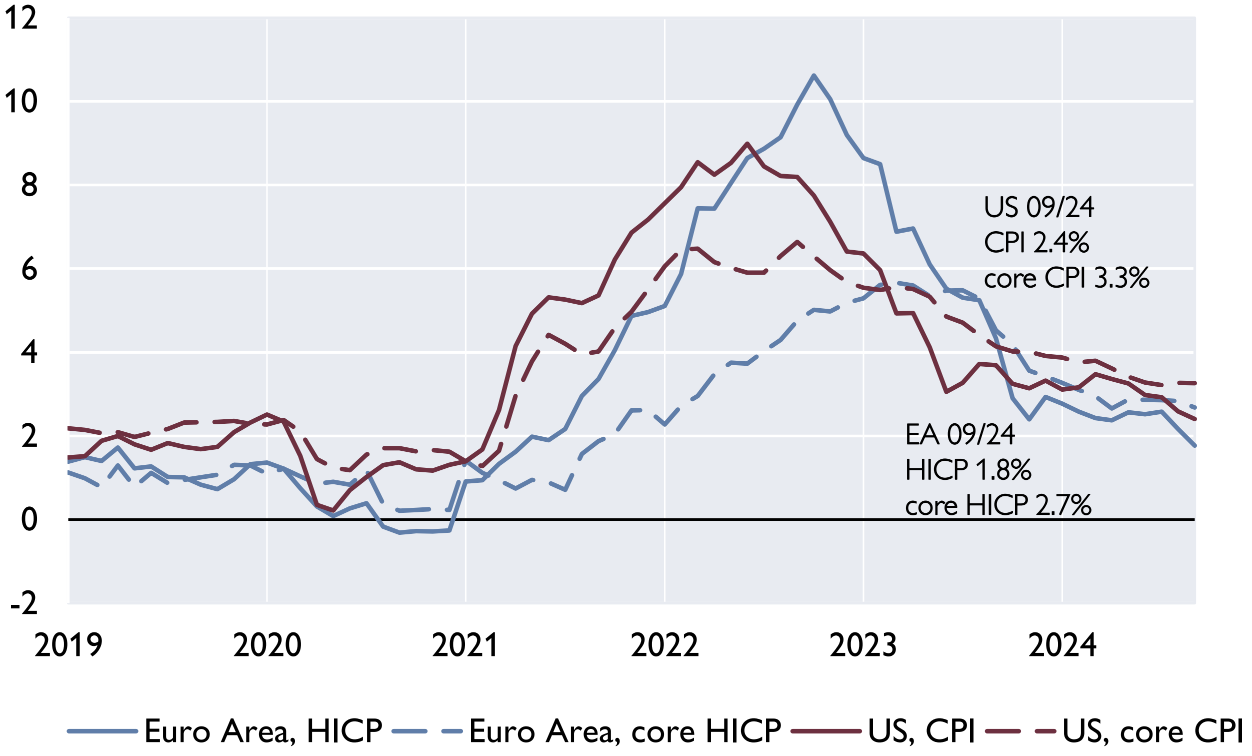
quarterly growth rates in percent



Source: Macrobond.

Consumer price inflation in the euro area and the US

annual percentage change

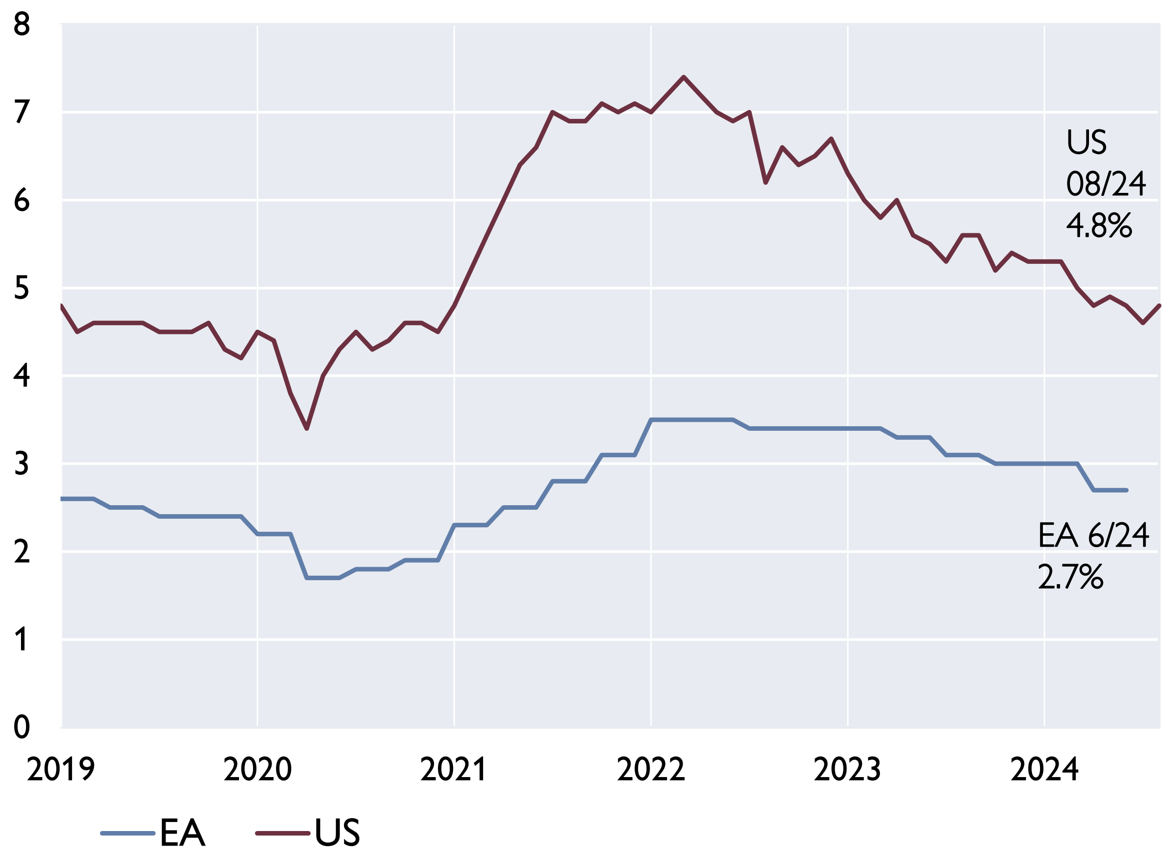


Source: Macrobond.

