

# Combined monetary policy decisions and statement

21 July 2022

## Monetary policy decisions

Today, in line with the Governing Council's strong commitment to its price stability mandate, the Governing Council took further key steps to make sure inflation returns to its 2% target over the medium term. The Governing Council decided to raise the three key ECB interest rates by 50 basis points and approved the Transmission Protection Instrument (TPI).

The Governing Council judged that it is appropriate to take a larger first step on its policy rate normalisation path than signalled at its previous meeting. This decision is based on the Governing Council's updated assessment of inflation risks and the reinforced support provided by the TPI for the effective transmission of monetary policy. It will support the return of inflation to the Governing Council's medium-term target by strengthening the anchoring of inflation expectations and by ensuring that demand conditions adjust to deliver its inflation target in the medium term.

At the Governing Council's upcoming meetings, further normalisation of interest rates will be appropriate. The frontloading today of the exit from negative interest rates allows the Governing Council to make a transition to a meeting-by-meeting approach to interest rate decisions. The Governing Council's future policy rate path will continue to be data-dependent and will help to deliver on its 2% inflation target over the medium term. In the context of its policy normalisation, the Governing Council will evaluate options for remunerating excess liquidity holdings.

The Governing Council assessed that the establishment of the TPI is necessary to support the effective transmission of monetary policy. In particular, as the Governing Council continues normalising monetary policy, the TPI will ensure that the monetary policy stance is transmitted smoothly across all euro area countries. The singleness of the Governing Council's monetary policy is a precondition for the ECB to be able to deliver on its price stability mandate.

The TPI will be an addition to the Governing Council's toolkit and can be activated to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area. The scale of TPI purchases depends on the severity of the risks facing

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policy transmission. Purchases are not restricted ex ante. By safeguarding the transmission mechanism, the TPI will allow the Governing Council to more effectively deliver on its price stability mandate.

In any event, the flexibility in reinvestments of redemptions coming due in the pandemic emergency purchase programme (PEPP) portfolio remains the first line of defence to counter risks to the transmission mechanism related to the pandemic.

The details of the TPI are described in a separate press release to be published at 15:45 CET.

## Key ECB interest rates

The Governing Council decided to raise the three key ECB interest rates by 50 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 0.50%, 0.75% and 0.00% respectively, with effect from 27 July 2022.

At the Governing Council's upcoming meetings, further normalisation of interest rates will be appropriate. The frontloading today of the exit from negative interest rates allows the Governing Council to make a transition to a meeting-by-meeting approach to interest rate decisions. The Governing Council's future policy rate path will continue to be data-dependent and will help to deliver on its 2% inflation target over the medium term.

## 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 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 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 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 Governing Council's new TPI will safeguard the smooth transmission of its monetary policy stance throughout the euro area.

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.

Today, in line with our strong commitment to our price stability mandate, the Governing Council took further key steps to make sure inflation returns to our two per cent target over the medium term. We decided to raise the three key ECB interest rates by 50 basis points and approved the Transmission Protection Instrument (TPI).

The Governing Council judged that it is appropriate to take a larger first step on its policy rate normalisation path than signalled at its previous meeting. This decision is based on our updated assessment of inflation risks and the reinforced support provided by the TPI for the effective transmission of monetary policy. It will support the return of inflation to our medium-term target by strengthening the anchoring of inflation expectations and by ensuring that demand conditions adjust to deliver our inflation target in the medium term.

At our upcoming meetings, further normalisation of interest rates will be appropriate. The frontloading today of the exit from negative interest rates allows us to make a transition to a meeting-by-meeting approach to our interest rate decisions. Our future policy rate path will continue to be data-dependent and will help us deliver on our two per cent inflation target over the medium term. In the context of our policy normalisation, we will evaluate options for remunerating excess liquidity holdings.

We assessed that the establishment of the TPI is necessary to support the effective transmission of monetary policy. In particular, as we continue normalising monetary policy, the TPI will ensure that our monetary policy stance is transmitted smoothly across all euro area countries. The singleness of our monetary policy is a precondition for the ECB to be able to deliver on its price stability mandate.

The TPI will be an addition to our toolkit and can be activated to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area. The scale of TPI purchases depends on the severity of the risks facing policy transmission. Purchases are not restricted ex ante. By safeguarding the transmission mechanism, the TPI will allow the Governing Council to more effectively deliver on its price stability mandate.

In any event, the flexibility in reinvestments of redemptions coming due in the pandemic emergency purchase programme (PEPP) portfolio remains the first line of defence to counter risks to the transmission mechanism related to the pandemic.

