

# Combined monetary policy decisions and statement

27 October 2022

## Monetary policy decisions

The Governing Council today decided to raise the three key ECB interest rates by 75 basis points. With this third major policy rate increase in a row, the Governing Council has made substantial progress in withdrawing monetary policy accommodation. The Governing Council took today's decision, and expects to raise interest rates further, to ensure the timely return of inflation to its 2% medium-term inflation target. The Governing Council will base the future policy rate path on the evolving outlook for inflation and the economy, following its meeting-by-meeting approach.

Inflation remains far too high and will stay above the target for an extended period. In September, euro area inflation reached 9.9%. In recent months, soaring energy and food prices, supply bottlenecks and the post-pandemic recovery in demand have led to a broadening of price pressures and an increase in inflation. The Governing Council's monetary policy is aimed at reducing support for demand and guarding against the risk of a persistent upward shift in inflation expectations.

The Governing Council also decided to change the terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO III). During the acute phase of the pandemic, this instrument played a key role in countering downside risks to price stability. Today, in view of the unexpected and extraordinary rise in inflation, it needs to be recalibrated to ensure that it is consistent with the broader monetary policy normalisation process and to reinforce the transmission of policy rate increases to bank lending conditions. The Governing Council therefore decided to adjust the interest rates applicable to TLTRO III from 23 November 2022 and to offer banks additional voluntary early repayment dates.

Finally, in order to align the remuneration of minimum reserves held by credit institutions with the Eurosystem more closely with money market conditions, the Governing Council decided to set the remuneration of minimum reserves at the ECB's deposit facility rate.

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The details of the changes to the TLTRO III terms and conditions are described in a separate press release to be published at 15:45 CET. Another technical press release, detailing the change to the remuneration of minimum reserves, will also be published at 15:45 CET.

## 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 2.00%, 2.25% and 1.50% respectively, with effect from 2 November 2022.

## 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.

The Governing Council will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic.

## Refinancing operations

The Governing Council decided to adjust the interest rates applicable to TLTRO III. From 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate on TLTRO III operations will be indexed to the average applicable key ECB interest rates over this period. The Governing Council also decided to offer banks additional voluntary early repayment dates. In any case, the Governing Council will 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. With this third major policy rate increase in a row, we have made substantial progress in withdrawing monetary policy accommodation. We took today's decision, and expect to raise interest rates further, to ensure the timely return of inflation to our two per cent medium-term inflation target. We will base the future policy rate path on the evolving outlook for inflation and the economy, following our meeting-by-meeting approach.

Inflation remains far too high and will stay above our target for an extended period. In September, euro area inflation reached 9.9 per cent. In recent months, soaring energy and food prices, supply bottlenecks and the post-pandemic recovery in demand have led to a broadening of price pressures and an increase in inflation. Our monetary policy is aimed at reducing support for demand and guarding against the risk of a persistent upward shift in inflation expectations.

The Governing Council also decided to change the terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO III). During the acute phase of the pandemic, this instrument played a key role in countering downside risks to price stability. Today, in view of the unexpected and extraordinary rise in inflation, it needs to be recalibrated to ensure that it is consistent with the broader monetary policy normalisation process and to reinforce the transmission of our policy rate increases to bank lending conditions. We therefore decided to adjust the interest rates applicable to TLTRO III from 23 November 2022 and to offer banks additional voluntary early repayment dates.

Finally, in order to align the remuneration of minimum reserves held by credit institutions with the Eurosystem more closely with money market conditions, we decided to set the remuneration of minimum reserves at the ECB's deposit facility rate.