1. Labor markets remain tight but show signs of easing

Job vacancies

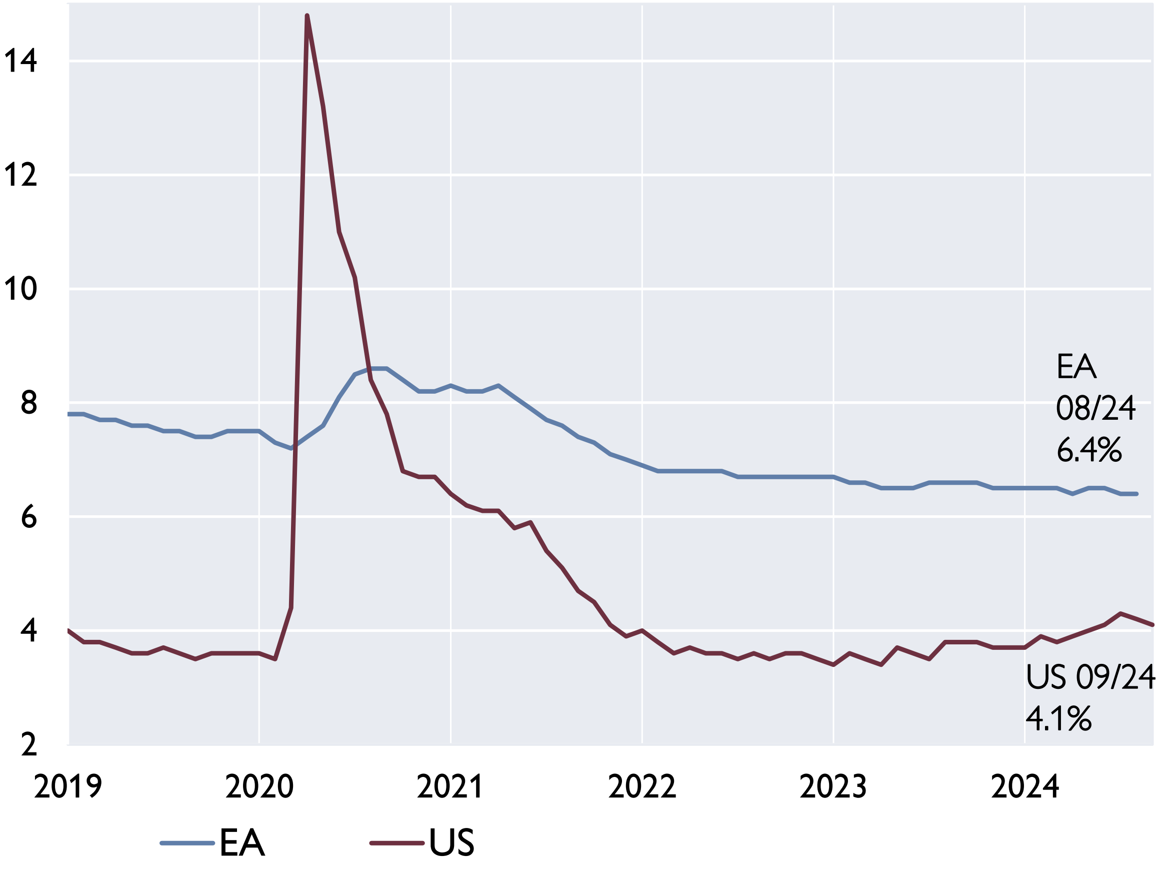
percent



Source: Macrobond.

Unemployment rates

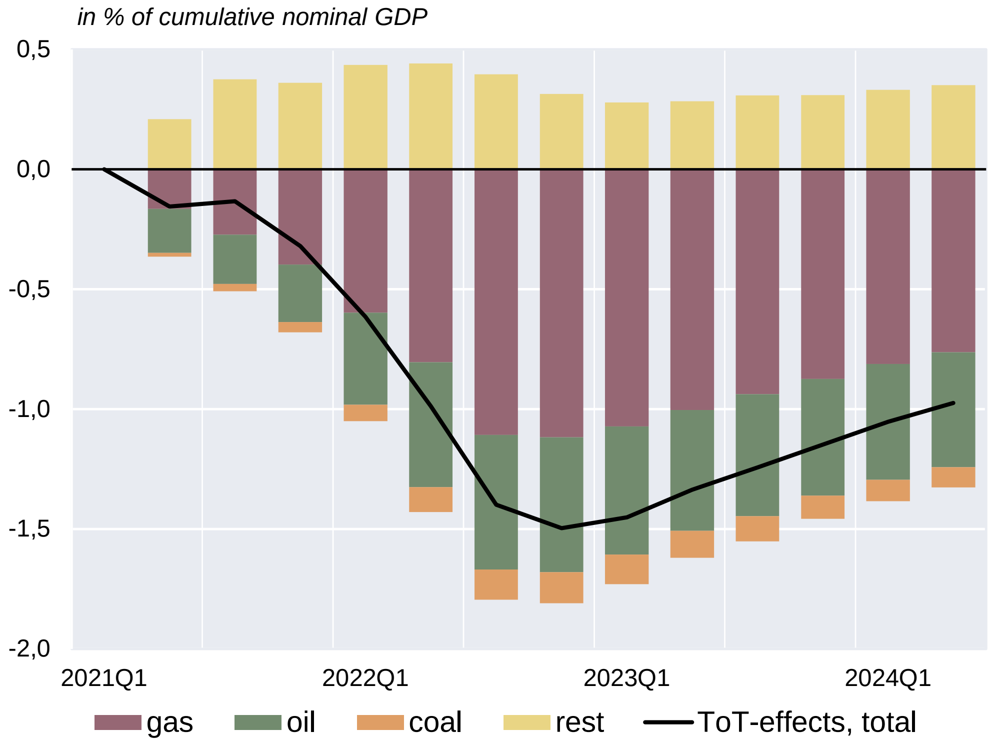
percent



Source: Macrobond.

1. ToT effects in Europe far more relevant than in the US

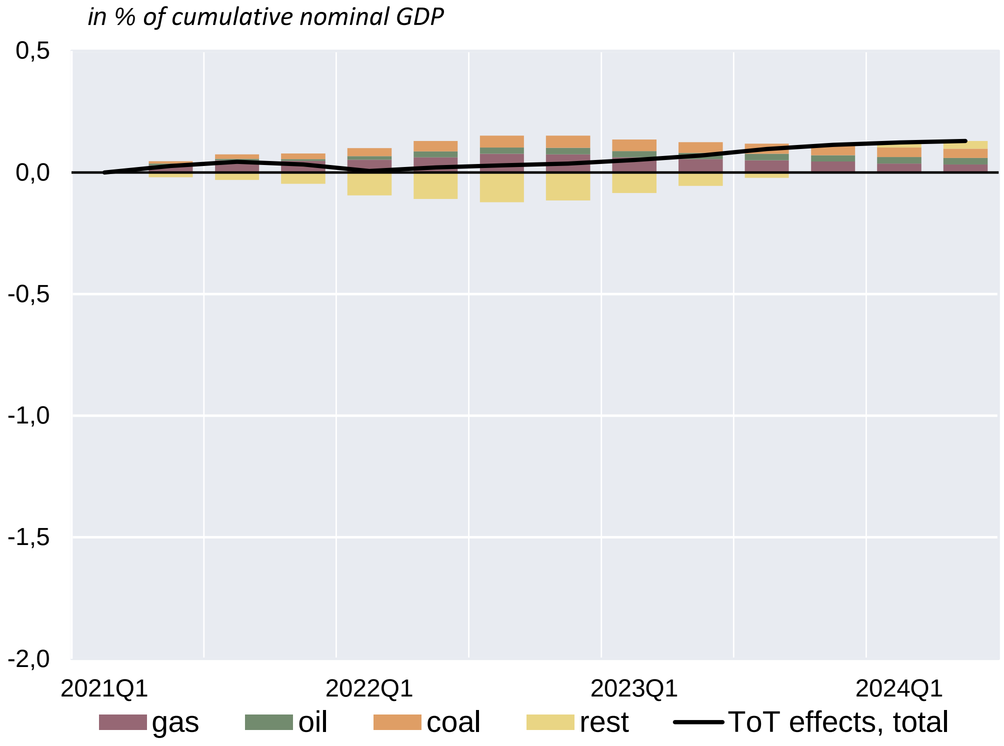
EA: Cumulative ToT-effects since 2021Q1 (in 2019 prices)



