

# Lasting effects of the pandemic on the economy and finance

Klaas Knot, 25 March 2022, DACT Treasury Beurs

DeNederlandscheBank

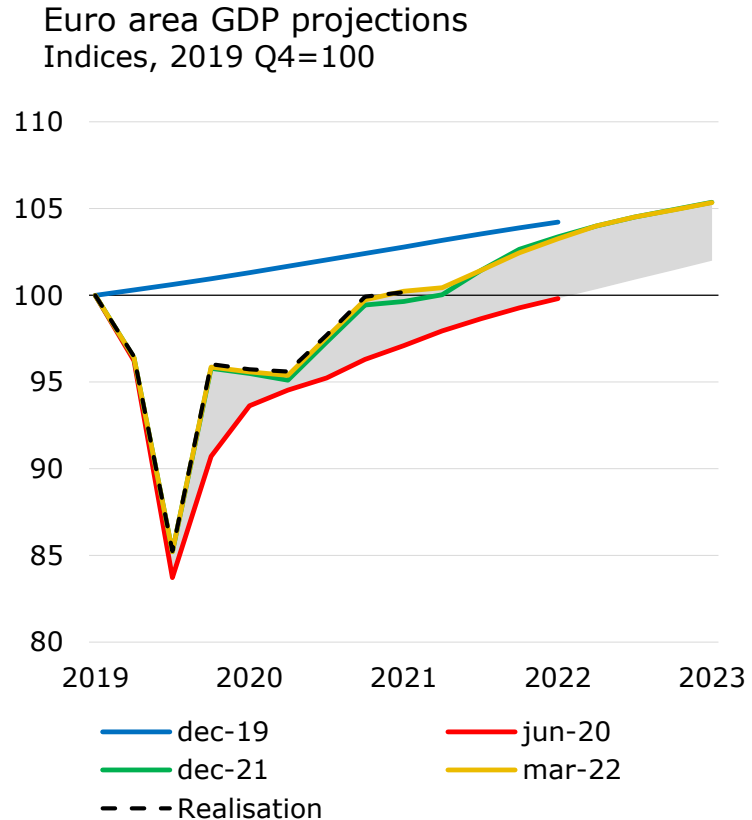
EUROSYSTEEM

# Overview

- Outlook for the economy
- Corporate finance in the pandemic
- Outlook for inflation
- Trends and recent developments in financial markets
- Central bank funding of banks
- Monetary policy going forward

# Economic outlook for the euro area

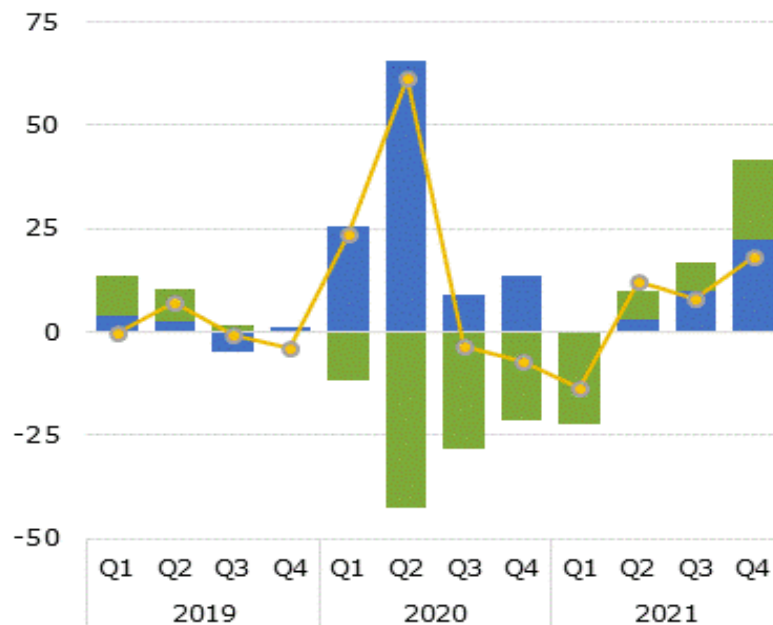
- Economy almost back on pre-pandemic growth path
- Budgetary support prevented scarring effects



# Corporate finance in the pandemic

- Financing needs reflect the initial shock of the pandemic ...
- ... and the subsequent recovery and easing of financing conditions

