

# Combined monetary policy decisions and statement

8 September 2022

## Monetary policy decisions

The Governing Council today decided to raise the three key ECB interest rates by 75 basis points. This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to the ECB's 2% medium-term target. Based on its current assessment, over the next several meetings the Governing Council expects to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations. The Governing Council will regularly re-evaluate its policy path in light of incoming information and the evolving inflation outlook. The Governing Council's future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

The Governing Council took today's decision, and expects to raise interest rates further, because inflation remains far too high and is likely to stay above target for an extended period. According to Eurostat's flash estimate, inflation reached 9.1% in August. Soaring energy and food prices, demand pressures in some sectors owing to the reopening of the economy, and supply bottlenecks are still driving up inflation. Price pressures have continued to strengthen and broaden across the economy and inflation may rise further in the near term. As the current drivers of inflation fade over time and the normalisation of monetary policy works its way through to the economy and price-setting, inflation will come down. Looking ahead, ECB staff have significantly revised up their inflation projections and inflation is now expected to average 8.1% in 2022, 5.5% in 2023 and 2.3% in 2024.

After a rebound in the first half of 2022, recent data point to a substantial slowdown in euro area economic growth, with the economy expected to stagnate later in the year and in the first quarter of 2023. Very high energy prices are reducing the purchasing power of people's incomes and, although supply bottlenecks are easing, they are still constraining economic activity. In addition, the adverse geopolitical situation, especially Russia's unjustified aggression towards Ukraine, is weighing on the confidence of businesses and consumers. This outlook is reflected in the latest staff projections for economic growth, which have been revised down markedly for the remainder of the current year and

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throughout 2023. Staff now expect the economy to grow by 3.1% in 2022, 0.9% in 2023 and 1.9% in 2024.

The lasting vulnerabilities caused by the pandemic still pose a risk to the smooth transmission of monetary policy. The Governing Council will therefore continue applying flexibility in reinvesting redemptions coming due in the pandemic emergency purchase programme portfolio, with a view to countering risks to the transmission mechanism related to the pandemic.

## Key ECB interest rates

The Governing Council decided to raise the three key ECB interest rates by 75 basis points. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 1.25%, 1.50% and 0.75% respectively, with effect from 14 September 2022.

Following the raising of the deposit facility rate to above zero, the two-tier system for the remuneration of excess reserves is no longer necessary. The Governing Council therefore decided today to suspend the two-tier system by setting the multiplier to zero.

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

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 started 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 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.

Redemptions coming due in the PEPP portfolio are being reinvested flexibly, with a view to countering risks to the monetary policy transmission mechanism 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.

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The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises at its 2% target over the medium term. The Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:45 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 Governing Council today decided to raise the three key ECB interest rates by 75 basis points. This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to our two per cent medium-term target. Based on our current assessment, over the next several meetings we expect to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations. We will regularly re-evaluate our policy path in light of incoming information and the evolving inflation outlook. Our future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

We took today's decision, and expect to raise interest rates further, because inflation remains far too high and is likely to stay above our target for an extended period. According to Eurostat's flash estimate, inflation reached 9.1 per cent in August. Soaring energy and food prices, demand pressures in some sectors owing to the reopening of the economy, and supply bottlenecks are still driving up inflation. Price pressures have continued to strengthen and broaden across the economy and inflation may rise further in the near term. As the current drivers of inflation fade over time and the normalisation of our monetary policy works its way through to the economy and price-setting, inflation will come down. Looking ahead, ECB staff have significantly revised up their inflation projections and inflation is now expected to average 8.1 per cent in 2022, 5.5 per cent in 2023 and 2.3 per cent in 2024.

After a rebound in the first half of 2022, recent data point to a substantial slowdown in euro area economic growth, with the economy expected to stagnate later in the year and in the first quarter of 2023. Very high energy prices are reducing the purchasing power of people's incomes and, although supply bottlenecks are easing, they are still constraining economic activity. In addition, the adverse geopolitical situation, especially Russia's unjustified aggression towards Ukraine, is weighing on the confidence of businesses and consumers. This outlook is reflected in the latest staff projections for economic growth, which have been revised down markedly for the remainder of the current year and throughout 2023. Staff now expect the economy to grow by 3.1 per cent in 2022, 0.9 per cent in 2023 and 1.9 per cent in 2024.

The lasting vulnerabilities caused by the pandemic still pose a risk to the smooth transmission of our monetary policy. The Governing Council will therefore continue applying flexibility in reinvesting redemptions coming due in the pandemic emergency purchase programme portfolio, with a view to countering risks to the transmission mechanism related to the pandemic.