Source: OeNB, Eurostat, Macrobond.

- Effects predominately driven by **gas-price shock**:
  EA: 2020: 11 EUR/MWh; 2022: 125 EUR/MWh
  US: 2020: 7 EUR/MWh; 2022: 19 EUR/MWh
- Size of energy imports (relative to GDP) significantly **more important** in Europe

USA: Cumulative ToT-effects since 2021Q1 (in 2019 prices)



Source: OeNB, Eurostat, Macrobond.

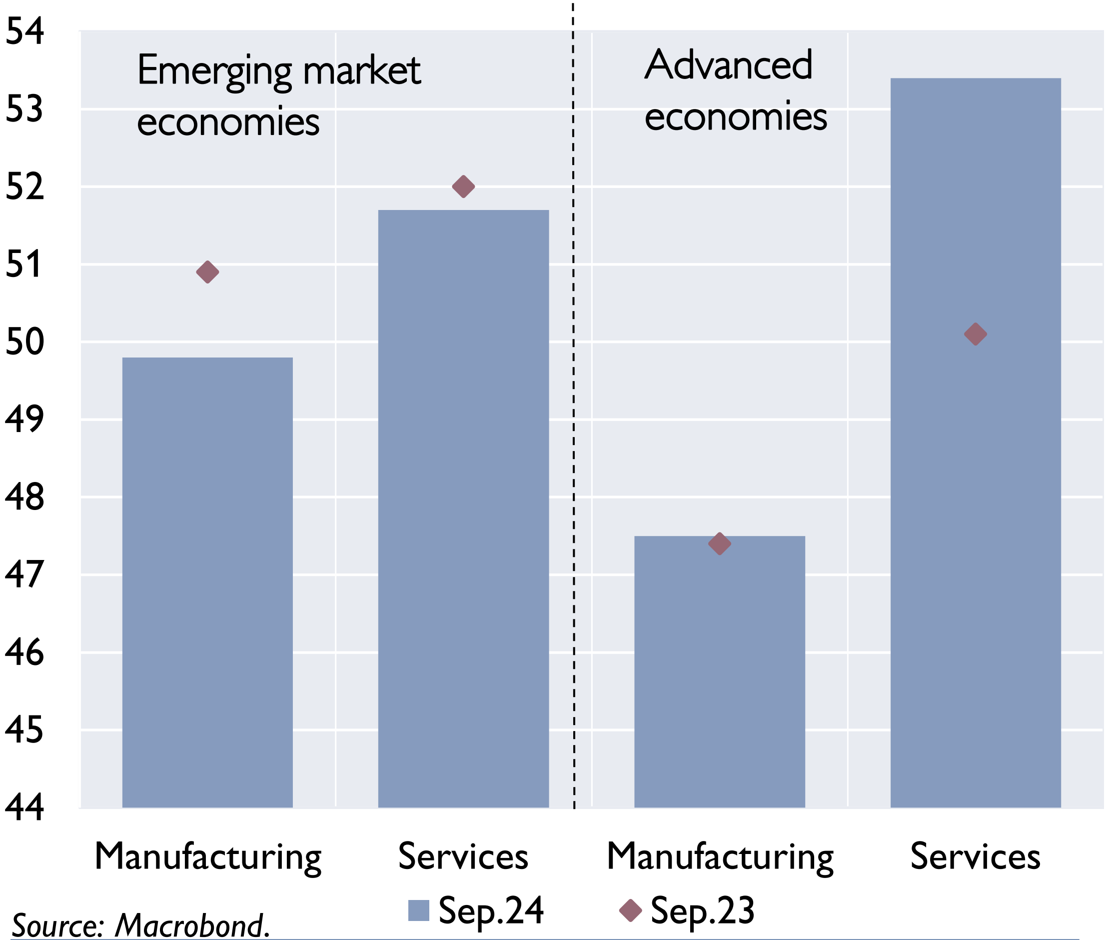
- US turned into **net exporter** of energy (oil gas and coal)
- **Openess** (exports and imports as share of GDP):

US: 25% ; EA: 56% (as of 2023)

