

# Combined monetary policy decisions and statement

9 June 2022

## Monetary policy decisions

High inflation is a major challenge for all of us. The Governing Council will make sure that inflation returns to its 2% target over the medium term.

In May inflation again rose significantly, mainly because of surging energy and food prices, including due to the impact of the war. But inflation pressures have broadened and intensified, with prices for many goods and services increasing strongly. Eurosystem staff have revised their baseline inflation projections up significantly. These projections indicate that inflation will remain undesirably elevated for some time. However, moderating energy costs, the easing of supply disruptions related to the pandemic and the normalisation of monetary policy are expected to lead to a decline in inflation. The new staff projections foresee annual inflation at 6.8% in 2022, before it is projected to decline to 3.5% in 2023 and 2.1% in 2024 – higher than in the March projections. This means that headline inflation at the end of the projection horizon is projected to be slightly above the Governing Council's target. Inflation excluding energy and food is projected to average 3.3% in 2022, 2.8% in 2023 and 2.3% in 2024 – also above the March projections.

Russia's unjustified aggression towards Ukraine continues to weigh on the economy in Europe and beyond. It is disrupting trade, is leading to shortages of materials, and is contributing to high energy and commodity prices. These factors will continue to weigh on confidence and dampen growth, especially in the near term. However, the conditions are in place for the economy to continue to grow on account of the ongoing reopening of the economy, a strong labour market, fiscal support and savings built up during the pandemic. Once current headwinds abate, economic activity is expected to pick up again. This outlook is broadly reflected in the Eurosystem staff projections, which foresee annual real GDP growth at 2.8% in 2022, 2.1% in 2023 and 2.1% in 2024. Compared with the March projections, the outlook has been revised down significantly for 2022 and 2023, while for 2024 it has been revised up.

### European Central Bank

Directorate General Communications, Global Media Relations Division  
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany  
Tel.: +49 69 1344 7455, email: [media@ecb.europa.eu](mailto:media@ecb.europa.eu), website: [www.ecb.europa.eu](http://www.ecb.europa.eu)

On the basis of its updated assessment, the Governing Council decided to take further steps in normalising its monetary policy. Throughout this process, the Governing Council will maintain optionality, data-dependence, gradualism and flexibility in the conduct of monetary policy.

## Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)

The Governing Council decided to end net asset purchases under its asset purchase programme (APP) as of 1 July 2022. The Governing Council 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 ample liquidity conditions and an appropriate monetary policy stance.

As concerns the pandemic emergency purchase programme (PEPP), the Governing Council intends to reinvest the principal payments from maturing securities purchased under the programme 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.

## Key ECB interest rates

The Governing Council undertook a careful review of the conditions which, according to its forward guidance, should be satisfied before it starts raising the key ECB interest rates. As a result of this assessment, the Governing Council concluded that those conditions have been satisfied.

Accordingly, and in line with the Governing Council's policy sequencing, the Governing Council intends to raise the key ECB interest rates by 25 basis points at its July monetary policy meeting. In the meantime, the Governing Council decided to leave the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.50% respectively.

Looking further ahead, the Governing Council expects to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting.

Beyond September, based on its current assessment, the Governing Council anticipates that a gradual but sustained path of further increases in interest rates will be appropriate. In line with the Governing Council's commitment to its 2% medium-term target, the pace at which the Governing Council adjusts its monetary policy will depend on the incoming data and how it assesses inflation to develop in the medium term.

## 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 previously, the special conditions applicable under TLTRO III will end on 23 June 2022.

\*\*\*

The Governing Council stands ready to adjust all of its instruments, 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 ECB'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. I would like to thank President Knot for his kind hospitality and express our special gratitude to his staff for the excellent organisation of today's meeting of the Governing Council.

High inflation is a major challenge for all of us. The Governing Council will make sure that inflation returns to our two per cent target over the medium term.

In May inflation again rose significantly, mainly because of surging energy and food prices, including due to the impact of the war. But inflation pressures have broadened and intensified, with prices for many goods and services increasing strongly. Eurosystem staff have revised their baseline inflation projections up significantly. These projections indicate that inflation will remain undesirably elevated for some time. However, moderating energy costs, the easing of supply disruptions related to the pandemic and the normalisation of monetary policy are expected to lead to a decline in inflation. The new staff projections foresee annual inflation at 6.8 per cent in 2022, before it is projected to decline to 3.5 per cent in 2023 and 2.1 per cent in 2024 – higher than in the March projections. This means that headline inflation at the end of the projection horizon is projected to be slightly above our target. Inflation excluding energy and food is projected to average 3.3 per cent in 2022, 2.8 per cent in 2023 and 2.3 per cent in 2024 – also above the March projections.

Russia's unjustified aggression towards Ukraine continues to weigh on the economy in Europe and beyond. It is disrupting trade, is leading to shortages of materials and is contributing to high energy and commodity prices. These factors will continue to weigh on confidence and dampen growth, especially in the near term. However, the conditions are in place for the economy to continue to grow on account of the ongoing reopening of the economy, a strong labour market, fiscal support and savings built up during the pandemic. Once current headwinds abate, economic activity is expected to pick up again. This outlook is broadly reflected in the Eurosystem staff projections, which foresee annual real GDP growth at 2.8 per cent in 2022, 2.1 per cent in 2023 and 2.1 per cent in 2024. Compared with the March projections, the outlook has been revised down significantly for 2022 and 2023, while for 2024 it has been revised up.

