

Combined monetary policy decisions and statement

14 April 2022

Monetary policy decisions

Russia's aggression in Ukraine is causing enormous suffering. It is also affecting the economy, in Europe and beyond. The conflict and the associated uncertainty are weighing heavily on the confidence of businesses and consumers. Trade disruptions are leading to new shortages of materials and inputs. Surging energy and commodity prices are reducing demand and holding back production. How the economy develops will crucially depend on how the conflict evolves, on the impact of current sanctions and on possible further measures. At the same time, economic activity is still being supported by the reopening of the economy after the crisis phase of the pandemic. Inflation has increased significantly and will remain high over the coming months, mainly because of the sharp rise in energy costs. Inflation pressures have intensified across many sectors.

At today's meeting the Governing Council judged that the incoming data since its last meeting reinforce its expectation that net asset purchases under its asset purchase programme should be concluded in the third quarter. Looking ahead, the ECB's monetary policy will depend on the incoming data and the Governing Council's evolving assessment of the outlook. In the current conditions of high uncertainty, the Governing Council will maintain optionality, gradualism and flexibility in the conduct of monetary policy. The Governing Council will take whatever action is needed to fulfil the ECB's mandate to pursue price stability and to contribute to safeguarding financial stability.

Asset purchase programme (APP)

Monthly net purchases under the APP will amount to €40 billion in April, €30 billion in May and €20 billion in June. At today's meeting the Governing Council judged that the incoming data since its last meeting reinforce its expectation that net asset purchases under the APP should be concluded in the third quarter. The calibration of net purchases for the third quarter will be data-dependent and reflect the Governing Council's evolving assessment of the outlook.

European Central Bank

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The Governing Council also intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates and, in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Key ECB interest rates

The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively.

Any adjustments to the key ECB interest rates will take place some time after the end of the Governing Council's net purchases under the APP and will be gradual. The path for the key ECB interest rates will continue to be determined by the Governing Council's forward guidance and by its strategic commitment to stabilise inflation at 2% over the medium term. Accordingly, the Governing Council expects the key ECB interest rates to remain at their present levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term.

Pandemic emergency purchase programme (PEPP)

The Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

In the event of renewed market fragmentation related to the pandemic, PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time. This could include purchasing bonds issued by the Hellenic Republic over and above rollovers of redemptions in order to avoid an interruption of purchases in that jurisdiction, which could impair the transmission of monetary policy to the Greek economy while it is still recovering from the fallout from the pandemic. Net purchases under the PEPP could also be resumed, if necessary, to counter negative shocks related to the pandemic.

Refinancing operations

The Governing Council will continue to monitor bank funding conditions and ensure that the maturing of operations under the third series of targeted longer-term refinancing operations (TLTRO III) does

not hamper the smooth transmission of its monetary policy. The Governing Council will also regularly assess how targeted lending operations are contributing to its monetary policy stance. As announced, it expects the special conditions applicable under TLTRO III to end in June this year. The Governing Council will also assess the appropriate calibration of its two-tier system for reserve remuneration so that the negative interest rate policy does not limit banks' intermediation capacity in an environment of ample excess liquidity.

The Governing Council stands ready to adjust all of its instruments within its mandate, incorporating flexibility if warranted, to ensure that inflation stabilises at its 2% target over the medium term. The pandemic has shown that, under stressed conditions, flexibility in the design and conduct of asset purchases has helped to counter the impaired transmission of monetary policy and made the Governing Council's efforts to achieve its goal more effective. Within the Governing Council's mandate, under stressed conditions, flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:30 CET today.

Monetary Policy Statement

Press conference

**Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB**

Good afternoon, the Vice-President and I welcome you to our press conference.

Russia's aggression towards Ukraine is causing enormous suffering. It is also affecting the economy, in Europe and beyond. The conflict and the associated uncertainty are weighing heavily on the confidence of businesses and consumers. Trade disruptions are leading to new shortages of materials and inputs. Surging energy and commodity prices are reducing demand and holding back production. How the economy develops will crucially depend on how the conflict evolves, on the impact of current sanctions and on possible further measures. At the same time, economic activity is still being supported by the reopening of the economy after the crisis phase of the pandemic. Inflation has increased significantly and will remain high over the coming months, mainly because of the sharp rise in energy costs. Inflation pressures have intensified across many sectors.

At today's meeting we judged that the incoming data since our last meeting reinforce our expectation that net asset purchases under our asset purchase programme (APP) should be concluded in the third quarter. Looking ahead, our monetary policy will depend on the incoming data and our evolving assessment of the outlook. In the current conditions of high uncertainty, we will maintain optionality, gradualism and flexibility in the conduct of monetary policy. The Governing Council will take whatever action is needed to fulfil the ECB's mandate to pursue price stability and to contribute to safeguarding financial stability.

