

## The euro area: in the hands of the ECB?

The most recent figures for economic activity in the euro area are surprisingly good after several quarters in which pessimism had prevailed among analysts. Some observers attribute this incipient change in trend to the new stance taken by monetary policy, with the start of quantitative easing (QE) at the beginning of March. However, this positive trend began last autumn and can only be indirectly attributed to factors of a monetary nature. Economic agents may have expected the ECB to carry out something significant but this was highly uncertain for a long time.

The euro area's economic improvement is due, firstly, to considerable changes in the price of oil and the euro. The price of oil (in euros) has fallen by almost 35% since mid-2014 while the euro has depreciated by 6.5% compared with a representative basket of currencies. Expectations regarding the euro area's monetary policy will have certainly played an indirect role in this last case but other factors that also lie behind the recovery are related to decisions taken in other areas of economic policy: structural reforms that are producing results in some member countries (including Spain), institutional reforms at the level of the euro area itself (banking union, successful bank reviews) and a stance taken by fiscal policy that, for the countries as a whole, has gone from contractionary to neutral, for the moment not supporting the expansion of aggregate demand but not holding it back either.

In this edition of the *Monthly Report* the Dossier is devoted to an in-depth examination of the nature and effectiveness of quantitative easing (QE) policies with particular focus on the euro area, given its overwhelming importance in public discussion. By way of a summary, we should note four broad issues regarding this policy in the European case.

Firstly, QE is already a success thanks to its mere existence, insofar as it proves that the ECB (the only truly federal and executive power in the EU) has enough political and administrative autonomy to take bold decisions, even when these place the institution on shaky ground. Given the incorrect institutional design of the Economic and Monetary Union, it is vital for the ECB to have and use broad powers to ensure the EMU remains complete and in place.

Secondly, QE was and is a necessary response to the macroeconomic context insofar as the rest of the world's large central banks had already embarked on similar policies. The ECB had not employed this tool, condemning the euro area to a comparatively restrictive monetary policy with unwelcome side effects such as the euro's appreciation.

Thirdly, highly accommodative monetary policy alone is not enough on its own. As Mario Draghi has repeated on several occasions, it needs to be accompanied by a more accommodative fiscal policy in those countries with healthy public accounts and, most particularly, by structural reforms; in other words, by actions that strengthen supply in the economy.

Fourthly, the Dossier reminds us that the ECB's QE is one more step by the main central banks on an uncertain path that raises huge questions for the global monetary order. It is a policy that places some central banks from small countries in a very uncomfortable position. And, more importantly, it is a policy that may be logical from the point of view of each large central bank, given the actions taken by the rest of the monetary authorities, but it is not necessarily the right policy from a collective point of view as it implies that the main countries on the planet continue to prolong the upward spiralling debt in their economies.

**Jordi Gual**  
Chief Economist  
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