1. Service indicators in expansionary territory, manufacturing lagging behind

Purchasing managers index

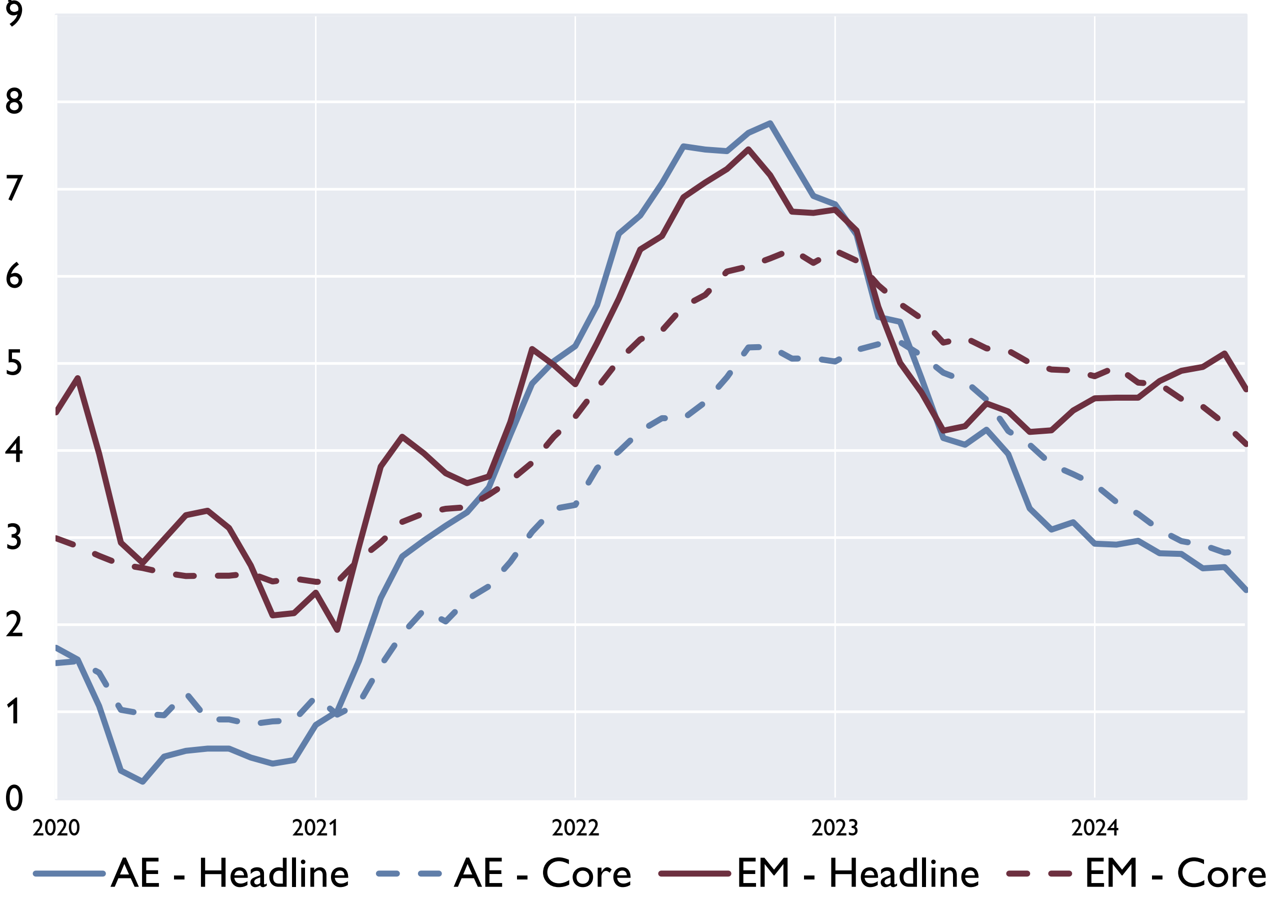
Index: value above [below] 50 indicates sectoral expansion [contraction]



Source: Macrobond.

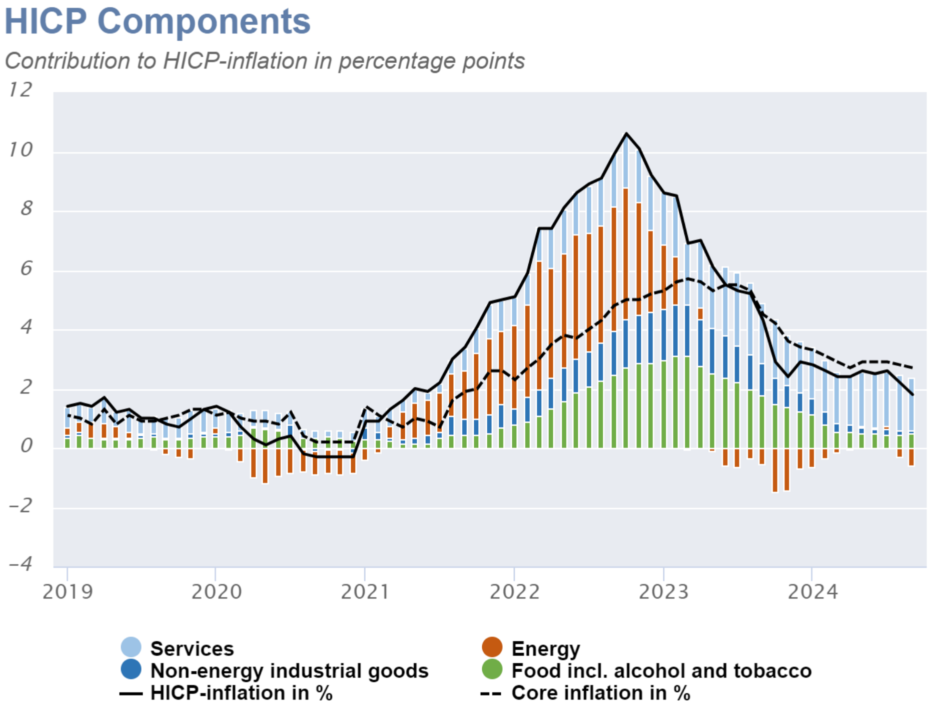
Headline and core inflation: advanced economies and emerging markets

percent



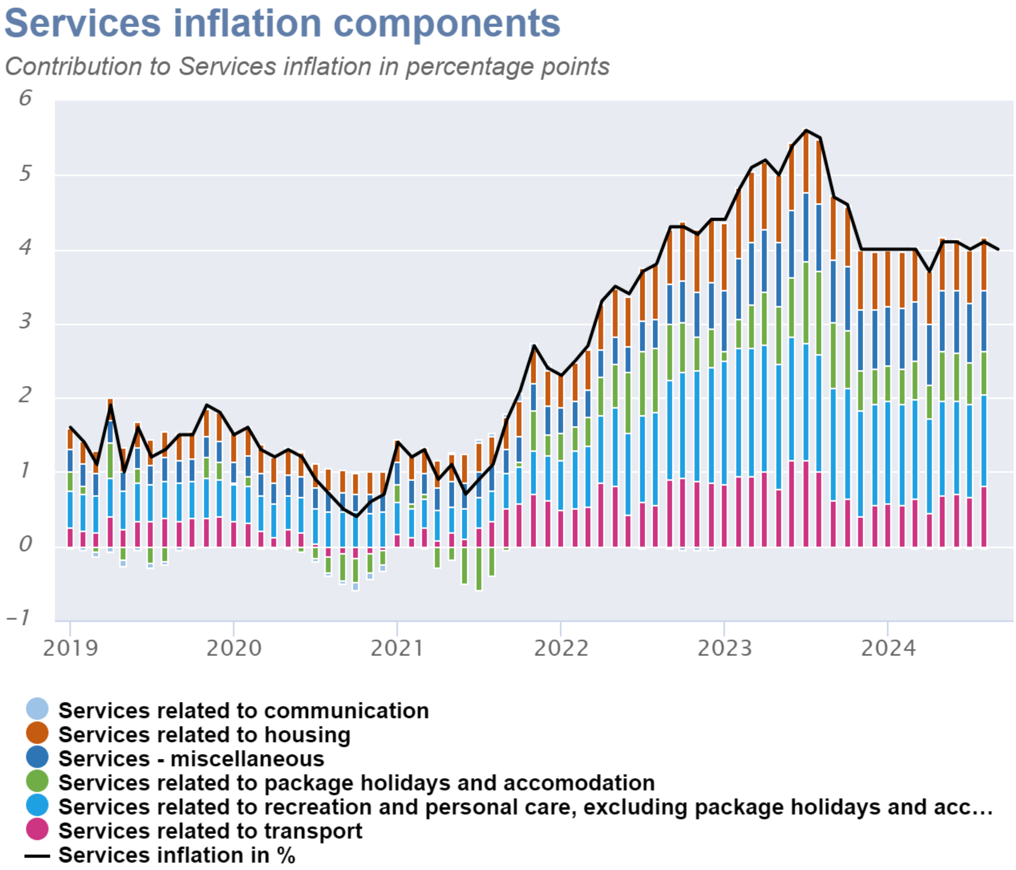
Source: Macrobond.

