

Opening remarks

ECB Workshop

*“Markets for inflation protection: recent developments,
modelling tools and policy implications”*

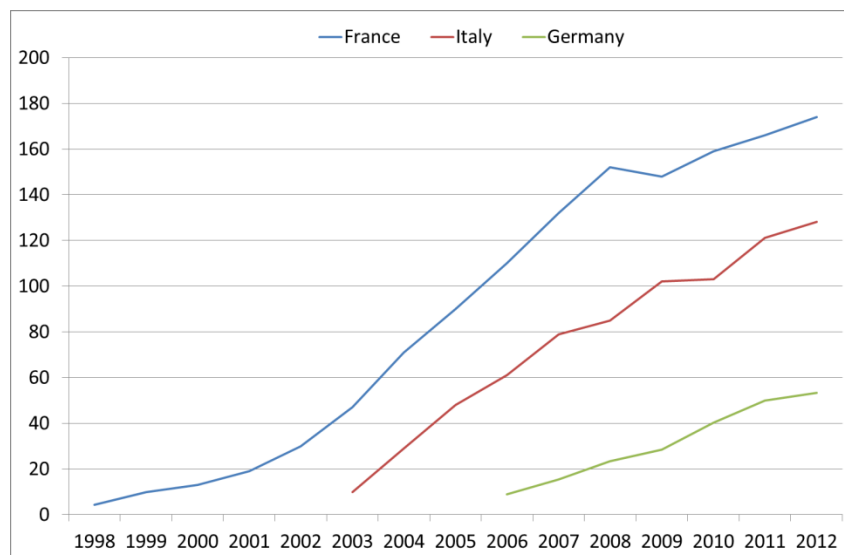
30 August 2012

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Size of the inflation-linked bond market in the euro area

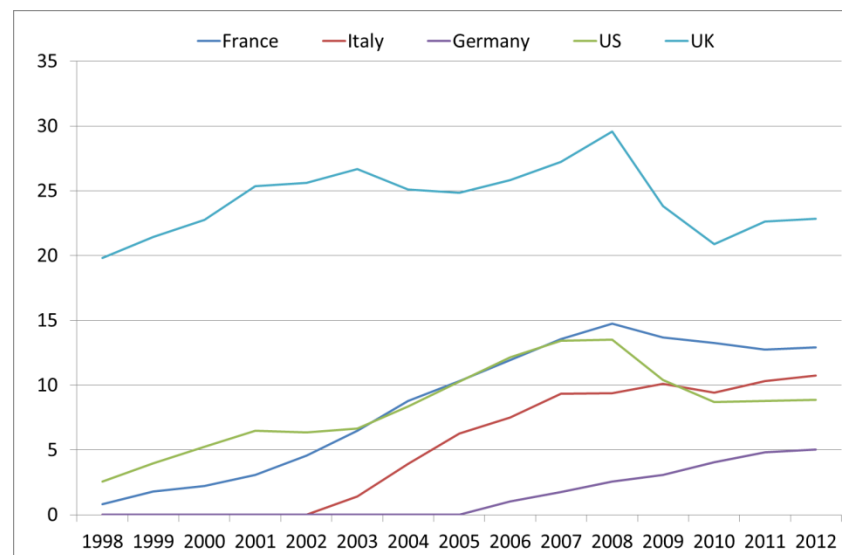
Outstanding inflation-linked bonds (EUR billion)



Sources: Debt management offices of Germany, France, Italy, UK and US and OECD central-government debt statistics and ECB calculations.

Note: Including inflation uplifting. 2012 refers to end of May except for Germany (end of April).

Inflation-linked debt as a share of total long-term debt (%)



Sources: Debt management offices of Germany, France, Italy, UK and US and OECD central-government debt statistics and ECB calculations.

Note: Including inflation uplifting. 2012 refers to end of May except for Germany (end of April) and UK (end of March).