I will now outline in more detail how we see the economy and inflation developing, and will then explain our assessment of financial and monetary conditions.

Economic activity

The euro area economy grew by 0.3 per cent in the final quarter of 2021. It is estimated that growth remained weak during the first quarter of 2022, largely owing to pandemic-related restrictions.

Several factors point to slow growth also in the period ahead. The war is already weighing on the confidence of businesses and consumers, including through the uncertainty it brings. With energy and commodity prices rising sharply, households are facing a higher cost of living and firms are confronted

with higher production costs. The war has created new bottlenecks, while a new set of pandemic measures in Asia is contributing to supply chain difficulties. Some sectors face growing difficulties in sourcing their inputs, which is disrupting production. However, there are also offsetting factors underpinning the ongoing recovery, such as compensatory fiscal measures and the possibility for households to draw on savings they accumulated during the pandemic. Moreover, the reopening of those sectors most affected by the pandemic and a strong labour market with more people in jobs will continue to support incomes and spending.

Fiscal and monetary policy support remains critical, especially in this difficult geopolitical situation. In addition, the successful implementation of the investment and reform plans under the Next Generation EU programme will accelerate the energy and green transitions. This should help enhance long-term growth and resilience in the euro area.

Inflation

Inflation increased to 7.5 per cent in March, from 5.9 per cent in February. Energy prices were driven higher after the outbreak of the war and now stand 45 per cent above their level one year ago. They continue to be the main reason for the high rate of inflation. Market-based indicators suggest that energy prices will stay high in the near term but will then moderate to some extent. Food prices have also increased sharply. This is due to elevated transportation and production costs, notably the higher price of fertilisers, which are in part related to the war in Ukraine.

Price rises have become more widespread. Energy costs are pushing up prices across many sectors. Supply bottlenecks and the normalisation of demand as the economy reopens also continue to put upward pressure on prices. Measures of underlying inflation have risen to levels above two per cent in recent months. It is uncertain how persistent the rise in these indicators will be, given the role of temporary pandemic-related factors and the indirect effects of higher energy prices.

The labour market continues to improve, with unemployment having fallen to a historical low of 6.8 per cent in February. Job postings across many sectors still signal robust demand for labour, yet wage growth remains muted overall. Over time the return of the economy to full capacity should support faster growth in wages. While various measures of longer-term inflation expectations derived from financial markets and from expert surveys largely stand at around two per cent, initial signs of above-target revisions in those measures warrant close monitoring.

Risk assessment

The downside risks to the growth outlook have increased substantially as a result of the war in Ukraine. While risks relating to the pandemic have declined, the war may have an even stronger effect on economic sentiment and could further worsen supply-side constraints. Persistently high energy costs, together with a loss of confidence, could drag down demand and restrain consumption and investment more than expected.

The upside risks surrounding the inflation outlook have also intensified, especially in the near term. The risks to the medium-term inflation outlook include above-target moves in inflation expectations, higher than anticipated wage rises and a durable worsening of supply-side conditions. However, if demand were to weaken over the medium term, it would lower pressure on prices.

Financial and monetary conditions

Financial markets have been highly volatile since the war began and financial sanctions were imposed. Market interest rates have increased in response to the changing outlook for monetary policy, the macroeconomic environment and inflation dynamics. Bank funding costs have continued to increase. At the same time, so far there have been no severe strains in money markets, nor liquidity shortages in the euro area banking system.

Although remaining at low levels, bank lending rates for firms and households have started to reflect the increase in market interest rates. Lending to households is holding up, especially for house purchases. Lending flows to firms have stabilised.

Our most recent bank lending survey reports that credit standards for loans to firms and for housing loans tightened overall in the first quarter of the year, as lenders are becoming more concerned about the risks facing their customers in an uncertain environment. Credit standards are expected to tighten further in the coming months, as banks factor in the adverse economic impact of Russia's aggression towards Ukraine and higher energy prices.

Conclusion

Summing up, the war in Ukraine is severely affecting the euro area economy and has significantly increased uncertainty. The impact of the war on the economy will depend on how the conflict evolves, on the effect of current sanctions and on possible further measures. Inflation has increased significantly and will remain high over the coming months, mainly because of the sharp rise in energy costs. We are very attentive to the current uncertainties and are closely monitoring the incoming data

in relation to their implications for the medium-term inflation outlook. The calibration of our policies will remain data-dependent and reflect our evolving assessment of the outlook. We stand ready to adjust all of our instruments within our mandate, incorporating flexibility if warranted, to ensure that inflation stabilises at our two per cent target over the medium term.

We are now ready to take your questions.