

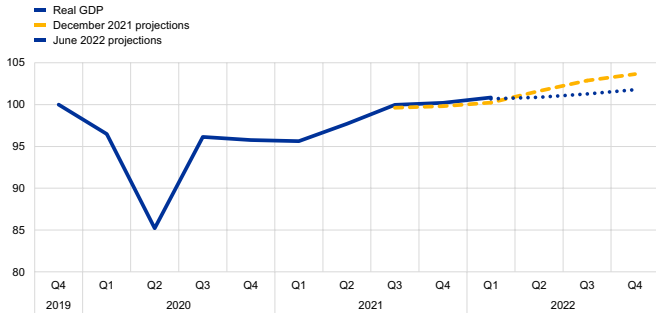


Introductory statement in three charts

ECON hearing with the ECB President on 20 June 2022

Real gross domestic product

(index: Q4 2019 = 100; euro area)



Sources: Eurostat, Eurosystem staff macroeconomic projections and ECB calculations. Notes: The latest observations are for the first quarter of 2022. The GDP growth projection has been applied to the outcome for the second quarter of 2022.

Economic activity

Near-term growth is expected to slow.

- Domestic demand is facing headwinds from high energy costs, the deterioration in the terms of trade, greater uncertainty and the adverse impact of high inflation on disposable income.

Over the medium term, activity is expected to strengthen.

- This expectation is built on the assumption that headwinds will gradually fade, the economy will further reopen, fiscal policy will remain supportive and the labour market will be resilient.

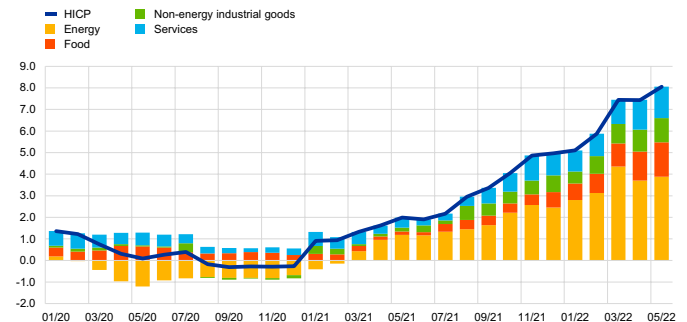
Inflation

Inflation rose further to 8.1% in May and is expected to remain undesirably high in the near term before it declines.

- Inflation is being pushed up by high energy and food prices, which are also being affected by the war.
- Prices have also gone up more strongly because of renewed supply bottlenecks amid recovering demand, especially for some consumer services sectors.
- Over time, these upward price pressures are expected to fade and inflation is expected to move towards our 2% target.

Headline HICP inflation

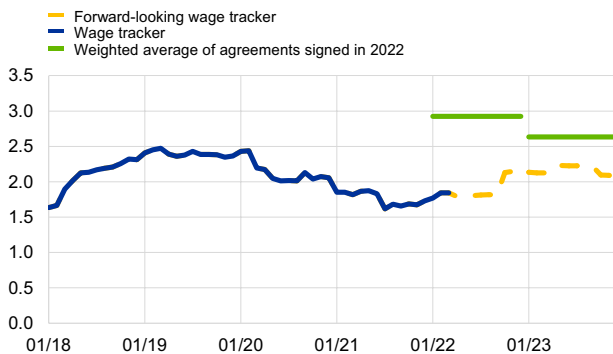
(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB calculations.

Forward-looking wage tracker

(annual percentage changes; percentage share)



Source: Calculated based on microdata on wage agreements in Germany (Deutsche Bundesbank), Spain (Ministerio de Trabajo y Economía Social), Italy (Istat), and the Netherlands (AWVN).

Wage developments

Wage growth, including in forward-looking indicators, has started to pick up from subdued levels. Over time, the strengthening of the economy together with catch-up effects should support faster growth in wages.

- Wage negotiations concluded at the start of 2022 point towards some upward dynamics in wage agreements.
- The ECB's experimental forward-looking wage tracker (based on four large euro area countries) indicates a gradual increase in wage growth in 2022.
- Wage growth is expected to remain above average levels for the projection horizon.

