

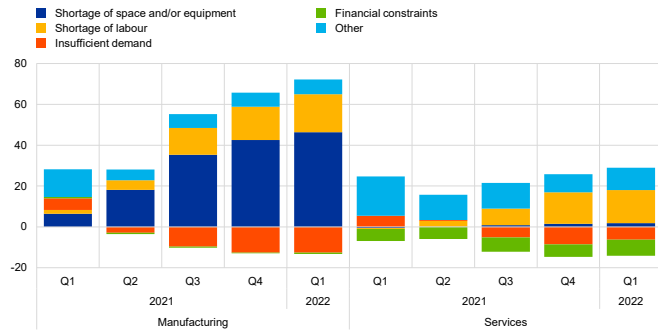


Introductory statement in charts

Hearing of the Committee on Economic and Monetary Affairs of the European Parliament with the ECB President on 7 February 2022

Factors limiting production and activity

(net percentage balances, deviations from long-term average)



Sources: DG-ECFIN and ECB staff calculations. Notes: Data refer to the first month in each quarter. The long-term average is calculated from Q1 2000 to Q4 2019 (Q1 2003 to Q4 2019 for services).

Economic activity

Euro area growth moderated in the fourth quarter but is expected to pick up strongly again later this year.

- Tighter restrictions weigh on consumer services in the near term, particularly on travel, tourism and hospitality, though less than in previous waves. High energy prices limit household purchasing power and corporate earnings.
- Shortages of materials, equipment and labour continue to constrain manufacturing, but once they ease, economic growth is expected to pick up strongly in the second half of 2022.

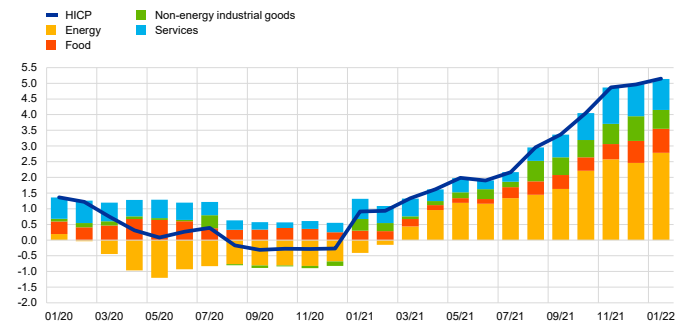
Inflation

HICP inflation surprised on the upside, increasing from 5.0% in December to 5.1% in January. Inflation 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.

Headline inflation and its components

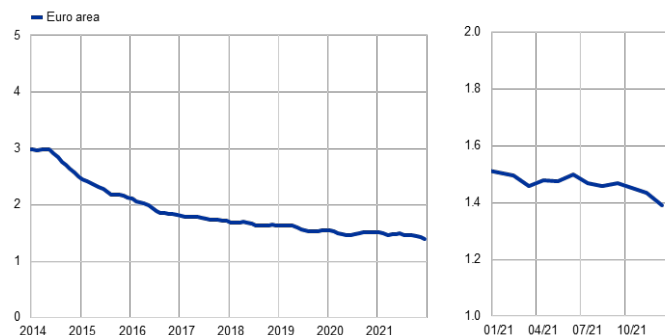
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB staff calculations.

Bank lending rates to non-financial corporations

(annual percentages, three-month moving averages)



Source: ECB. Note: Bank lending rates are calculated by aggregating short and long-term rates using a 24-month moving average of new business volumes.

Financing conditions

The ECB's measures are essential in helping the economy shift to a sustained recovery and bring inflation to two per cent in the medium term.

- Financing conditions for the economy have remained favourable. While market interest rates have increased since December, bank funding costs have so far remained contained.
- Bank lending rates to firms and households continue to stand at historically low levels.

WANT TO KNOW MORE?

- [Monetary Policy Statement](#), ECB press conference, 4 February 2022
- [Sources of supply chain disruptions and their impact on euro area manufacturing](#), Economic Bulletin, Issue 8, 2021



Topic 1: Inflation expectations

Expectations about future inflation affect today's economic decisions and are therefore important for the ECB's monetary policy:

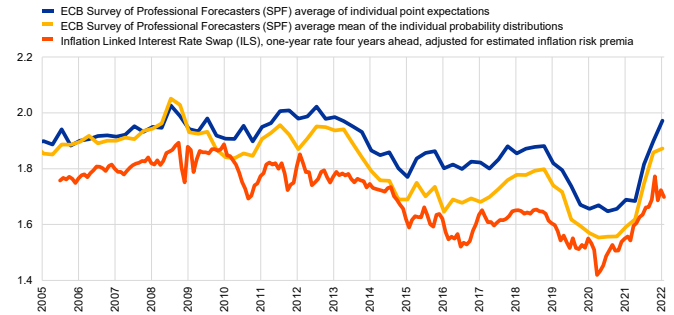
- People and businesses use expectations when making decisions about today's spending, borrowing, investing and pricing.
- The ECB monitors inflation expectations closely and can influence expectations by having a clear target and keeping inflation close to it.

Longer-term inflation expectations (i.e. five years ahead) have moved back up to our target of two per cent in recent months.

- The solid anchoring of longer-term inflation expectations in the euro area is a reassuring development, coming after a long period when they were subdued.

Longer-term inflation expectations have increased

(annual percentage changes)



Sources: Refinitiv, ECB Survey of Professional Forecasters (SPF) and ECB staff calculations. Notes: The SPF survey for the first quarter of 2022 was conducted between 7 and 13 January 2022. The latest observations are for Q1 2022 for the SPF and January 2022 for the risk-adjusted ILS series.

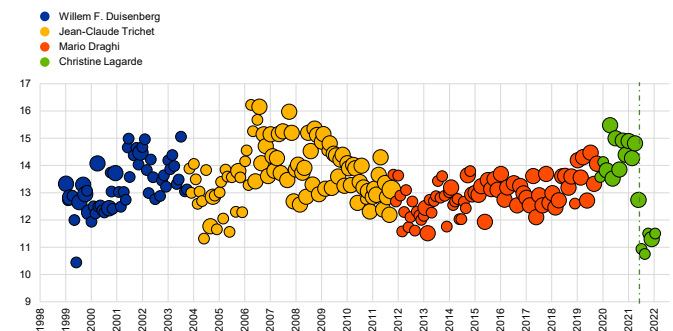
Topic 2: Communication of monetary policy

Communication is crucial for the effectiveness of monetary policy and to maintain credibility. The ECB is determined to better explain how we reach our decisions, what motivates them, and how they affect people's daily lives.

The new monetary policy statement is a step in this direction in improving readability:

- It is more streamlined and has a stronger narrative.
- It uses clearer language and fewer technical terms, enabling a broader audience to understand our decisions in our own words.
- It is shorter and easier to read than previous versions.

Reduced complexity of monetary policy statements



Source: Updated data (February 2022) from analysis in Coenen et al. (2017). Notes: The figure depicts the length and the complexity of the ECB's monetary policy statements (known as "introductory statement" until June 2021, a date indicated by the dotted line). The length is measured by the number of words (indicated by circle size). The difficulty of the language employed is measured using the Flesch-Kincaid Grade Level score, which indicates how many years of formal education are required to understand the text, based on the length of its sentences and words.

WANT TO KNOW MORE?

- [Inflation expectations and the strategy review](#), ECB website
- [ECB communication with the wider public](#), Economic Bulletin, Issue 8, 2021