ECB, July 21, 2022,
Press Release – Changes from June 9, 2022, and Press Conference

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Summary

- strong commitment to price stability mandate (No Change)
- took further key steps to make sure that inflation returns to its 2% target over the medium term (Change)
- decided to raise the three key ECB interest rates by 50 basis points; 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, taking effect July 27, 2022 (Change)
- approved the Transmission Protection Instrument (TPI) and will ensure that the monetary policy stance is transmitted smoothly across all euro area countries (Change)
- further normalisation of interest rates will be appropriate and will make a transition to a meeting-by-meeting approach to interest rate decisions (Change)
- continue to be data-dependent which will help to deliver on its 2% inflation target over the medium term (Change)
- 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 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. (Change)
- 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 (No Change)
- for the PEPP, 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.

PRESS RELEASE

Monetary policy decisions

21 July ~~9 June~~ 2022

Today, in line with the Governing Council's strong commitment to its price stability mandate, the ~~High inflation is a major challenge for all of us. The~~ Governing Council **took further key steps to** ~~will~~ make sure ~~that~~ 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 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.

~~In May inflation again rose significantly, mainly because of surging energy and food prices, including due to the impact of the war. But inflation pressures have broadened and intensified, with prices for many goods and services increasing strongly. Eurosystem staff have revised their baseline inflation projections up significantly. These projections indicate that inflation will remain undesirably elevated for some time. However, moderating energy costs, the easing of supply disruptions related to the pandemic and the normalisation of monetary policy are expected to lead to a decline in inflation. The new staff projections foresee annual inflation at 6.8% in 2022, before it is projected to decline to 3.5% in 2023 and 2.1% in 2024 – higher than in the March projections. This means that headline inflation at the end of the projection horizon is projected to be slightly above the Governing Council's target. Inflation excluding energy and food is projected to average 3.3% in 2022, 2.8% in 2023 and 2.3% in 2024 – also above the March projections.~~

~~Russia's unjustified aggression towards Ukraine continues to weigh on the economy in Europe and beyond. It is disrupting trade, is leading to shortages of materials, and is contributing to high energy and commodity prices. These factors will continue to weigh on confidence and dampen growth, especially in the near term. However, the conditions are in place for the economy to continue to grow on account of the ongoing reopening of the economy, a strong labour market, fiscal support and savings built up during the pandemic. Once current headwinds abate, economic activity is expected to pick up again. This outlook is broadly reflected in the Eurosystem staff projections, which foresee annual real GDP growth at 2.8% in 2022, 2.1% in 2023 and 2.1% in 2024. Compared with the March projections, the outlook has been revised down significantly for 2022 and 2023, while for 2024 it has been revised up.~~

~~On the basis of its updated assessment, the Governing Council decided to take further steps in normalising its monetary policy. Throughout this process, the Governing Council will maintain optionality, data-dependence, gradualism and flexibility in the conduct of monetary policy.~~

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

~~The Governing Council decided to end net asset purchases under its asset purchase programme (APP) as of 1 July 2022.~~ 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** ~~pandemic emergency purchase programme (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.

~~In the event of renewed market fragmentation related to the pandemic, PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time. This could include purchasing bonds issued by the Hellenic Republic over and above rollovers of redemptions in order to avoid an interruption of purchases in that jurisdiction, which could impair the transmission of monetary policy to the Greek economy while it is still recovering from the fallout from the pandemic. Net purchases under the PEPP could also be resumed, if necessary, to counter negative shocks related to the pandemic.~~

~~**Key ECB interest rates**~~

~~The Governing Council undertook a careful review of the conditions which, according to its forward guidance, should be satisfied before it starts raising the key ECB interest rates. As a result of this assessment, the Governing Council concluded that those conditions have been satisfied.~~

~~Accordingly, and in line with the Governing Council's policy sequencing, the Governing Council intends to raise the key ECB interest rates by 25 basis points at its July monetary policy meeting. In the meantime, the Governing Council decided to leave the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.50% respectively.~~

~~Looking further ahead, the Governing Council expects to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting.~~

~~Beyond September, based on its current assessment, the Governing Council anticipates that a gradual but sustained path of further increases in interest rates will be appropriate. In line with the Governing Council's commitment to its 2% medium-term target, the pace at which the~~

~~Governing Council adjusts its monetary policy will depend on the incoming data and how it assesses inflation to develop in the medium term.~~

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. ~~As announced previously, the special conditions applicable under TLTRO III will end on 23 June 2022.~~