WANT TO KNOW MORE?

- [Monetary Policy Statement](#), ECB press conference, 9 June 2022

June 2022 macroeconomic projections: baseline scenario

Euro area real GDP is expected to grow by 2.8% on average in 2022 and by 2.1% in both 2023 and 2024.

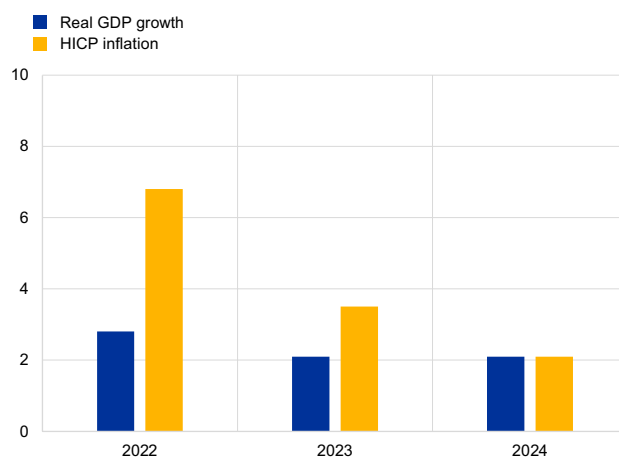
- The war in Ukraine has hit confidence, intensified supply bottlenecks and driven up commodity prices, eroding purchasing power. Despite these headwinds weighing on near-term growth, it is being boosted by the reopening of the economy.
- As the headwinds fade, growth is expected to strengthen.

Annual inflation is expected to stand at 6.8% in 2022 and is then projected to decline to 3.5% in 2023 and 2.1% in 2024.

- Inflation will be higher and more persistent, driven by surging energy and food prices, global supply shortages and the effects of the reopening of the economy.

Euro area baseline scenario

(annual percentage change)



Source: Eurosystem staff calculations.

June 2022 macroeconomic projections: downside scenario

Given the high uncertainty surrounding the outlook, the projections are complemented by a downside scenario.

- The downside scenario reflects the possibility of a severe disruption to European energy supplies, leading to further spikes in energy prices and production cuts.

In the downside scenario, GDP growth is expected to stand at 1.3% in 2022, -1.7% in 2023 and 3.0% in 2024.

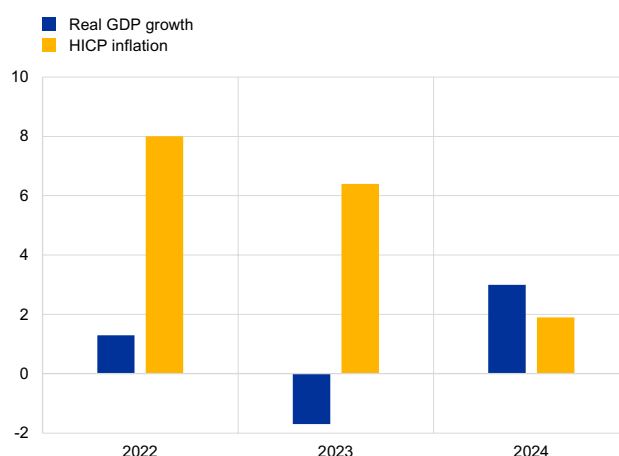
- One of the key drivers of the adverse GDP profile is the disruption to imported energy from Russia.
- While the recession is seen to be followed by a strong rebound, GDP remains below the baseline level at the end of the horizon.

In the downside scenario, HICP inflation is expected to stand at 8.0% in 2022, 6.4% in 2023 and 1.9% in 2024.

- Large commodity price increases imply strong upward price pressures, prolonging the expected period of elevated inflation.

Euro area downside scenario

(annual percentage change)



Source: Eurosystem staff calculations.

WANT TO KNOW MORE?

- [June 2022 Eurosystem Staff Macroeconomic Projections](#), ECB, 9 June 2022