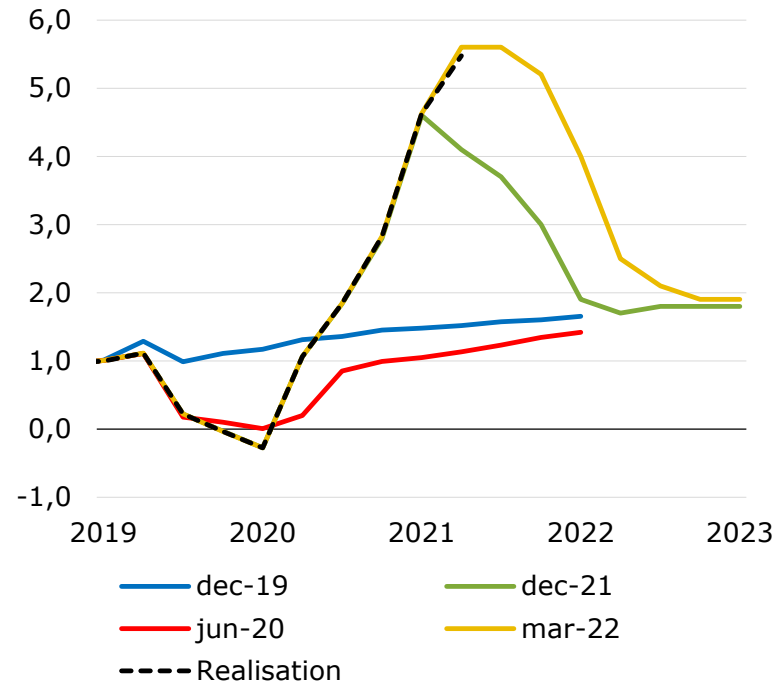
Net demand for loans to firms by purpose  
(net percentages)



# Impact of the pandemic on inflation

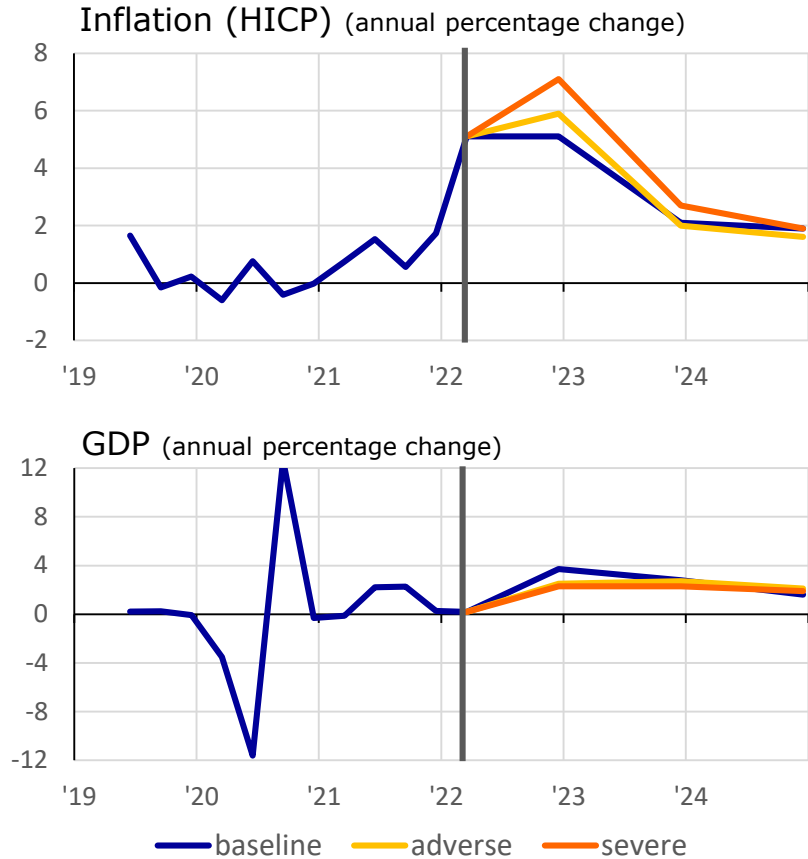
- Upward inflation effect of negative supply shocks ...
- ... has overtaken initial downward effect of negative demand shock

