

Combined monetary policy decisions and statement

3 February 2022

Monetary policy decisions

The Governing Council confirmed the decisions taken at its monetary policy meeting last December.

Pandemic emergency purchase programme (PEPP)

In the first quarter of 2022, the Governing Council is conducting net asset purchases under the PEPP at a lower pace than in the previous quarter. It will discontinue net asset purchases under the PEPP at the end of March 2022.

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.

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. In particular, 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.

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Asset purchase programme (APP)

In line with the step-by-step reduction in asset purchases decided on in December 2021 and to ensure that the monetary policy stance remains consistent with inflation stabilising at the Governing Council's target over the medium term, monthly net purchases under the APP will amount to €40 billion in the second quarter of 2022 and €30 billion in the third quarter. From October onwards, the Governing Council will maintain net asset purchases under the APP at a monthly pace of €20 billion for as long as necessary to reinforce the accommodative impact of its policy rates. The Governing Council expects net purchases to end shortly before it starts raising the key ECB interest rates.

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.

In support of its symmetric 2% inflation target and in line with its monetary policy strategy, the Governing Council expects the key ECB interest rates to remain at their present or lower 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. This may also imply a transitory period in which inflation is moderately above target.

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, as appropriate, to ensure that inflation stabilises at its 2% target over the medium term.

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.

The euro area economy is continuing to recover and the labour market is improving further, helped by ample policy support. But growth is likely to remain subdued in the first quarter, as the current pandemic wave is still weighing on economic activity. Shortages of materials, equipment and labour continue to hold back output in some industries. High energy costs are hurting incomes and are likely to dampen spending. However, the economy is affected less and less by each wave of the pandemic and the factors restraining production and consumption should gradually ease, allowing the economy to pick up again strongly in the course of the year.

Inflation has risen sharply in recent months and it has further surprised to the upside in January. This is primarily driven by higher energy costs that are pushing up prices across many sectors, as well as higher food prices. Inflation is likely to remain elevated for longer than previously expected, but to decline in the course of this year.

The Governing Council therefore confirmed the decisions taken at its monetary policy meeting last December, as detailed in the press release published at 13:45 today. Accordingly, we will continue reducing the pace of our asset purchases step by step over the coming quarters, and will end net purchases under the pandemic emergency purchase programme (PEPP) at the end of March. In view of the current uncertainty, we need more than ever to maintain flexibility and optionality in the conduct of monetary policy. The Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation stabilises at its two per cent target over the medium term.

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

Economic activity

Economic growth weakened to 0.3 per cent in the final quarter of last year. Nevertheless, output reached its pre-pandemic level at the end of 2021. Economic activity and demand will likely remain muted in the early part of this year for several reasons. First, containment measures are affecting

consumer services, especially travel, tourism, hospitality and entertainment. Although infection rates are still very high, the impact of the pandemic on economic life is now proving less damaging. Second, high energy costs are reducing the purchasing power of households and the earnings of businesses, which constrains consumption and investment. And third, shortages of equipment, materials and labour in some sectors continue to hamper the production of manufactured goods, delay construction and hold back the recovery in parts of the services sector. There are signs that these bottlenecks may be starting to ease, but they will still persist for some time.

Looking beyond the near term, growth should rebound strongly over the course of 2022, driven by robust domestic demand. As the labour market is improving further, with more people having jobs and fewer in job retention schemes, households should enjoy higher income and spend more. The global recovery and the ongoing fiscal and monetary policy support also contribute to this positive outlook. Targeted and productivity-enhancing fiscal measures and structural reforms, attuned to the conditions in different euro area countries, remain key to complement our monetary policy effectively.

Inflation

Inflation increased to 5.1 per cent in January, from 5.0 per cent in December 2021. It is likely to remain high in the near term. Energy prices continue to be the main reason for the elevated rate of inflation. Their direct impact accounted for over half of headline inflation in January and energy costs are also pushing up prices across many sectors. Food prices have also increased, owing to seasonal factors, elevated transportation costs and the higher price of fertilisers. In addition, price rises have become more widespread, with the prices of a large number of goods and services having increased markedly. Most measures of underlying inflation have risen over recent months, although the role of temporary pandemic factors means that the persistence of these increases remains uncertain. Market-based indicators suggest a moderation in energy price dynamics in the course of 2022 and price pressures stemming from global supply bottlenecks should also subside.

Labour market conditions are improving further, although wage growth remains muted overall. Over time, the return of the economy to full capacity should support faster growth in wages. Market-based measures of longer-term inflation expectations have remained broadly stable at rates just below two per cent since our last monetary policy meeting. The latest survey-based measures stand at around two per cent. These factors will also contribute further to underlying inflation and will help headline inflation to settle durably at our two per cent target.

Risk assessment

We continue to see the risks to the economic outlook as broadly balanced over the medium term. The economy could perform more strongly than expected if households become more confident and save less than expected. By contrast, although uncertainties related to the pandemic have abated somewhat, geopolitical tensions have increased. Furthermore, persistently high costs of energy could exert a stronger than expected drag on consumption and investment. The pace at which supply bottlenecks are resolved is a further risk to the outlook for growth and inflation. Compared with our expectations in December, risks to the inflation outlook are tilted to the upside, particularly in the near term. If price pressures feed through into higher than anticipated wage rises or the economy returns more quickly to full capacity, inflation could turn out to be higher.

Financial and monetary conditions

Market interest rates have increased since our December meeting. However, bank funding costs have so far remained contained. Bank lending rates for firms and households continue to stand at historically low levels and financing conditions for the economy remain favourable. Lending to firms has picked up, supported by both short and longer-term loans. Robust demand for mortgages is sustaining lending to households. Banks are now as profitable as they were before the pandemic and their balance sheets remain solid.

According to our latest Bank Lending Survey, loan demand by firms increased strongly in the last quarter of 2021. This was driven by both higher working capital needs, stemming from supply bottlenecks, and increased financing of longer-term investment. In addition, banks continue to hold an overall benign view of credit risks, mainly because of their positive assessment of the economic outlook.

Conclusion

Summing up, the euro area economy continues to recover, but growth is expected to remain subdued in the first quarter. While the outlook for inflation is uncertain, inflation is likely to remain elevated for longer than previously expected, but to decline in the course of this year. We will remain attentive to the incoming data and carefully assess the implications for the medium-term inflation outlook. We stand ready to adjust all of our instruments, as appropriate, to ensure that inflation stabilises at its two per cent target over the medium term.

We are now ready to take your questions.