On the basis of our updated assessment, we decided to take further steps in normalising our monetary policy. Throughout this process, the Governing Council will maintain optionality, data-dependence, gradualism and flexibility in the conduct of monetary policy.

First, we decided to end net asset purchases under our asset purchase programme (APP) as of 1 July 2022. The Governing Council 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 ample liquidity conditions and an appropriate monetary policy stance.

Second, we undertook a careful review of the conditions which, according to our forward guidance, should be satisfied before we start raising the key ECB interest rates. As a result of this assessment, the Governing Council concluded that those conditions have been satisfied. Accordingly, and in line with our policy sequencing, we intend to raise the key ECB interest rates by 25 basis points at our July monetary policy meeting.

Looking further ahead, we expect to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at our September meeting.

Third, beyond September, based on our current assessment, we anticipate that a gradual but sustained path of further increases in interest rates will be appropriate. In line with our commitment to our two per cent medium-term target, the pace at which we adjust our monetary policy will depend on the incoming data and how we assess inflation to develop in the medium term.

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 decisions taken today are set out in full in a press release available on our website.

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

In the near term, we expect activity to be dampened by high energy costs, the deterioration in the terms of trade, greater uncertainty and the adverse impact of high inflation on disposable income. The

war in Ukraine and renewed pandemic restrictions in China have made supply bottlenecks worse again. As a result, firms face higher costs and disruptions in their supply chains, and their outlook for future output has deteriorated.

However, there are also factors supporting economic activity and these are expected to strengthen over the months to come. 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 consumption. In addition, savings accumulated during the pandemic are a buffer.

Fiscal policy is helping to cushion the impact of the war. Targeted and temporary budgetary measures protect those people bearing the brunt of higher energy prices while limiting the risk of adding to inflationary pressures. The swift implementation of the investment and structural reform plans under the Next Generation EU programme, the “Fit for 55” package and the REPowerEU plan would also help the euro area economy to grow faster in a sustainable manner and become more resilient to global shocks.

## Inflation

Inflation rose further to 8.1 per cent in May. Although governments have intervened and have helped slow energy inflation, energy prices stand 39.2 per cent above their levels one year ago. Market-based indicators suggest that global energy prices will stay high in the near term but will then moderate to some extent. Food prices rose 7.5 per cent in May, in part reflecting the importance of Ukraine and Russia among the main global producers of agricultural goods.

Prices have also gone up more strongly because of renewed supply bottlenecks and because of recovering domestic demand, especially in the services sector, as our economy reopens. Price rises are becoming more widespread across sectors. Accordingly, measures of underlying inflation have been rising further.

The labour market continues to improve, with unemployment remaining at its historical low of 6.8 per cent in April. Job vacancies across many sectors show that there is robust demand for labour. Wage growth, including in forward-looking indicators, has started to pick up. Over time, the strengthening of the economy and some catch-up effects should support faster growth in wages. While most measures of longer-term inflation expectations derived from financial markets and from expert surveys stand at around two per cent, initial signs of above-target revisions in those measures warrant close monitoring.

## Risk assessment

Risks relating to the pandemic have declined but the war continues to be a significant downside risk to growth. In particular, a major risk would be a further disruption in the energy supply to the euro area, as reflected in the downside scenario included in the staff projections. Furthermore, if the war were to escalate, economic sentiment could worsen, supply-side constraints could increase, and energy and food costs could remain persistently higher than expected.

The risks surrounding inflation are primarily on the upside. The risks to the medium-term inflation outlook include a durable worsening of the production capacity of our economy, persistently high energy and food prices, inflation expectations rising above our target and higher than anticipated wage rises. However, if demand were to weaken over the medium term, it would lower pressures on prices.

## Financial and monetary conditions

Market interest rates have increased in response to the changing outlook for inflation and monetary policy. With benchmark interest rates rising, bank funding costs have increased, and this has fed into higher bank lending rates in particular for households. Nevertheless, lending to firms picked up in March. This was because of the continued need to finance investment and working capital, against the backdrop of increasing production costs, persisting supply bottlenecks and lower reliance on market funding. Lending to households also increased, reflecting continued robust demand for mortgages.

In line with our monetary policy strategy, the Governing Council has undertaken its biannual in-depth assessment of the interrelation between monetary policy and financial stability. The environment for financial stability has worsened since our last review in December 2021, especially over the short term. In particular, lower growth and increasing cost pressures, as well as rising risk-free rates and sovereign bond yields, could lead to a further deterioration in the financing conditions faced by borrowers. At the same time, tighter financing conditions could reduce some existing financial stability vulnerabilities over the medium term. Banks, which started the year with solid capital positions and improving asset quality, are now facing greater credit risk. We will watch these factors closely. In any case, macroprudential policy remains the first line of defence in preserving financial stability and addressing medium-term vulnerabilities.

## Conclusion

Summing up, Russia's unjustified aggression towards Ukraine is severely affecting the euro area economy and the outlook is still surrounded by high uncertainty. But the conditions are in place for the economy to continue to grow and to recover further over the medium term.

Inflation is undesirably high and is expected to remain above our target for some time. We will make sure that inflation returns to our two per cent target over the medium term. Accordingly, we decided to take further steps in normalising our monetary policy. 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.