Grégory Claeys (gregory.claeys@bruegel.org), Research Fellow, Bruegel

Maria Demertzis (maria.demertzis@bruegel.org), Deputy Director, Bruegel

Jan Mazza (jan.mazza@bruegel.org), Research Assistant, Bruegel

1 Introduction

[illegible]

[illegible]

[illegible] (HICP) [illegible] ECB [illegible]

2. [illegible]
3. [illegible] (TLTRO) [illegible]

2 Challenges for monetary policy in the euro area

2.1 A potential decline of neutral interest rates

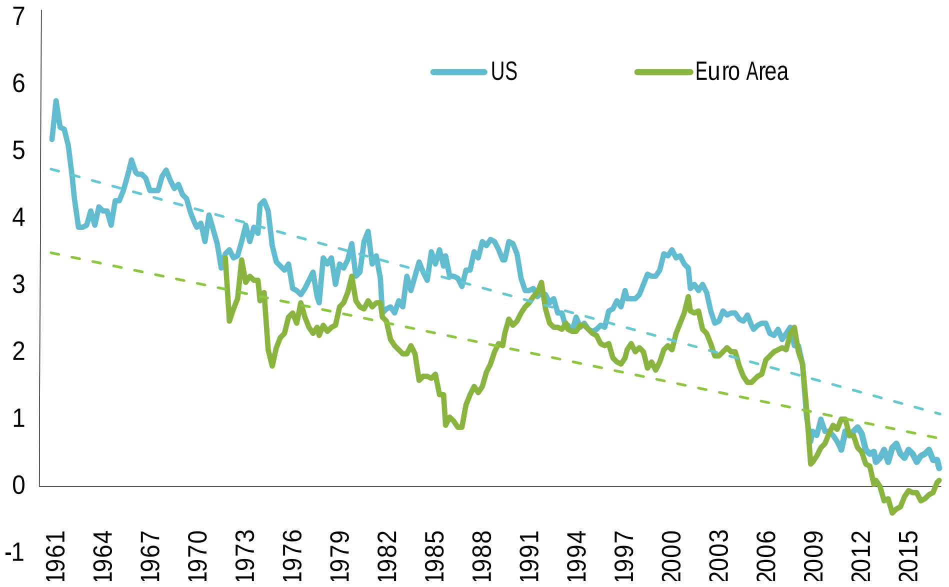
[illegible] 1980 ([illegible], 2016). [illegible] 1980 [illegible] 1990 [illegible] 2000 [illegible]

[illegible] 15 [illegible]

[illegible]

[illegible]

Figure 1: Estimates of the neutral interest rate for the US and the euro area, in percent



Source: Bruegel based on Holston *et al* (2016).

[illegible]

[illegible]

Table 1: Average movements in policy rates during recessions in Germany, UK, US

Country	Time period	Average policy rate (%, peak)	Average policy rate (%, trough)	Average policy rate change (%)
Germany	1960-2018	5.0	2.4	-2.6
United Kingdom	1955-2018	8.7	5.8	-2.9
United States	1953-2018	8.5	3.8	-4.7

Source: Bruegel based on Deutsche Bundesbank, Bank of England, Fred, NBER, Bloomberg, OECD Composite Leading Indicators.