2. Euro area: goods and energy inflation have almost subsided, services inflation remains strong



Source: Eurostat. Last observation: 09/2024 (flash estimate).

HICP inflation: The HICP inflation rate measures the annual rate of change in the prices of consumer goods and services acquired by households.
Core inflation: The core inflation rate is the price change of goods and services excluding food and energy.



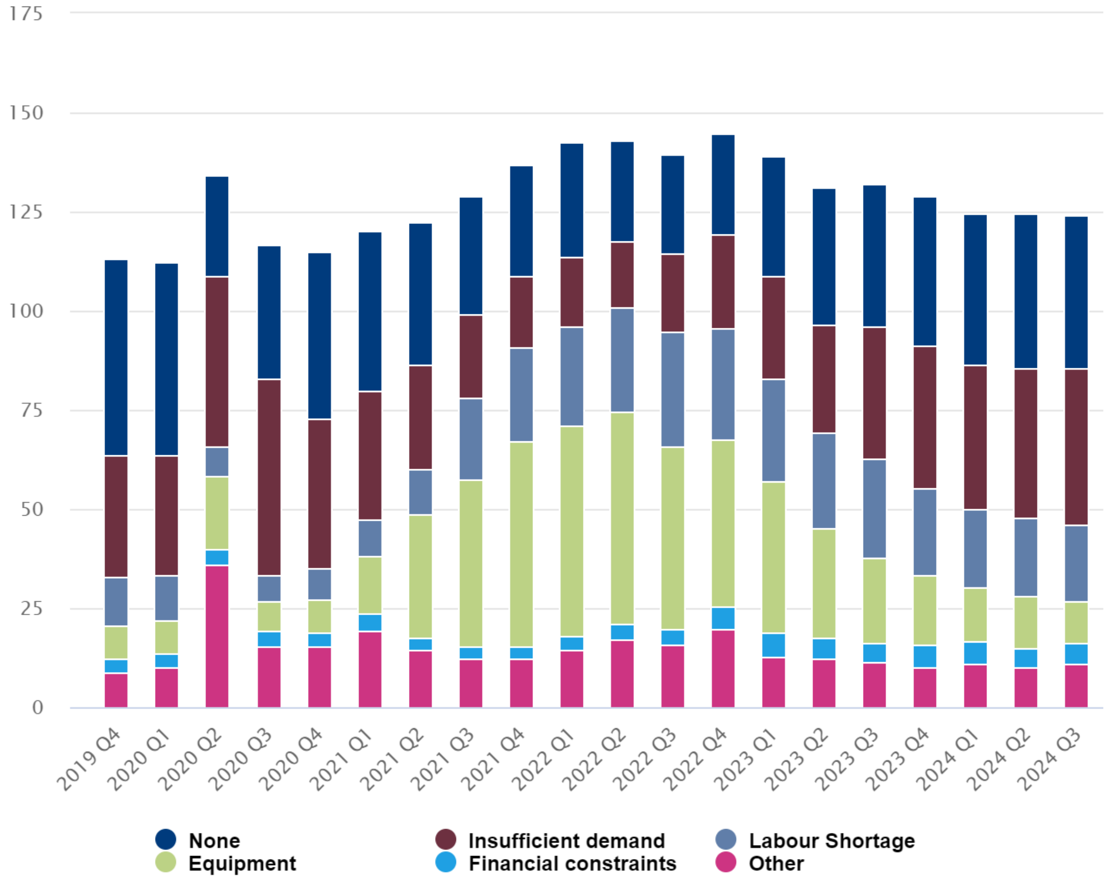
Source: Eurostat. Last observation: 09/2024 (flash estimate).

- **NEIG and food components** show strong disinflation and are converging towards pre-2020 levels
- **Energy** remains deflationary in 2024

- **Services inflation** is still elevated due to high wage growth and tight labor markets
- **Wage-sensitive sectors** contribute strongly to services inflation

2. Survey of industry indicates a reduction in supply pressure and a switch to demand constraints

Factors limiting production - Industry

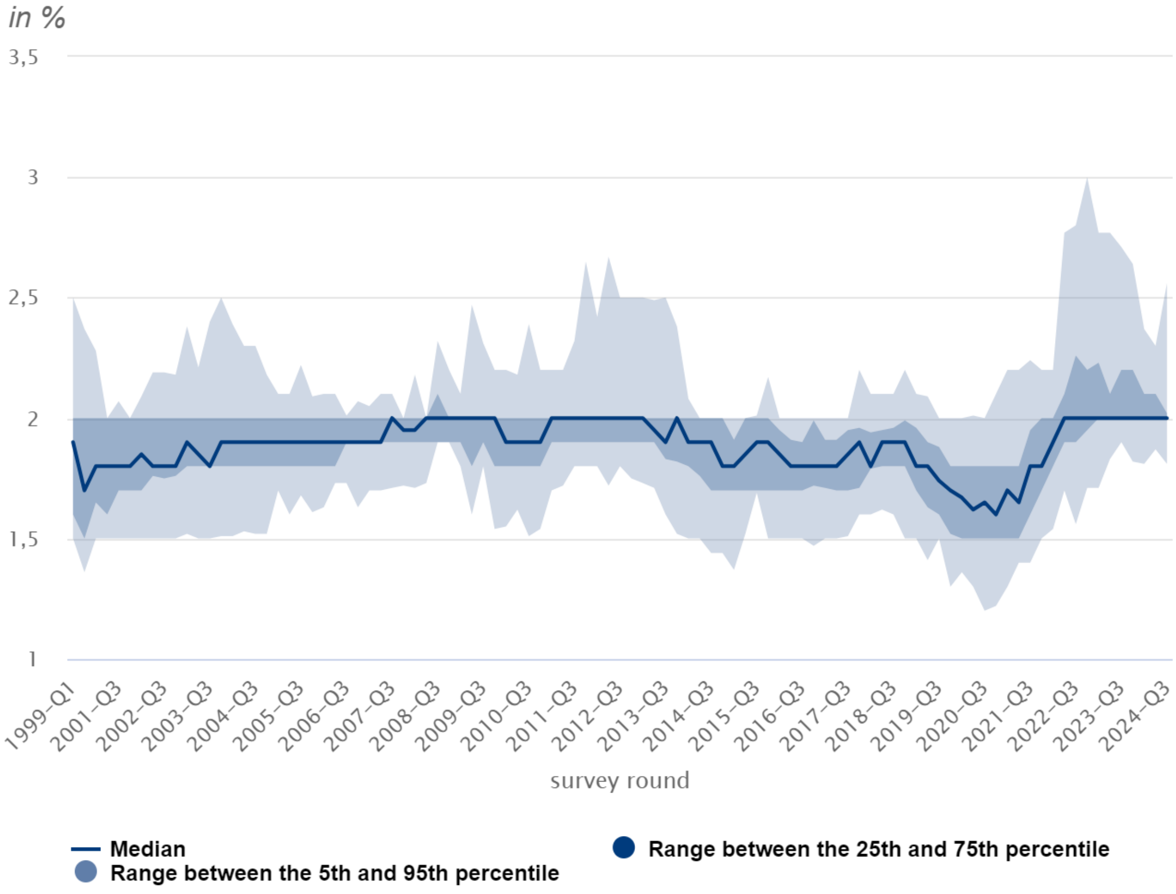


Source: Business survey of the European Commission (EC)

