

# Non-standard or unconventional monetary policy

## KEY FACTS

One of the main tasks of a central bank is the conduct of monetary policy. To counter the effects of the financial crisis, from 2008 onwards central banks began to implement exceptional measures that went beyond the traditional tools of “standard” or “conventional” monetary policy. After already cutting key interest rates to very low levels, they devised **new methods aimed at improving financing conditions in the real economy**:

- When central banks expand their scope of intervention but continue to function within the same operational framework, this is known as “qualitative easing”. Central banks lend money to a larger number of commercial banks and at longer maturities, and in return accept new types of collateral as a guarantee.
- If the economy still requires more stimulus, central banks adapt their methods and implement “quantitative easing”. This consists in buying vast quantities of securities in the financial markets.

Some central banks have introduced negative interest rates, effectively charging banks to keep their money on deposit, with the aim of encouraging them to lend more to the economy. To boost the impact of their decisions, policy-makers have also adopted a new communications strategy – known as forward guidance – which consists in signalling the direction of future monetary policy decisions in advance (see “Understanding non-standard monetary policy”).

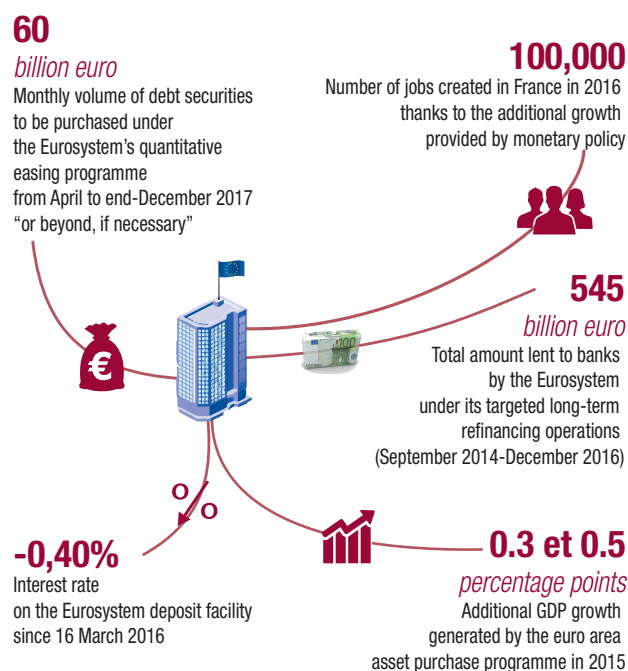
Non-standard monetary policy measures can take various forms, depending on the priorities set by the central banks (stabilisation of financial markets, stimulation of lending, prevention of deflation), and the particular characteristics of the financial system (whether the real economy is financed principally via financial markets or by commercial banks).

In the euro area, non-standard monetary policy measures have helped to keep markets liquid and have ensured that governments, companies and households continue to have access to financing. They have also reduced disparities in borrowing costs between euro area governments, and restored confidence by **signalling that monetary authorities will do whatever it takes to maintain the integrity of the euro** and secure its future.

## A BRIEF HISTORY

- **15 September 2008**: bankruptcy of the US investment bank Lehman Brothers.
- **8 October 2008**: decision by the European Central Bank's (ECB) Governing Council to provide banks with unlimited access to liquidity at a fixed rate of interest (the only limit being the amount of eligible collateral they can provide).
- **November 2008**: decision by the US Federal Reserve (Fed) to launch its first asset purchase programme.
- **April–May 2010**: start of the Greek debt crisis. The Eurosystem responds by launching a programme to purchase bonds issued by euro area governments (Securities Markets Programme).
- **July–August 2012**: the Governor of the ECB, Mario Draghi, declares that the Eurosystem is ready to do “whatever it takes” to “save the euro”. The announcement of an unlimited programme to purchase government debt securities (Outright Monetary Transactions – OMTs) proves sufficient to restore confidence in financial markets.
- **June 2014**: decision by the Eurosystem to apply a negative rate to the central bank deposit facility, and to launch targeted long-term refinancing operations (TLTROs).
- **January 2015**: the Eurosystem extends its quantitative easing programme to include bonds issued by euro area governments and agencies and European institutions (see “Understanding non-standard monetary policy”).
- **March 2016**: the ECB lowers its main refinancing rate to 0% and the rate on its deposit facility to -0.40%. It also announces a new series of targeted long-term refinancing operations (TLTRO II) and expands its quantitative easing programme to include purchases of corporate bonds.