Relevant markets for inflation protection

- **Inflation-linked bonds:**

national CPIs, euro area HICP

- **Inflation swaps:**

increasing liquidity, less volatile signals

- **Inflation options:**

*developing market, still segmented,
signals about probabilities of inflation outcomes*

Use of signals extracted from markets for inflation protection

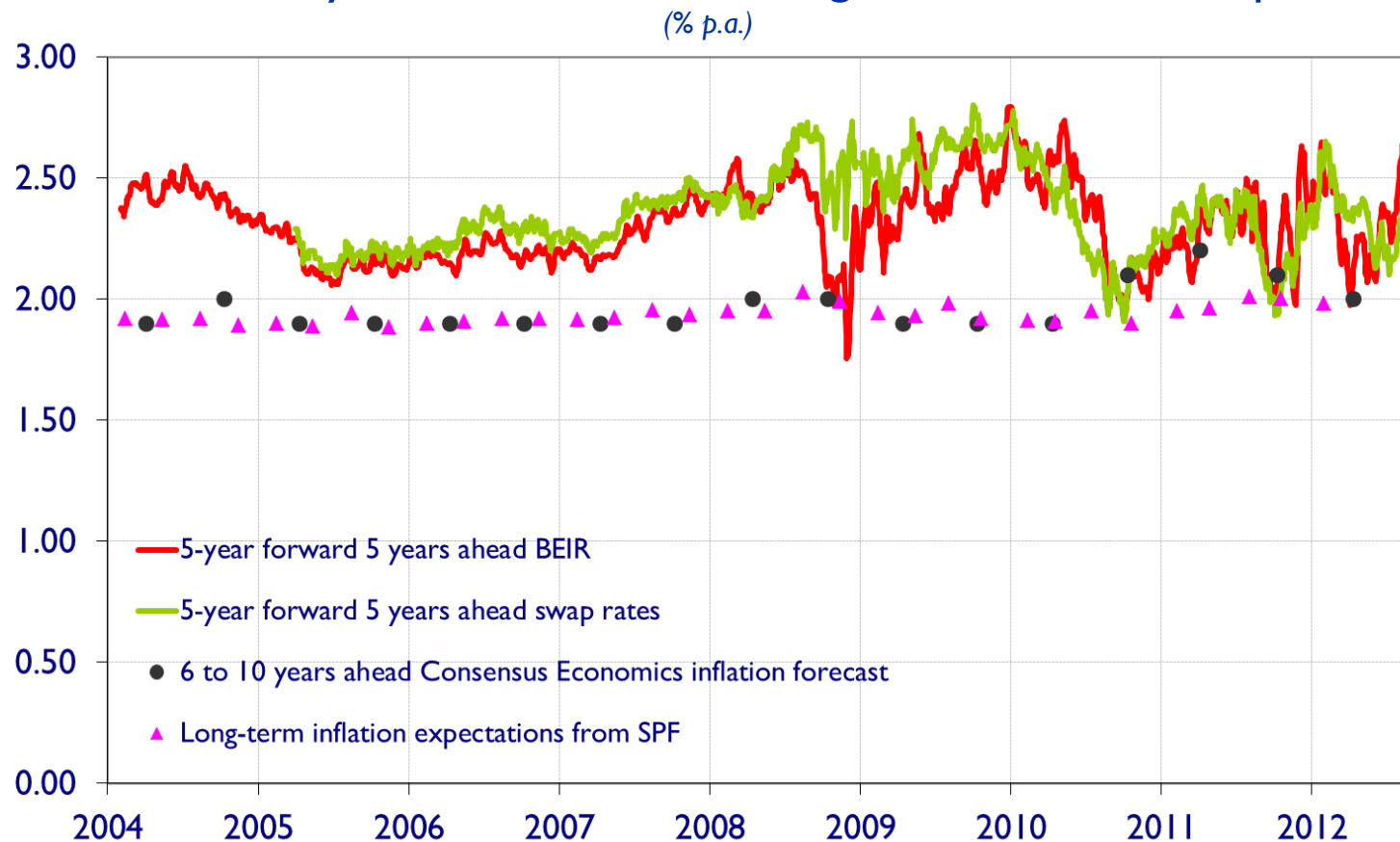
- Survey-based information (low frequency)
- Market-based information (high frequency)