2.2 A potential flattening of the Phillips Curve

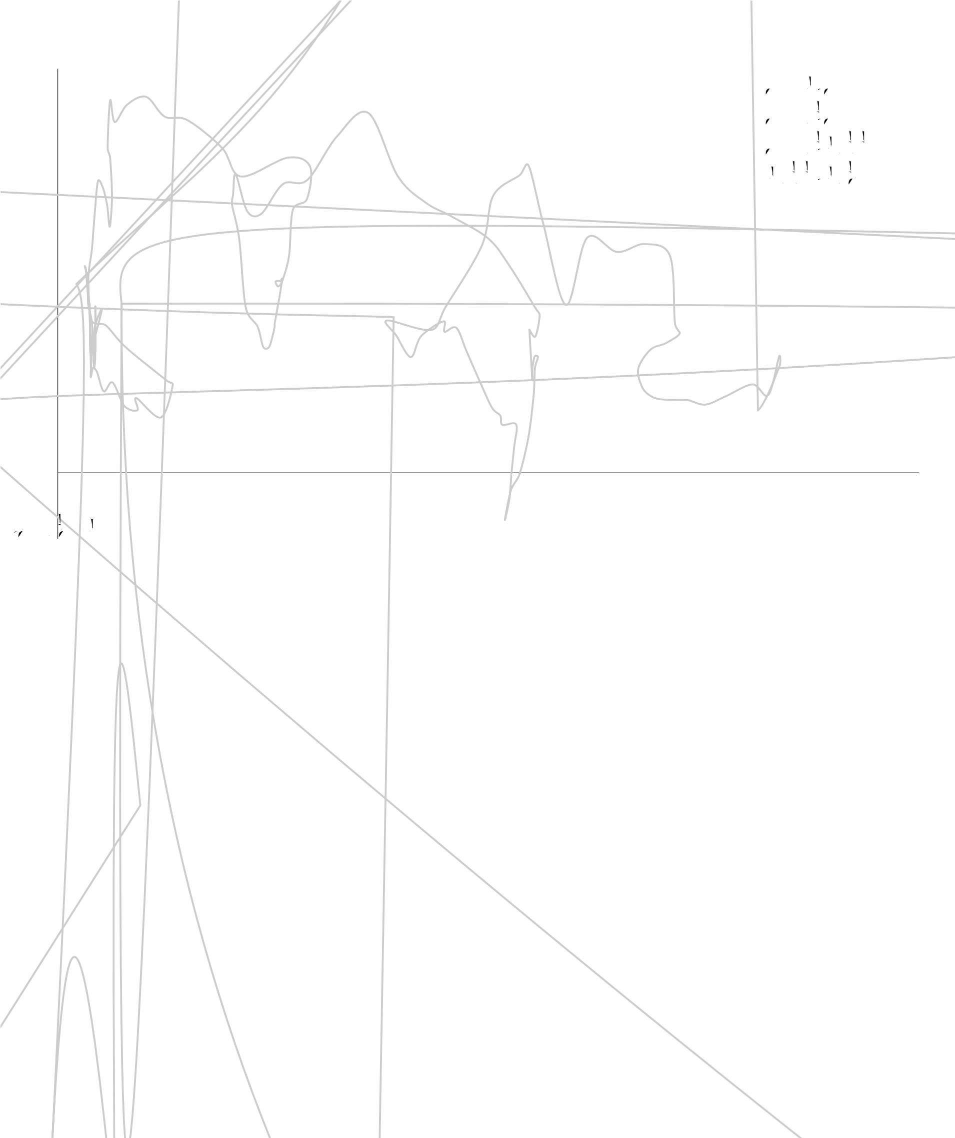
[illegible]

[illegible]

[illegible]

[illegible]

Figure 2: Phillips Curves (x-axis quarterly unemployment in percent, y-axis year-on-year quarterly inflation in percent)



Source: Bruegel based on OECD.

2.3 The interaction between price stability and financial stability

[illegible] (B[illegible], 2004; Ra[illegible], 2006) [illegible] (2018), [illegible]

[illegible]

[illegible] A [illegible] EU [illegible] E [illegible] C [illegible] (ESCB, [illegible] ECB [illegible])[1], [illegible] ESCB [illegible][2] [illegible][3].

[illegible] (S [illegible]

[illegible]

[illegible]

[illegible]

2.5 A challenging European institutional framework

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] ESM/OMT [illegible] 2017). [illegible] ECB [illegible] 19 [illegible] ESRB [illegible]

[illegible] EMU [illegible]

3 Adapting the ECB’s framework to face these challenges

3.1 The current framework

[illegible] ECB, [illegible] 127.1 [illegible] (TFEU), [illegible] ECB [illegible] 1998 [illegible] (HICP) [illegible] 2003, [illegible]

[illegible] ECB’ [illegible] EONIA) [illegible]

[illegible]

[illegible] 2008, ECB [illegible] -0.4 [illegible] ECB [illegible] 2013, ECB [illegible] ECB [illegible] 2015 [illegible]

[illegible]

[illegible]

4 What is the possible evolution of the ECB's monetary framework?

4.1 Adjusting the definition of price stability to increase flexibility

[illegible] ECB' [illegible] ECB G[illegible] C[illegible] (2003).

[illegible] ECB [illegible] : 1) [illegible] ; 2) [illegible]); 3) [illegible] , 4) [illegible] ; [illegible] 5) [illegible]

[illegible] 18 [illegible] EMC [illegible]

[illegible]

4.2 What should the ECB do if price stability and financial stability diverge?

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

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[illegible] (2016) [illegible] 21 [illegible] 2016/ 160921a.

[illegible] (2010) [illegible] 2010: 267-328

[illegible] (2018) [illegible]

M [illegible], S a (2015) 'S a [illegible] U: a a , a [illegible] a U , a [illegible] a - [illegible] a U [illegible] a a', *W P* 2015/14, B [illegible]

N [illegible], B [illegible], Gab [illegible] P [illegible] a [illegible] K [illegible] a [illegible] (2015) 'D [illegible] a [illegible] a U [illegible] a U U [illegible] a [illegible] a ba [illegible] ?' *B E W P* 521, Ba [illegible] E [illegible] a [illegible]

N [illegible], Ma [illegible] a [illegible], a [illegible] Da V [illegible] (2005) 'AU