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The Governing Council stands ready to adjust all of its instruments **within its mandate**, ~~incorporating flexibility if warranted,~~ to ensure that inflation stabilises at its 2% target over the medium term. **The Governing Council's new TPI will safeguard** ~~The pandemic has shown that, under stressed conditions, flexibility in~~ the smooth ~~design and conduct of asset purchases has helped to counter the impaired~~ transmission of **its** monetary policy **stance throughout the euro area** ~~and made the Governing Council's efforts to achieve its goal more effective. Within the ECB's mandate, under stressed conditions, flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability~~.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:**45** ~~30~~ CET today.

https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.mp220721~53e5bdd317.en.html

PRESS RELEASE

The Transmission Protection Instrument

21 July 2022

The Governing Council today approved the Transmission Protection Instrument (TPI). 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 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. By safeguarding the transmission mechanism, the TPI will allow the Governing Council to more effectively deliver on its price stability mandate.

Subject to fulfilling established criteria, the Eurosystem will be able to make secondary market purchases of securities issued in jurisdictions experiencing a deterioration in financing conditions not warranted by country-specific fundamentals, to counter risks to the transmission mechanism to the extent necessary. The scale of TPI purchases would depend on the severity of the risks facing monetary policy transmission. Purchases are not restricted ex ante.

Purchase parameters

TPI purchases would be focused on public sector securities (marketable debt securities issued by central and regional governments as well as agencies, as defined by the ECB) with a remaining maturity of between one and ten years. Purchases of private sector securities could be considered, if appropriate.

Eligibility

The Governing Council will consider a cumulative list of criteria to assess whether the jurisdictions in which the Eurosystem may conduct purchases under the TPI pursue sound and sustainable fiscal and macroeconomic policies. These criteria will be an input into the Governing Council's decision-making and will be dynamically adjusted to the unfolding risks and conditions to be addressed.

In particular, the criteria include: (1) compliance with the EU fiscal framework: not being subject to an excessive deficit procedure (EDP), or not being assessed as having failed to take effective action in response to an EU Council recommendation under Article 126(7) of the Treaty on the Functioning of the European Union (TFEU); (2) absence of severe macroeconomic imbalances: not being subject to an excessive imbalance procedure (EIP) or not being assessed as having failed to take the recommended corrective action related to an EU Council recommendation under Article 121(4) TFEU; (3) fiscal sustainability: in ascertaining that the trajectory of public debt is sustainable, the Governing Council will take into account, where available, the debt sustainability analyses by the European Commission, the European

Stability Mechanism, the International Monetary Fund and other institutions, together with the ECB's internal analysis; (4) sound and sustainable macroeconomic policies: complying with the commitments submitted in the recovery and resilience plans for the Recovery and Resilience Facility and with the European Commission's country-specific recommendations in the fiscal sphere under the European Semester.

Activation

A decision by the Governing Council to activate the TPI will be based on a comprehensive assessment of market and transmission indicators, an evaluation of the eligibility criteria and a judgement that the activation of purchases under the TPI is proportionate to the achievement of the ECB's primary objective.

Purchases would be terminated either upon a durable improvement in transmission, or based on an assessment that persistent tensions are due to country fundamentals.

Creditor treatment

The Eurosystem accepts the same (pari passu) treatment as private or other creditors with respect to bonds issued by euro area governments and purchased by the Eurosystem under the TPI, in accordance with the terms of such bonds.

Relation to the monetary policy stance

In order to avoid potential interference with the appropriate monetary policy stance, should the TPI be activated, the Governing Council will address the implications of the TPI purchases for the scale of the aggregate Eurosystem monetary policy debt security portfolio and the amount of excess liquidity. Purchases under the TPI would be conducted such that they cause no persistent impact on the overall Eurosystem balance sheet and hence on the monetary policy stance.

PEPP reinvestment flexibility

PEPP reinvestment flexibility will continue to be the first line of defence to counter risks to the transmission mechanism related to the pandemic.

Outright Monetary Transactions (OMT)

The OMT is part of the Eurosystem's toolkit. The Governing Council retains discretion to conduct the OMT for countries that fulfil the requisite criteria for the OMT.

https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220721~973e6e7273.en.html

MONETARY POLICY STATEMENT
PRESS CONFERENCE
Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB
Frankfurt am Main, 21 July 2022

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.
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https://www.ecb.europa.eu/press/pressconf/2022/html/ecb.is220414~fa5c8fe142.en.html