Euro area HICP projections  
% annual changes, quarterly average



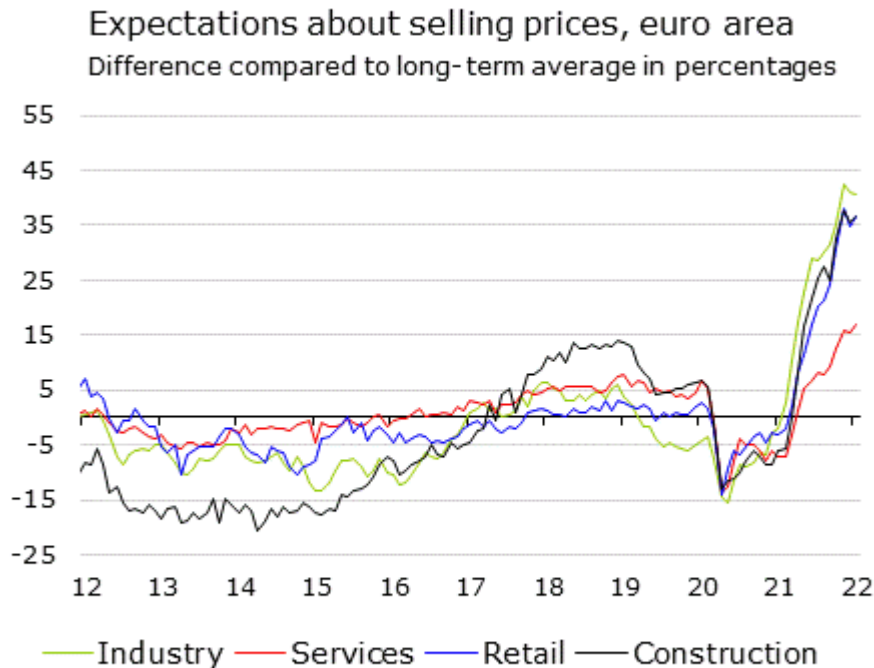
# Alternative scenarios for the euro area

- Scenarios determined by the course of the war and sanctions ...
- ... as well as the persistence of supply bottlenecks



# Pricing at the firm level

- More firms are passing on cost increases to customers ...
- ... but wage growth has remained moderate so far

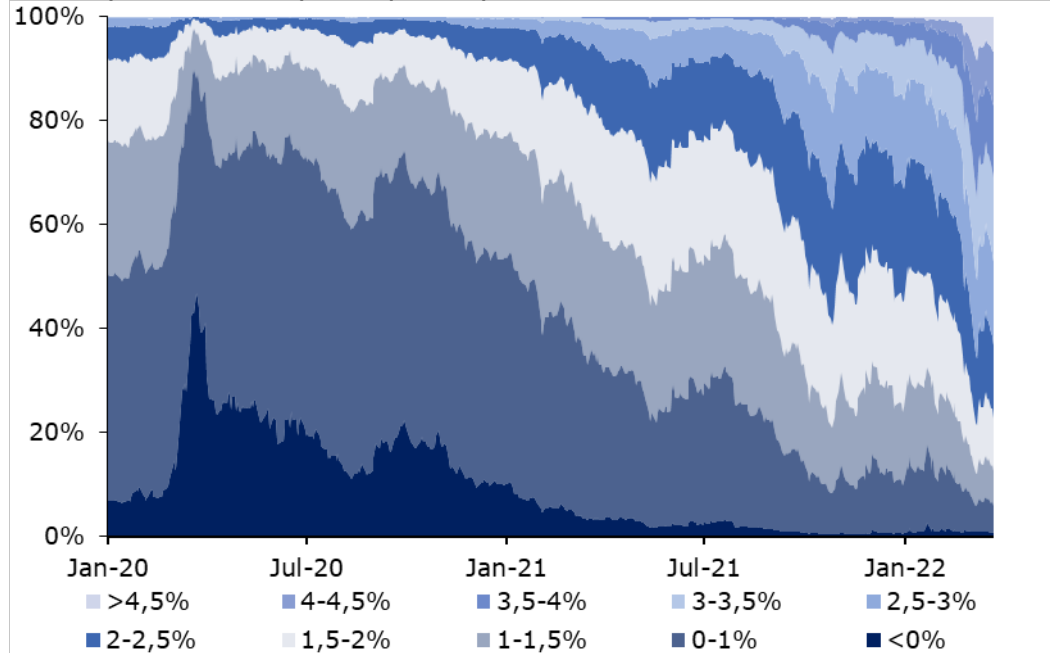


Source: Surveys European Commission: "price expectations in the months ahead".

