

NBER Summer Institute 2001

The Eurosystem
Monetary Transmission Network

Progress Report

What is the “*Eurosystem*”:

- ECB + National Central Banks (NCBs)
- Joint monetary policy decisions
- Decentralised monetary policy operations

What is the “*Monetary Transmission Network (MTN)*”:

- Group of researchers from ECB+NCBs
- Common questions on monetary policy transmission
- Pool data (when possible) and knowledge

Why “*Progress Report*”:

- Work is still underway
- Conference in December 2001

Why are we here at NBER:

- Discuss our research; receive feedback on its future directions

The euro area: basic data

1. Euro area and the rest of the world

	Euro area	US	Japan	UK
Population (<i>million</i>)	292.2	272.9	126.5	58.7
Share of world GDP (%)	15.8	21.9	7.6	3.2
Composition of output (1998)				
<i>Agriculture</i>	2.6	1.6	1.8	1.2
<i>Industry</i>	28.6	27.3	36.4	27.8
<i>Services</i>	68.7	71.1	61.9	70.9
(Exports + Imports) /2	16.6	11.8	9.9	26.7
Bank assets	180.8	98.8	155.1	124.9
Corporate debt securities	7.4	31.2	18.4	11.0
Stock market capitalisation	90.1	192.9	111.5	210.2
Unemployment (<i>end-2000</i>)	8.5	4.0	4.9	5.1
Government expenditure	49.1	31.9	39.9	40.3

Unless stated otherwise: percent of GDP; year 1999

2. Euro area and some member countries

	Euro area	D	F	I	E	IRL	P	FI
Population (<i>million</i>)	292.2	82.1	59.1	57.3	39.4	3.7	10.0	5.2
Share of world GDP (%)	15.8	4.7	3.3	3.1	1.8	0.2	0.4	0.3
Composition of output (1998)								
<i>Agriculture</i>	2.6	1.2	3.1	3.0	4.2	5.4	3.9	3.7
<i>Industry</i>	28.6	30.9	25.3	29.1	29.5	41.4	33.5	32.3
<i>Services</i>	68.7	67.9	71.3	67.9	66.3	53.2	62.7	63.9
(Exp. + Imp.) /2 - Total	16.6	28.9	24.8	24.5	28.2	80.6	35.2	33.3
(Exp. + Imp.) /2 - Non-Euro area	16.6	13.0	10.5	9.4	8.1	41.6	8.8	18.1
Bank assets	180.8	194.9	180.2	122.2	144.7	270.0	223.5	85.5
Corporate debt securities	7.4	0.7	7.6	1.0	4.5	7.5	10.3	5.9
Stock market capitalisation	90.1	72.0	111.1	66.0	76.9	80.7	65.2	288.4
Unemployment (<i>end-2000</i>)	8.5	7.7	8.8	10.0	13.5	3.8	3.9	9.4
Government expenditure	49.1	49.0	55.3	50.0	40.2	33.8	43.3	52.1

Unless stated otherwise: percent of GDP; year 1999

D = Germany; F = France; I = Italy; E = Spain; IRL = Ireland; P = Portugal; FI = Finland

The European Central Bank (ECB) and its policy

- **The ECB policy is decided by a Council**
- **Council:**
18 = 6 (Board) + 12 (NCB Governors)
- **The primary goal is price stability**
- **ECB decisions are based on a publicly available “strategy” (framework for policy decisions)**
- **See: www.ecb.int**

Goals of the MTN project:

- Obtain further evidence on the total effect of monetary policy on output and prices
- Analyse channels of transmission
- Analyse sectoral/geographical (country) distribution and asymmetries

Why are we interested in the transmission channels?

- Help understand the total effects
- Help identify market rigidities, distortions and may signal the need for structural reform

Why are we interested in the role of banks?

- Banks are key to the EU financial system
- Banking policies are national
- Possible asymmetries

What we present today:

- **“The Identification and Transmission of Monetary Policy in the Euro Area”**
- **“Monetary Transmission in Euroland; the Role of Banks”**
- **The Transmission of Monetary Policy to Non-Financial Firms in the Euro Area (outline)**