- Reported **supply constraints** on equipment have almost converged back to 2019 level
- **Labour shortage** is still above 2019 level
- **Insufficient demand** has been increasing since 2022Q2
- **Financial constraints** are not widely reported as a factor limiting production
- This indicates a **switching from supply to demand driven dynamics**

2. Disagreement across long run inflations forecasts is declining and expectations are converging to the target

SPF annual HICP-inflation forecast - Longer term (five years ahead)

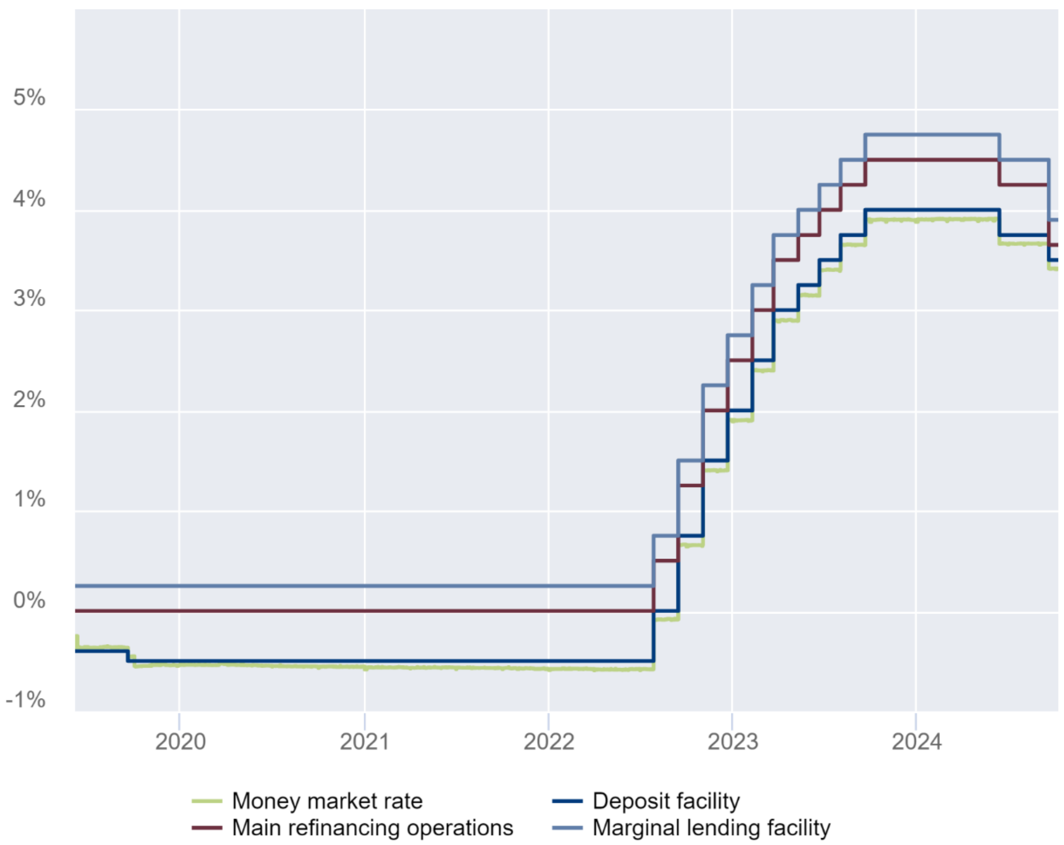


Source: ECB Survey of Professional Forecasters (SPF), REFGP calculations

- **Five years ahead inflation expectations** are at **target** (on average); the upward tail of the distribution is volatile
- Forecasts are characterized by **asymmetry/skewness** with fewer forecasters having a long-run forecast below 2%
- The downside **de-anchoring risk does not materialize** in the long-term expectations

2. Eurosystem reduced key policy rates by 75 basis points and money market rates followed closely

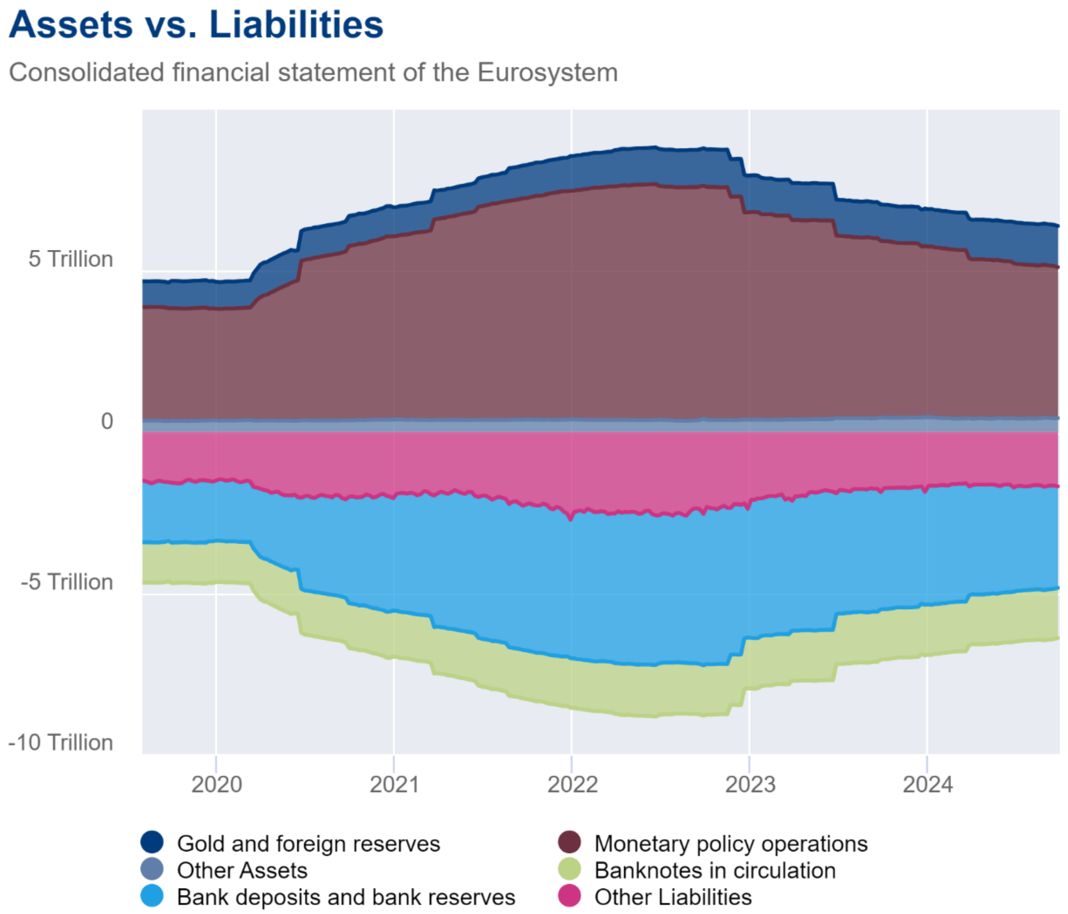
Key ECB interest rates and money market rates



Source: ECB SDW (public).