# Distribution of inflation expectations

- Market-based inflation expectations more centered around the ECB target for inflation ...
- ... symmetric 2% inflation target over the medium term

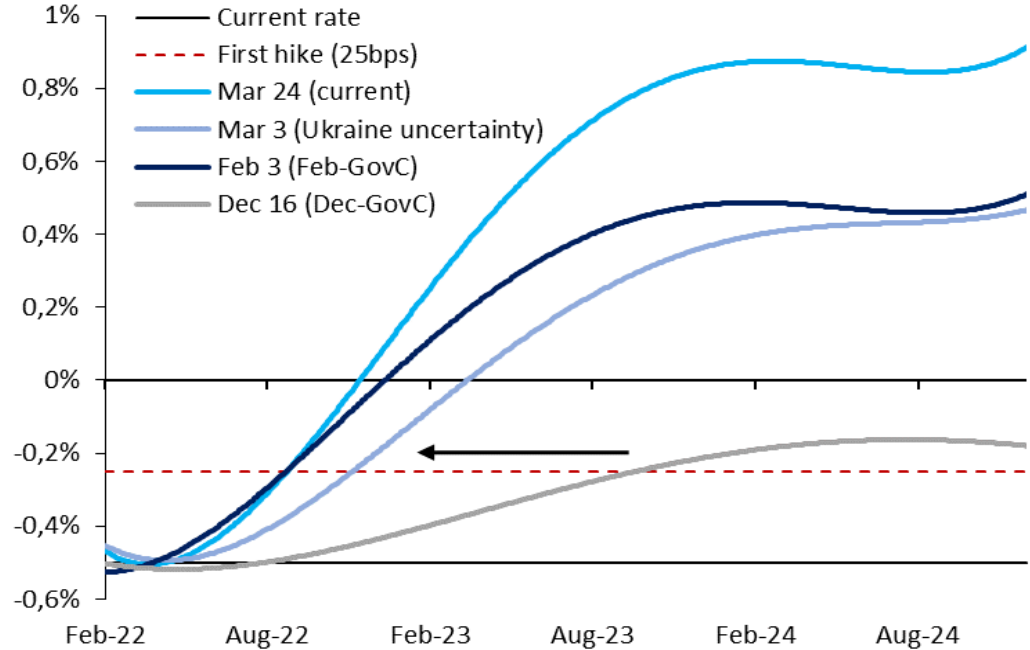
Option-implied distribution of inflation  
(based on 5-year options)