## KEY FIGURES



## UNDERSTANDING NON-STANDARD MONETARY POLICY

### What is quantitative easing or QE?

Quantitative easing (QE) is a form of non-standard monetary policy where **central banks intervene massively and over a prolonged period in financial markets by buying large quantities of assets from the banks.**

The European programme of quantitative easing was first launched by the ECB Governing Council at the end of 2014 and has since been expanded and amended a number of times. In its current form, it consists in purchasing **EUR 80 billion of financial assets in the market each month** up to the end of March 2017, then EUR 60 billion per month between April and the end of December 2017, or beyond if necessary.

The assets mainly comprise **bonds issued by the governments of euro area Member States.** They are purchased in the secondary market and not in the primary market (i.e. at issuance), as this would be in breach of the European treaties banning the direct financing of governments by central banks.

By purchasing huge quantities of assets from banks, central banks reassure the markets and provide them with liquidity at a very low cost. They thus safeguard financial stability and restore confidence in the euro, and indirectly help to counter the slowdown in economic growth.

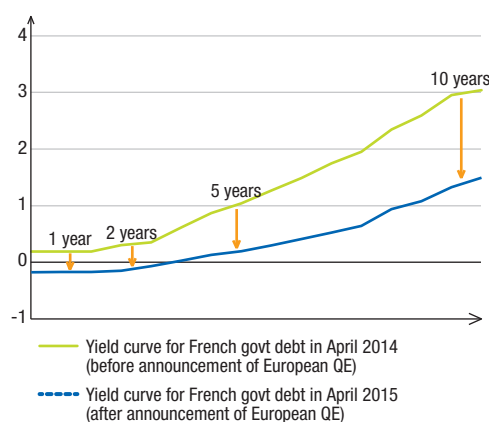
Central banks alone cannot bring about a complete recovery in the economy, but they can help to

stimulate growth through the transmission of their monetary policy. Non-standard measures affect the economy in a number of ways:

- Direct effects via a **fall in the cost of borrowing.** The increased demand for securities pushes up their prices and places downwards pressure on interest rates. This in turn **stimulates lending** to businesses and households and **reduces the threat of deflation.**
- **Portfolio effects for banks.** Banks shift their investments towards more profitable assets (for example, bonds issued by certain euro area governments) and finance the **real economy** (for example, by lending to businesses). This is a financial accelerator.
- **Signalling effects.** This is where policy measures impact the economy even before they are implemented, merely by being announced (see “Forward guidance”).
- Lastly, an indirect result, even if it is not one of the initial objectives, **is the effect on the exchange rate.** A fall in interest rates can push down the value of the currency, which in turn helps to drive up exports.

According to ECB estimates, over the period 2015-2017, European QE should boost euro area inflation by around 1 percentage point and have a similar impact on growth.

Change in the French government yield curve following the announcement of European QE (in %)



Following the announcement of the European QE programme in January 2015, and its implementation as of March that year, the interest rate paid by the French government to borrow over a period of 10 years fell to 0.65% in April 2015, compared with 1.95% in April 2014.

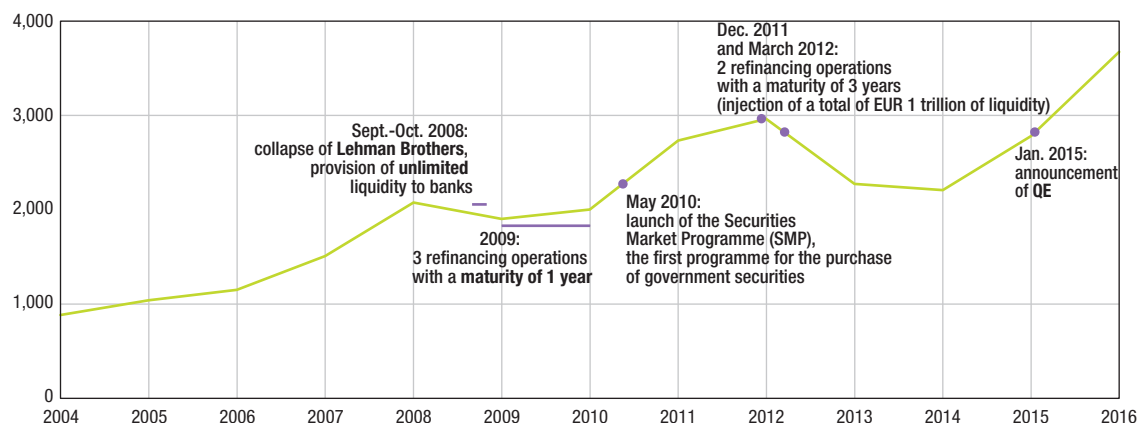
Source: Agence France Trésor (AFT), Banque de France.

