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978-1-107-40380-2 - Monetary Policy Transmission in the Euro Area: A Study by the Eurosystem

Monetary Transmission Network

Edited by Ignazio Angeloni, Anil K Kashyap and Benoît Mojon

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Monetary Policy Transmission in the Euro Area

Proper conduct of monetary policy requires understanding the monetary transmission mechanism, to monitor the economy, make decisions on the stance of policy and explain the policy actions to the public. An urgent task now for the European Central Bank is to gather and analyze evidence on the euro-zone. This book presents the results of the first ever research project on the monetary transmission mechanism in the euro area. The findings are drawn from a multi-year collaborative project by the European Central Bank and the other Eurosystem central banks. The Monetary Transmission Network research team analyzed both macro- and micro-economic data for the area as a whole and for individual countries. The results described in country case studies and overview essays by central bank economists, along with a discussion chapter by eminent academics, provide an essential contribution to the latest research.

Ignazio Angeloni is Deputy Director General for Research at the European Central Bank. He is the co-author of *Monetary Policy in the Euro Area: Strategy and Decision-Making at the European Central Bank* (with Vitor Gaspar, Otmar Issing and Oreste Tristani: Cambridge University Press, 2001)

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*A Study by the Eurosystem Monetary
Transmission Network*

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Foreword

This book presents to the community of central bankers and academics, and to the public at large, the results of the research project undertaken by the Eurosystem Monetary Transmission Network (MTN) on the transmission of monetary policy in the euro area. This is the first comprehensive research project completed jointly by the European Central Bank (ECB) and by the euro area National Central Banks (NCBs) after the introduction, in 1999, of the new single European currency, the euro.

The choice of monetary policy transmission as the topic for this study was a logical and almost a necessary one. The transmission process is a central issue for every central banker. It figures prominently in the preparation, decision-making and communication of monetary policy. Good analysis is needed to get information on the transmission mechanism and to make it systematic and soundly based on economic theory and data evidence. This task was assigned, shortly after the onset of the single European monetary policy, to the Monetary Transmission Network, a team of Eurosystem economists with the proper mix of expertise. Their work lasted some two years. Preliminary results of this research were presented, even before its completion, to a number of academic and policy-making audiences on both sides of the Atlantic. Disseminating in-house research, particularly when the topic is of such policy relevance, is an integral part of central bank communication. This book is part of this communication effort.

Monetary transmission is a difficult subject, for a variety of reasons. It is broad, covering economics almost in its entirety. It crucially hinges on unobservable factors, most notably market expectations. It is even more difficult in this case because the focus is the euro area, a new entity, partly unexplored and not yet richly endowed with statistical information. All this considered, the task assigned to the Monetary Transmission Network was a very challenging one; I am glad to see that the group was able to deliver such impressive results in a relatively short period of time. The experience of the Monetary Transmission Network sets an excellent

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example of productive cooperation among research staff in a system of central banks.

The success of this effort is owed first to its participants, whose names appear in the introduction of the book and in the individual chapters. All of them contributed with competence and dedication. The Eurosystem research areas – and the Group of Heads of Research, chaired by Vítor Gaspar – contributed with their support and by securing the necessary resources. Finally, a special mention should go to Ignazio Angeloni, who directed the project, Anil Kashyap, who provided relentless stimulus and guidance, and Benoît Mojon, who directed the Network Secretariat. The success of this project owes much to their commitment and determination.

Otmar Issing
ECB Chief Economist and Member of the Executive Board
Frankfurt am Main, November 2002

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Any errors should be attributed to us, first and foremost, and to the other authors of this book.

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Abbreviations

AT	Austria
AWM	Area-wide model of the euro area, developed and used by the ECB
BE	Belgium
BIS	Bank for International Settlements
CPI	Consumer price index
DE	Germany
ECB	European Central Bank
EMS	European Monetary System
EMU	Economic and monetary unification of Europe
ES	Spain
FI	Finland
FR	France
FRB	Board of Governors of the Federal Reserve System
FRB-US	Quarterly econometric model of the US economy, developed and used by the FRB
GDP	Gross domestic product
GR	Greece
IC	Investment contribution to the GDP (or aggregate domestic demand) effect of a monetary policy shock
IE	Ireland
IRC	Interest rate channel of monetary policy
IT	Italy
LU	Luxembourg
MTN	(Eurosystem) Monetary transmission network
NCBs	National Central Banks. Together with the ECB, the NCBs of the euro area form the Eurosystem
NIGEM	National institute global econometric model, developed by the National Institute for Economic and Social Research
NL	Netherlands
PT	Portugal
VAR(s)	Vector auto-regressive model(s)
WGEM	Working Group on Econometric Modelling