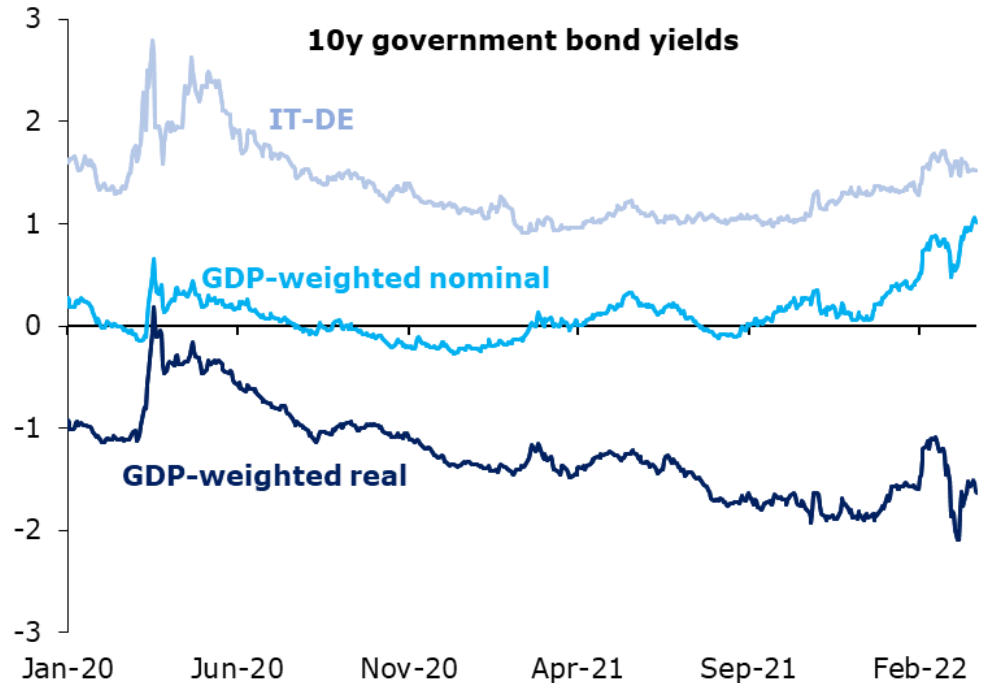
# Shift in interest rate expectations

- High inflation leads to changing market expectations about interest rate hikes ...
- ... from +25 bps expected by mid-2023, to +50 bps by the end of 2022.



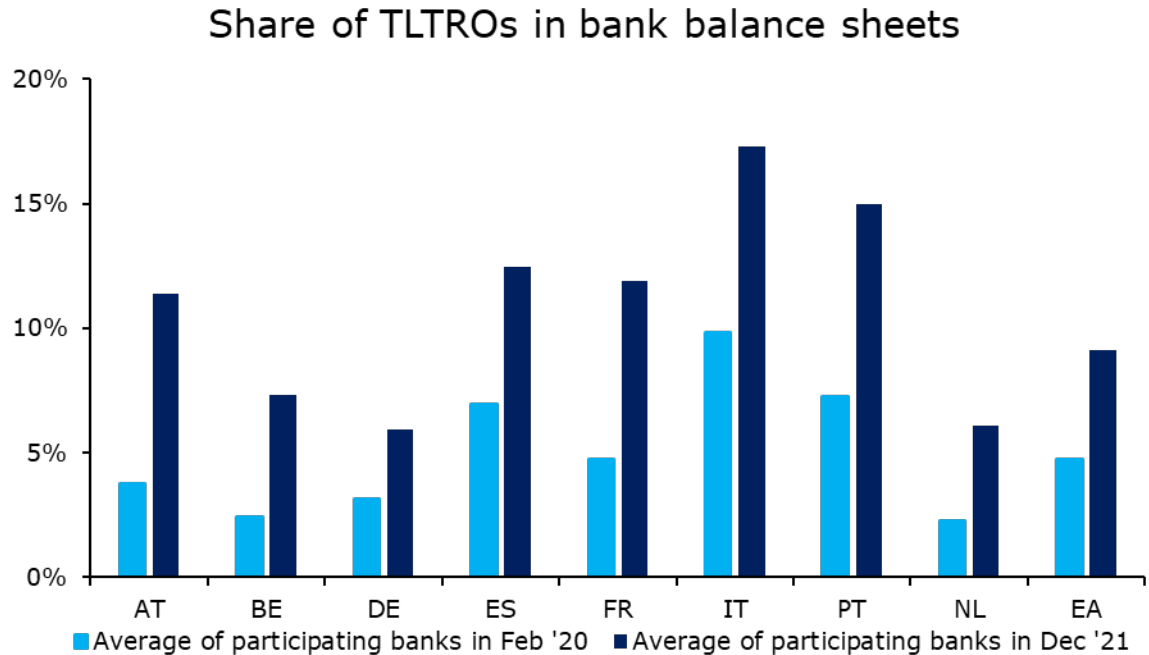
# Financial market developments

- ECB maintained favourable financing conditions
- Real bond yields fell: increased inflation expectations
- Recent increase of nominal yields: expected monetary tightening



