ECB, September 8, 2022, Press Release – Changes from July 21, 2022, and Press Conference

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Summary

- 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 1.25%, 1.50%, and 0.75% respectively, with effect from 14 September 2022. (change)
- This frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to the ECB's 2% medium-term target. (Change)
- expects to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations (Change)
- will regularly reevaluate its policy path in light of incoming information and the evolving inflation outlook (Change)
- Inflation remains far too high and is likely to stay above target for an extended period. (Change)
- The latest staff projections for economic growth have been revised down markedly for the remainder of the current year and throughout 2023. (Change)
- continue applying flexibility in reinvesting redemptions coming due in the pandemic emergency purchase programme portfolio with a view to countering risks to the transmission mechanism related to the pandemic (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)
- Following the raising of the deposit facility rate to above zero, the two-tier system for the remuneration of excess reserves is no longer necessary. The Governing Council therefore decided to suspend the two-tier system by setting the multiplier to zero. (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)
- 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. (No Change)

PRESS RELEASE

Monetary policy decisions

8 September ~~*21 July*~~ *2022*

The Gverning Council today ~~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 75 ~~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 major step frontloads the transition from the prevailing highly accommodative level ~~decision is based on the Governing Council's updated assessment~~ of **policy rates towards levels that will ensure the timely** ~~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 ECB's 2%** ~~Governing Council's~~ medium-term target. **Based on its current assessment, over** ~~by strengthening~~ the **next several** ~~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, the Governing Council expects to raise ~~further normalisation of interest rates will be appropriate. The frontloading today of the exit from negative~~ interest rates **further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations. The Governing Council will regularly re-evaluate its policy path in light of incoming information and the evolving inflation outlook.** ~~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 **decisions** ~~path~~ will continue to be data-dependent and **follow a meeting-by-meeting approach.** ~~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 took today's decision, and expects to raise interest rates further, because inflation remains far too high and is likely to stay above target for an extended period. According to Eurostat's flash estimate, inflation reached 9.1% in August. Soaring energy and food prices, demand pressures in some sectors owing to the reopening of the economy, and supply bottlenecks are still driving up inflation. Price pressures have continued to strengthen and broaden across the economy and inflation may rise further in the near term. As the current drivers of inflation fade over time and the normalisation of monetary policy works its way through to the economy and price-setting, inflation will come down. Looking ahead, ECB staff have significantly revised up their inflation projections and inflation is now expected to average 8.1% in 2022, 5.5% in 2023 and 2.3% in 2024.

After a rebound in the first half of 2022, recent data point to a substantial slowdown in euro area economic growth, with the economy expected to stagnate later in the year and in the first quarter of 2023. Very high energy prices are reducing the purchasing power of people's incomes and, although supply bottlenecks are easing, they are still constraining economic activity. In addition, the adverse geopolitical situation, especially Russia's unjustified aggression towards Ukraine, is weighing on the confidence of businesses and consumers. This outlook is reflected in the latest staff projections for economic growth, which have been revised down markedly for the remainder of the current year and throughout 2023. Staff now expect the economy to grow by 3.1% in 2022, 0.9% in 2023 and 1.9% in 2024.

The lasting vulnerabilities caused by the pandemic still pose a risk to the smooth transmission of monetary policy. The Governing Council will therefore continue applying ~~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 **reinvesting** ~~reinvestments of~~ redemptions coming due in the pandemic emergency purchase programme ~~(PEPP)~~ portfolio**, with a view** ~~remains the first line of defence~~ to **countering** ~~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 **75** ~~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 **1.25%**. 1~~0~~.50%, ~~0.75%~~ and 0.**75%** ~~00%~~ respectively, with effect from **14 September** ~~27 July~~ 2022.

Following the raising of the deposit facility rate to above zero, the two-tier system for the remuneration of excess reserves is no longer necessary. The Governing Council therefore decided today to suspend the two-tier system by setting the multiplier to zero.

~~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 **started** ~~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 **monetary policy** 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 **Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to** ~~Governing Council's new TPI will safeguard~~ the ~~smooth~~ transmission of ~~its~~ monetary policy **across all** ~~stance throughout the~~ euro area **countries, thus allowing the Governing Council to more effectively deliver**

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