Volatility: partly noise, partly information on inflation risk premia

Signals from markets for inflation protection – anchoring

Market- and survey-based measures of longer-term inflation expectations



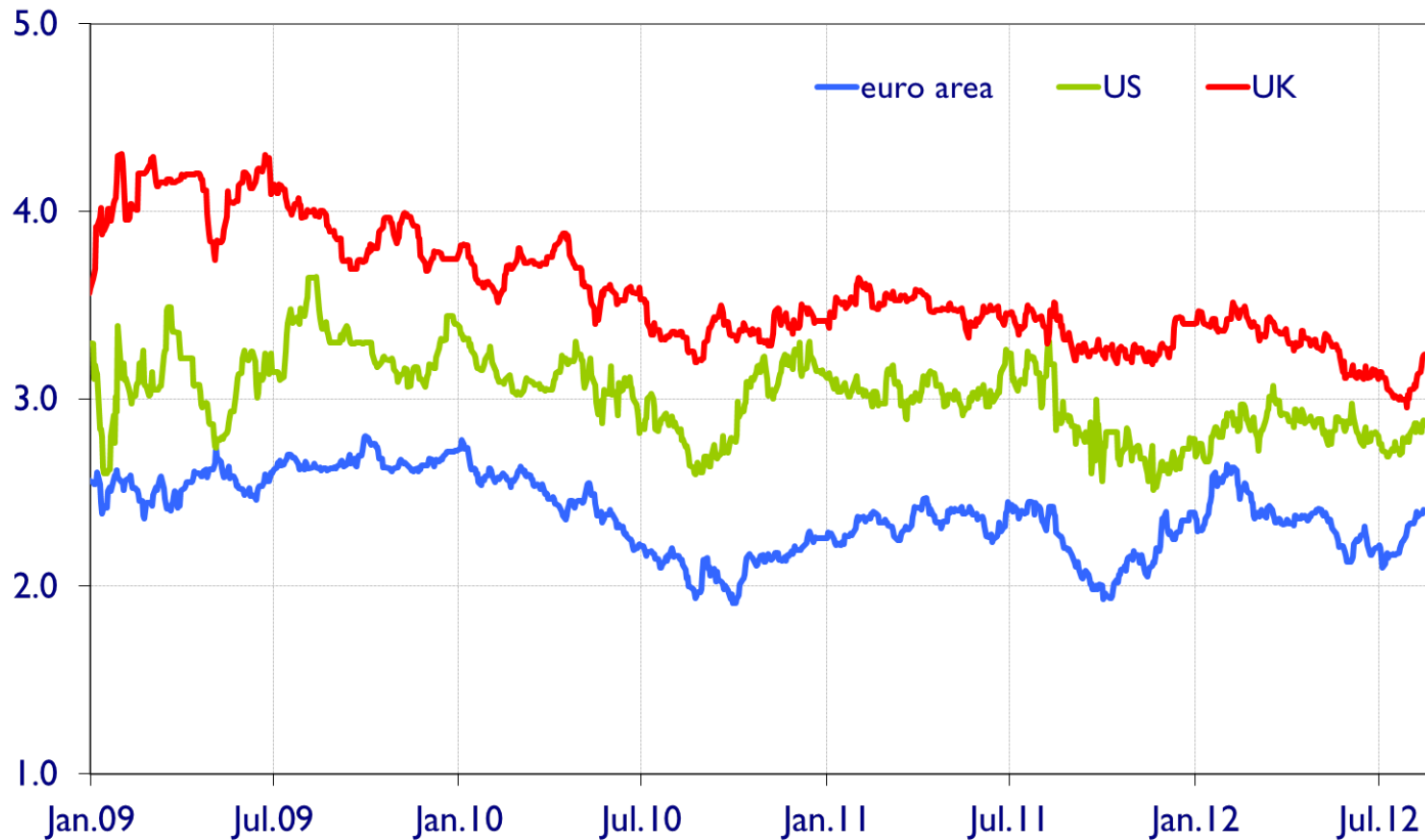
Sources: Reuters, ECB, Consensus.

Latest observation: 27 August 2012.

Note: Market rates are seasonally adjusted.

Signals from markets for inflation protection – international comparison

Five-year forward five year ahead inflation swap rates
(% p.a.)



Sources: Reuters, ICAP.

Latest observation: 28 August 2012.

Challenges for central banks in using information from inflation markets

- Volatility and liquidity effects
- Country-specific premia
- Maturity of markets for inflation options