# ECB funding of banks

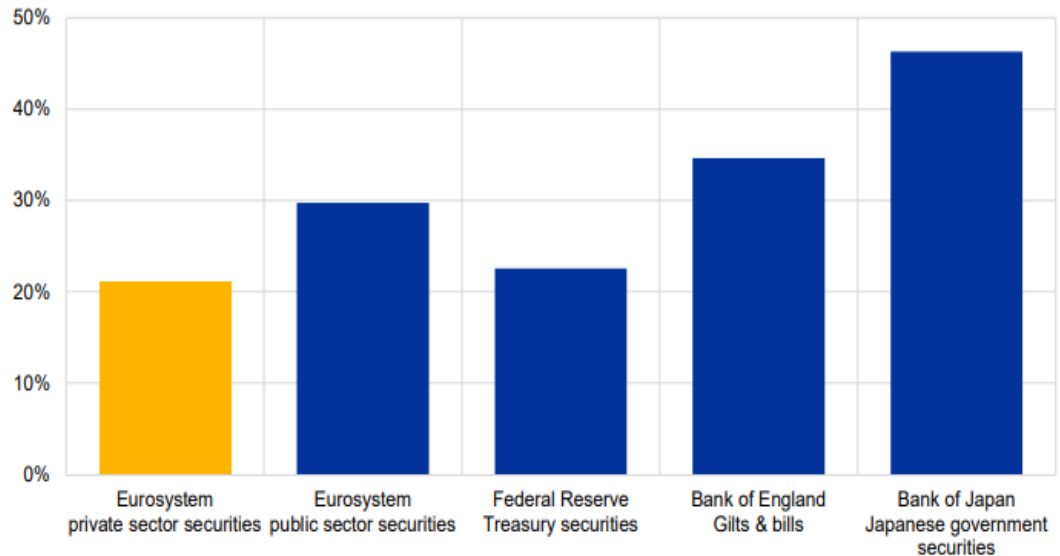
- Attractive TLTRO-III conditions provided an incentive to keep granting loans to the real economy...
- ... but high uptake of TLTROs has increased dependency on central bank funding



# Central bank footprint

- With their large footprints, central banks affect market liquidity and pricing
- Side effects are weighed up against the intended impact on inflation

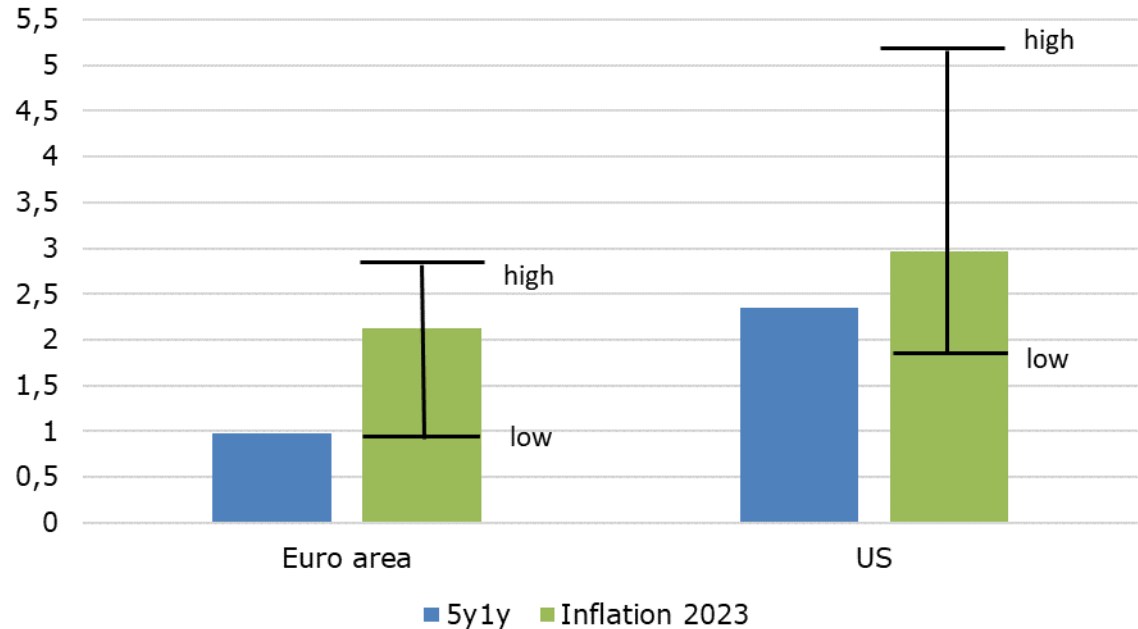
Central bank holdings of securities  
(percentages of amounts outstanding, nominal; source: ECB)



# Monetary policy going forward

- Inflation outlook calls for gradual normalisation ...
- ... while maintaining optionality, also to deal with the uncertain impact of the war

Market expectations of interest rate and inflation  
(1-year forward interest rate, 5 years ahead; inflation expectations according to Consensus Economics survey)



# Any questions?