The decisions taken today are set out in a press release available on our website. A separate technical press release on the remuneration of government deposits will be published at 15:45 CET.

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 0.8 per cent in the second quarter of 2022, mainly owing to strong consumer spending on contact-intensive services, as a result of the lifting of pandemic-related restrictions. Over the summer, as people travelled more, countries with large tourism sectors benefited especially. At the same time, businesses suffered from high energy costs and continued supply bottlenecks, although the latter have been gradually easing.

While buoyant tourism has been supporting economic growth during the third quarter, we expect the economy to slow down substantially over the remainder of this year. There are four main reasons behind this. First, high inflation is dampening spending and production throughout the economy, and these headwinds are reinforced by gas supply disruptions. Second, the strong rebound in demand for services that came with the reopening of the economy will lose steam in the coming months. Third, the weakening in global demand, also in the context of tighter monetary policy in many major economies, and the worsening terms of trade will mean less support for the euro area economy. Fourth, uncertainty remains high and confidence is falling sharply.

At the same time, the labour market has remained robust, supporting economic activity. Employment increased by more than 600,000 people in the second quarter of 2022 and the unemployment rate stood at a historical low of 6.6 per cent in July. Total hours worked increased further, by 0.6 per cent, in the second quarter of 2022 and have surpassed their pre-pandemic levels. Looking ahead, the slowing economy is likely to lead to some increase in the unemployment rate.

Fiscal support measures to cushion the impact of higher energy prices should be temporary and targeted at the most vulnerable households and firms to limit the risk of fuelling inflationary pressures, to enhance the efficiency of public spending and to preserve debt sustainability. Structural policies should aim at raising the euro area's growth potential and supporting its resilience.

## Inflation

Inflation rose further to 9.1 per cent in August. Energy price inflation remained extremely elevated, at 38.3 per cent, and it was again the dominant component of overall inflation. Market-based indicators suggest that, in the near term, oil prices will moderate, while wholesale gas prices will stay extraordinarily high. Food price inflation also rose in August, to 10.6 per cent, partly reflecting higher input costs related to energy, disruptions of trade in food commodities and adverse weather conditions.

While supply bottlenecks have been easing, these continue to gradually feed through to consumer prices and are putting upward pressure on inflation, as is recovering demand in the services sector. The depreciation of the euro has also added to the build-up of inflationary pressures.

Price pressures are spreading across more and more sectors, in part owing to the impact of high energy costs across the whole economy. Accordingly, measures of underlying inflation remain at elevated levels and the latest staff projections see inflation excluding food and energy reaching 3.9 per cent in 2022, 3.4 per cent in 2023 and 2.3 per cent in 2024.

Resilient labour markets and some catch-up to compensate for higher inflation are likely to support growth in wages. At the same time, incoming data and recent wage agreements indicate that wage dynamics remain contained overall. Most measures of longer-term inflation expectations currently stand at around two per cent, although recent above-target revisions to some indicators warrant continued monitoring.

## Risk assessment

In the context of the slowing global economy, risks to growth are primarily on the downside, in particular in the near term. As reflected in the downside scenario in the staff projections, a long-lasting war in Ukraine remains a significant risk to growth, especially if firms and households faced rationing of energy supplies. In such a situation, confidence could deteriorate further and supply-side constraints could worsen again. Energy and food costs could also remain persistently higher than expected. A further deterioration in the global economic outlook could be an additional drag on euro area external demand.

The risks to the inflation outlook are primarily on the upside. In the same way as for growth, the major risk in the short term is a further disruption of energy supplies. Over the medium term, inflation may turn out to be higher than expected because of a persistent worsening of the production capacity of the euro area economy, further increases in energy and food prices, a rise in inflation expectations

above our target, or higher than anticipated wage rises. However, if energy costs were to decline or demand were to weaken over the medium term, it would lower pressures on prices.

## Financial and monetary conditions

Market interest rates have increased in anticipation of further monetary policy normalisation in response to the inflation outlook. Credit to firms has become more expensive over recent months, and bank lending rates for households now stand at their highest levels in more than five years. In terms of volumes, bank lending to firms has so far remained strong, in part reflecting the need to finance high production costs and inventory building. Mortgage lending to households is moderating because of tightening credit standards, rising borrowing costs and weak consumer confidence.

## Conclusion

Summing up, we raised the three key ECB interest rates by 75 basis points today, and expect to raise interest rates further, because inflation remains far too high and is likely to stay above our target for an extended period. This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will support a timely return of inflation to our two per cent medium-term target.

Our future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach. We stand ready to adjust all of our instruments within our mandate to ensure that inflation returns to our medium-term inflation target.

We are now ready to take your questions.