- Inflation is approaching the target value of 2% - accordingly, the ECB Governing Council **began to cut interest rates** in June 2024
- Overall, it has decided on three interest rate cuts and lowered key interest rates **by a total of 75 basis points** (to 3.25%)
- **€STR** is slightly below the interest rate for the deposit facility and **follows it closely**

2. QT proceeds and reduces bank reserves at the central bank



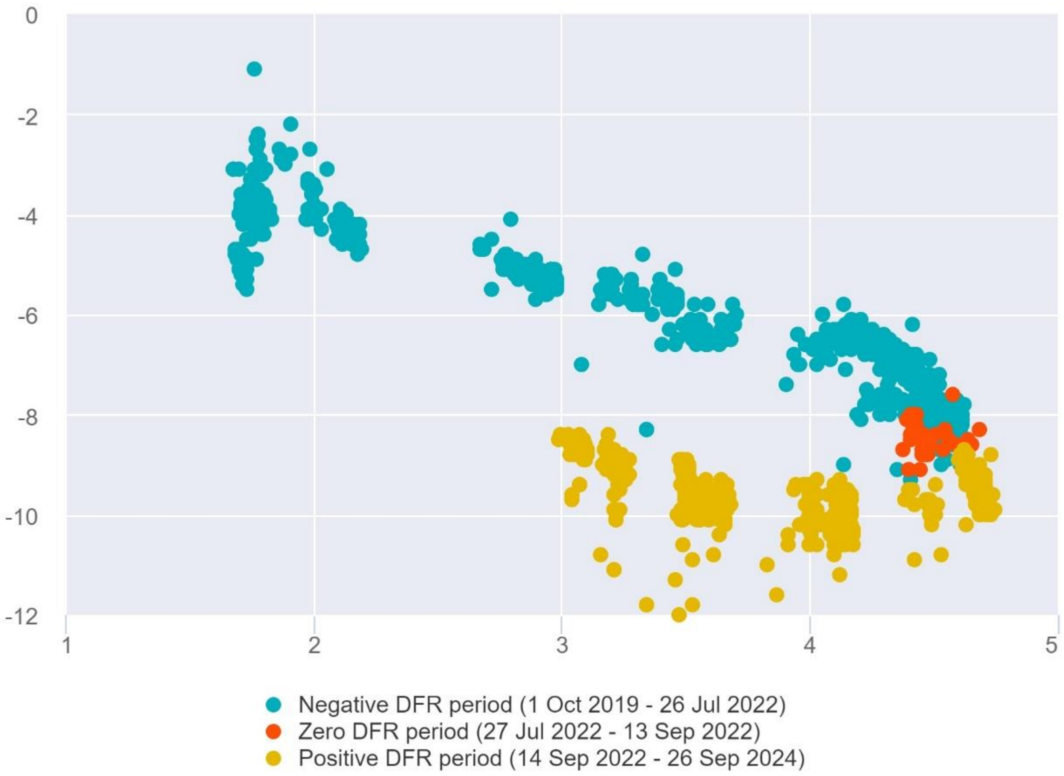
Source: ECB SDW (public).

- The consolidated **balance sheet** of the Eurosystem **peaked** at 8.8 trillion euros in **mid-2022**
- Since then, long-term loans to banks (TLTRO III) totaling around 2 trillion EUR have been repaid
- In addition, securities acquired as part of monetary policy programes are slowly maturing: around 0.5 trillion EUR since mid-2022
- This balance sheet reduction mainly results in a **decline in banks' central bank reserves**

2. QT increases interest rates relative to key policy rates

Relationship between excess reserves and the €STR-DFR spread

x-axis: excess reserves, EUR trillion; y-axis: €STR-DFR spread, basis points



Source: ECB SDW (public) and FIS.

Asymmetry

– €STR-DFR spread reacts less strongly to the reduction in excess reserves than to their build-up

– The relationship still exists - but it seems weaker

Explanations

– End of the two-tier system in the remuneration of excess reserves → starting in September 2022: increased supply of reserves in money market

– Banks' market power vis-á-vis non-bank financial intermediaries in positive interest rate environment

Looking ahead

– Excess reserves will decline further and so will the €STR-DFR spread

3. Austria faces a second recession year in 2024

Forecasts of key economic indicators - Austria

	OeNB			WIFO		IHS	
date	12th September 2024			4th October 2024		4th October 2024	
	2024	2025	2026	2024	2025	2024	2025
	annual change in %						
Real GDP	−0,7	1,0	1,5	−0,6	1,0	−0,6	0,8
Real private consumption	–	–	–	0,1	1,2	0,4	1,3
Real government consumption	–	–	–	0,3	0,8	0,5	0,2
Real gross fixed capital formatior	–	–	–	−2,8	0,2	−2,9	0,0
Real exports	–	–	–	−2,3	2,4	−3,4	2,2
Real imports	–	–	–	−1,9	2,2	−3,6	2,4
HICP	2,9	2,3	2,2	3,1	2,2	3,0	2,4
Payroll employment	–	–	–	0,2	0,7	0,2	0,5
	%						
Unemployment rate (nat. def.)	7,1	7,5	7,3	7,0	7,2	7,0	7,2
	% of nominal GDP						
General government deficit	–	–	–	−3,7	−4,0	−3,5	−3,4
Government debt	–	–	–	80,1	82,4	×	×