The decisions taken today are set out in a press release available on our website. The details of the changes to the TLTRO III terms and conditions are described in a separate press release to be published at 15:45 CET. Another technical press release, detailing the change to the remuneration of minimum reserves, will also 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 in the euro area is likely to have slowed significantly in the third quarter of the year, and we expect a further weakening in the remainder of this year and the beginning of next year. By reducing people's real incomes and pushing up costs for firms, high inflation continues to dampen spending and production. Severe disruptions in the supply of gas have worsened the situation further, and both consumer and business confidence have fallen rapidly, which is also weighing on the economy. Demand for services is slowing, after a strong performance in previous quarters when those sectors most affected by the pandemic-related restrictions reopened, and survey-based indicators for new orders in the manufacturing sector are falling. Moreover, global economic activity is growing more slowly, in a context of persistent geopolitical uncertainty, especially owing to Russia's unjustified war against Ukraine, and tighter financing conditions. Worsening terms of trade, as the prices paid for imports rise faster than those received for exports, are weighing on incomes in the euro area.

The labour market continued to perform well in the third quarter, and the unemployment rate remained at the historically low level of 6.6 per cent in August. While short-term indicators suggest that jobs were still being created in the third quarter, the weakening of the economy could lead to somewhat higher unemployment in the future.

To limit the risk of fuelling inflation, fiscal support measures to shield the economy from the impact of high energy prices should be temporary and targeted at the most vulnerable. Policymakers should provide incentives to lower energy consumption and bolster energy supply. At the same time, governments should pursue fiscal policies that show they are committed to gradually bringing down high public debt ratios. Structural policies should be designed to increase the euro area's growth potential and supply capacity and to boost its resilience, thereby contributing to a reduction in medium-term price pressures. The swift implementation of the investment and structural reform plans under the Next Generation EU programme will make an important contribution to these objectives.

## Inflation

Inflation rose to 9.9 per cent in September, reflecting further increases in all components. Energy price inflation, at 40.7 per cent, remained the main driver of overall inflation, with an increasing contribution from gas and electricity prices. Food price inflation also rose further, to 11.8 per cent, as high input costs made food production more expensive.

Supply bottlenecks are gradually easing, though their lagged impact is still contributing to inflation. The impact of pent-up demand, while weakening, is still driving up prices in the services sector. The depreciation of the euro has added to the build-up of inflationary pressures.

Price pressures are evident in more and more sectors, in part owing to the impact of high energy costs feeding through to the whole economy. Measures of underlying inflation have thus remained at elevated levels. Among those measures, inflation excluding energy and food rose further to 4.8 per cent in September.

Strong labour markets are likely to support higher wages, as is some catch-up in wages to compensate for higher inflation. Incoming wage data and recent wage agreements indicate that the growth of wages may be picking up. Most measures of longer-term inflation expectations currently stand at around two per cent, although further above-target revisions to some indicators warrant continued monitoring.

## Risk assessment

The incoming data confirm that risks to the economic growth outlook are clearly on the downside, especially in the near term. A long-lasting war in Ukraine remains a significant risk. Confidence could deteriorate further and supply-side constraints could worsen again. Energy and food costs could also remain persistently higher than expected. A weakening world economy could be an additional drag on growth in the euro area.

The risks to the inflation outlook are primarily on the upside. The major risk in the short term is a further rise in retail energy prices. Over the medium term, inflation may turn out to be higher than expected if there are increases in the prices of energy and food commodities and a stronger pass-through to consumer prices, a persistent worsening of the production capacity of the euro area economy, a persistent rise in inflation expectations above our target, or higher than anticipated wage rises. By contrast, a decline in energy costs and a further weakening of demand would lower price pressures.

## Financial and monetary conditions

Bank funding costs are increasing in response to the rise in market interest rates. Borrowing has also become more expensive for firms and households. Bank lending to firms remains robust, as they need to finance high production costs and build up inventories. At the same time, demand for loans to finance investment has continued to decline. Lending to households is moderating, as credit standards

have tightened and demand for loans has decreased in a context of rising interest rates and low consumer confidence.

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

## Conclusion

Summing up, today we have raised the three key ECB interest rates by 75 basis points, and expect to raise interest rates further, to ensure the timely return of inflation to our medium-term target. With this third major policy rate increase in a row, we have made substantial progress in withdrawing monetary policy accommodation. The changes to the terms and conditions of our targeted longer-term refinancing operations will also contribute to the ongoing policy normalisation process.

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.