THE ROLE OF MONETARY POLICY

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Outline

1. What challenges do we face as central banks?
   a) Deflationary pressures
   b) which raise the risk of an unanchoring of expectations
   c) Is our mandate still appropriate?

2. How effective is our monetary policy?
   a) We have achieved tangible results since mid-2014
   b) Why have we decided to do more on 10 March?
   c) What about the risks for financial stability?

Monetary policy cannot be the only game in town
1. Challenges: inflation remains too low in the euro area

Harmonised index of consumer prices (HICP) in the euro area

- Headline inflation, euro area (left-hand scale)
- Core inflation (excluding food and energy), euro area (left-hand scale)

Source: Bloomberg
1. Challenges: oil prices exert deflationary pressures

![Graph showing Harmonised index of consumer prices (HICP) in the euro area and oil prices](source: Bloomberg)
2. Results: easing in borrowing conditions

Interest rates on new loans to non-financial corporations in the EA

Note: 3m moving average, excluding revolving loans and overdrafts.

Source: ECB and Banque de France
2. Results: stimulation of lending to the real economy

Annual growth rate of loans to non-financial corporations in the euro area and in the United Kingdom

Source: ECB and Banque de France
2. Accommodative monetary policy stance in the euro area

10 March monetary policy decisions:

✓ Cut in interest rates;
✓ TLTRO 2: banks can borrow at favourable rates conditional on their lending to the economy;
✓ Asset purchase programme: +20 bn EUR per month (total 80 bn) and corporate bonds now eligible;
✓ Forward guidance: interest rates to remain at present or lower levels well beyond March 2017.