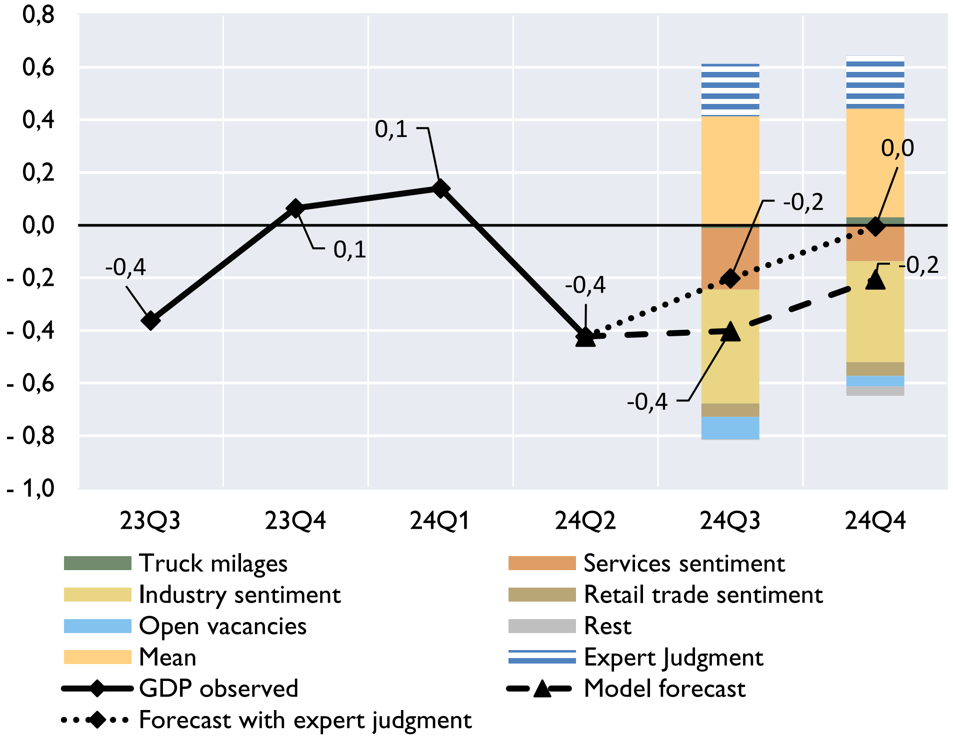
Source: OeNB, WIFO, IHS.

- **Persistent recession** in industrial and construction sector
  - High energy costs
  - Lack of foreign demand
- Households currently do not consume, although their real income has increased; in contrast the **savings ratio is rising:**
  - inflation shock
  - uncertainty
- Economic downturn gets noticeable on **labor markets**
- Next government will have to **consolidate**

3. However, inflation shock has come to an end

Real GDP (seasonally and calendar-day adjusted)

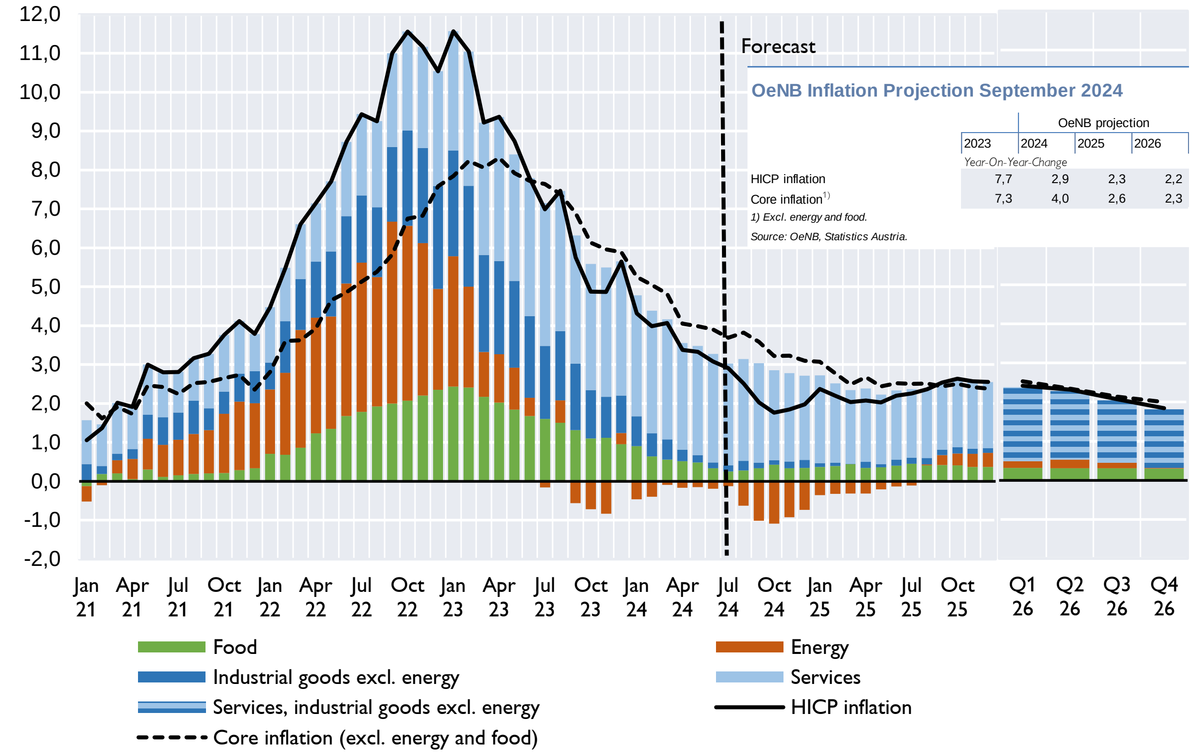
in % to previous quarter



Source: OeNB Short-term Model. Data cut-off date 4th of September 2024.

Contributions of components to HICP inflation

Inflation in %; inflation contributions of components in percentage points



Source: OeNB, Statistics Austria.

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3. Investment in Austria? Selected arguments in a nutshell

Wealthy economy [1)]	
GDP/Capita	Rank 4 in EA, Rank 5 in EU (AT: 120.6; EA=104.2, EU=100)
Private consumption/Capita [1)]	Rank 4 in EA, Rank 5 in EU (AT: 118.1; EA=104.5, EU=100)
High investment dynamics	
R&D investment in % of GDP [2)]	Rank 2 in EA, Rank 3 in EU (AT: 3.2%, EA: 2.3%, EU: 2.3%)
Investment share [3)]	Rank 2 in EA, Rank 6 in EU (AT: 24.9%, EA: 21.6%, EU: 21.8%)
Net international investment position [4)]	Rank 6 in EA, Rank 8 in EU (AT: 16.6%)
Well diversified and stable economy	
No major macroeconomic imbalances - EC Scoreboard [5)]	No in-depth review has been carried out for Austria so far
Export oriented economy; regionally diversified	"In the heart of Europe", Exports to "Western" and "Eastern" Europe
Stable social conditions [6)]	Strike days "nerby zero" (AT: 1, DE: 17,8, FR: 79,1, UK: 88,9)
Ratings between AAA and AA+ [7)]	S&P: AA+, Moody's: Aa1, Fitch: AA+, DBRS: AAA, Scope: AA+

1) GDP and private consumption measured in PPP, Eurostat 2023, 2) Eurostat 2022, 3) Eurostat 2023, 4) Eurostat and ECB 2023, 5) EC: Scorebard Macroeconomic Imbalance Procedure, 6) European Trade Union Institute, average 2020- 2022, per 1000 Employees, 7) OeBFA, long run ratings

Danke für Ihre Aufmerksamkeit

Thank you for your attention

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