### How does forward guidance increase the efficiency of monetary policy?

Forward guidance is a method of communication employed by various central banks which consists in providing indications as to the **future path of key interest rates.** This “signalling of intentions” breaks with the tradition of central bank secrecy, especially in the case of the ECB which for a long time preferred to remain unpredictable. Since 2012-2013, forward guidance has been successively adopted by the central banks of the United States, the United Kingdom and the euro area. By announcing the future direction of monetary policy, central banks provide economic agents with greater visibility and a more stable outlook on which to base their projects. Forward guidance thus helps to increase the effectiveness of monetary policy.

## Change in the size of the Eurosystem's total balance sheet as a result of the main monetary policy measures implemented since 2004

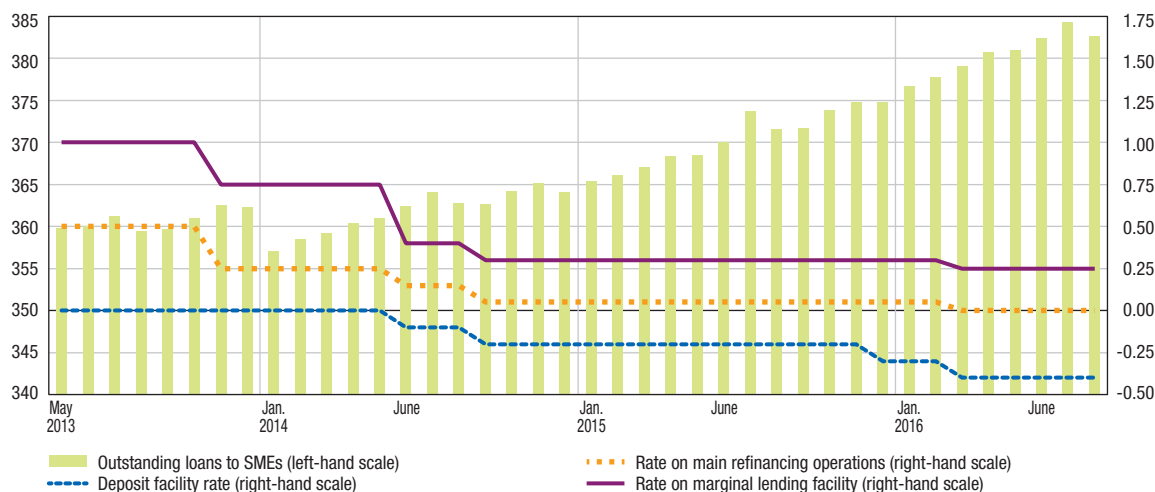
(in EUR billions)



Source: Banque de France (data as at 31 December for each year).

## Amount loaned to SMEs in France, and euro area key rates

(lending in EUR billion; rates in %)



Source: Banque de France, European Central Bank (ECB).

## TO LEARN MORE

### Suggested reading

- [The ECB monetary policy since 2014 and its positive impact on inflation](#), Banque de France Eco Notepad, by Magali Marx, Benoit Nguyen and Jean-Guillaume Sahuc
- [Monetary policy measures in the euro area and their effects, since 2014](#), Banque de France Quarterly Selection of Articles No. 42, Summer 2016
- [Standard monetary policy in the euro area](#), L'éco en bref, Banque de France
- [Non-standard monetary policy measures](#), ECB website
- [What is the expanded asset purchase programme?](#) ECB website

### Suggested viewing

- [Unconventional monetary policy](#), Citéco
- [What is quantitative easing?](#) Bank of England

### Liens utiles

- Banque de France Annual Reports
- ECB Annual Report