The decisions taken today are set out in a press release available on our website. The details of the TPI are described in a separate press release to 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

Economic activity is slowing. Russia's unjustified aggression towards Ukraine is an ongoing drag on growth. The impact of high inflation on purchasing power, continuous supply constraints and higher uncertainty are having a dampening effect on the economy. Firms continue to face higher costs and disruptions in their supply chains, although there are tentative signs that some of the supply bottlenecks are easing. Taken together, these factors are significantly clouding the outlook for the second half of 2022 and beyond.

At the same time, economic activity continues to benefit from the reopening of the economy, a strong labour market and fiscal policy support. In particular, the full reopening of the economy is supporting spending in the services sector. As people start to travel again, tourism is expected to help the economy in the third quarter of this year. Consumption is being supported by the savings that households built up during the pandemic and by a strong labour market.

Fiscal policy is helping to cushion the impact of the war in Ukraine for those bearing the brunt of higher energy prices. Temporary and targeted measures should be tailored so as to limit the risk of fuelling inflationary pressures. Fiscal policies in all countries should aim at preserving debt sustainability, as well as raising the growth potential in a sustainable manner to enhance the recovery.

## Inflation

Inflation increased further to 8.6 per cent in June. Surging energy prices were again the most important component of overall inflation. Market-based indicators suggest that global energy prices will stay high in the near term. Food inflation also rose further, standing at 8.9 per cent in June, in part reflecting the importance of Ukraine and Russia as producers of agricultural goods.

Persistent supply bottlenecks for industrial goods and recovering demand, especially in the services sector, are also contributing to the current high rates of inflation. Price pressures are spreading across more and more sectors, in part owing to the indirect impact of high energy costs across the whole economy. Accordingly, most measures of underlying inflation have risen further.

We expect inflation to remain undesirably high for some time, owing to continued pressures from energy and food prices and pipeline pressures in the pricing chain. Higher inflationary pressures are also stemming from the depreciation of the euro exchange rate. But looking further ahead, in the absence of new disruptions, energy costs should stabilise and supply bottlenecks should ease, which, together with the ongoing policy normalisation, should support the return of inflation to our target.

The labour market remains strong. Unemployment fell to a historical low of 6.6 per cent in May. Job vacancies across many sectors show that there is robust demand for labour. Wage growth, also according to forward-looking indicators, has continued to increase gradually over the last few months, but still remains contained overall. Over time, the strengthening of the economy and some catch-up effects should support faster growth in wages. 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

A prolongation of the war in Ukraine remains a source of significant downside risk to growth, especially if energy supplies from Russia were to be disrupted to such an extent that it led to rationing for firms and households. The war may also further dampen confidence and aggravate supply-side constraints, while energy and food costs could remain persistently higher than expected. A faster deceleration in global growth would also pose a risk to the euro area outlook.

The risks to the inflation outlook continue to be on the upside and have intensified, particularly in the short term. 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 been volatile as a result of the pronounced economic and geopolitical uncertainty. Bank funding costs have risen in recent months, which has increasingly fed into higher

bank lending rates, in particular for households. While the volume of bank lending to households remains strong, it is expected to decline in view of lower demand. Lending to firms has also been robust as high production costs, inventory building and lower reliance on market funding have created a continued need for credit from banks. At the same time, demand for loans to finance investment has declined. Money growth has continued to moderate owing to lower liquid savings and lower Eurosystem asset purchases.

Our most recent bank lending survey reports that credit standards tightened for all loan categories in the second quarter of the year, as banks are becoming more concerned about the risks faced by their customers in the current uncertain environment. Banks expect to continue tightening their credit standards in the third quarter.

## Conclusion

Summing up, inflation continues to be undesirably high and is expected to remain above our target for some time. The latest data indicate a slowdown in growth, clouding the outlook for the second half of 2022 and beyond. At the same time, this slowdown is being cushioned by a number of supportive factors.

The Governing Council has today decided to raise the key ECB interest rates and approved the TPI. At our upcoming meetings, further normalisation of interest rates will be appropriate. Our future policy rate path will continue to be data-dependent and will help us deliver on our two per cent inflation target over the medium term.

We stand ready to adjust all of our instruments within our mandate to ensure that inflation stabilises at our two per cent target over the medium term. Our new TPI will safeguard the smooth transmission of our monetary policy stance throughout the euro area as we keep adjusting the stance to address high inflation.

We are now ready to take your questions.