ECB, October 27, 2022, Press Release – Changes from September 8, 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)

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PRESS RELEASE

Monetary policy decisions

27 October ~~*8 September*~~ *2022*

The Governing Council today decided to raise the three key ECB interest rates by 75 basis points. **With this third** ~~This major step frontloads the transition from the prevailing highly accommodative level of~~ policy **rate increase in a row**, ~~rates towards levels that will ensure the timely return of inflation to the ECB's 2% medium-term target. Based on its current assessment, over the next several meetings~~ the Governing Council **has made substantial progress** ~~expects to raise 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 withdrawing monetary policy accommodation.** ~~light of incoming information and the evolving inflation outlook. The Governing Council's future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.~~

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** ~~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.~~

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.

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. ~~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 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.~~

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 ~~1.25%, 1.50% and 0.75%~~ **2'00%, 2.15% and 1.5%** respectively, with effect from 2 November ~~14 September~~ 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.~~

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 ~~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 decided ~~will continue~~ to adjust ~~monitor bank funding conditions and ensure that~~ the interest rates applicable to ~~maturing of operations under the third series of targeted longer-term refinancing operations (~~TLTRO III **From 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation,**~~)~~ ~~does not hamper~~ **the interest rate on TLTRO III operations will be indexed to the average applicable key ECB interest rates over this period.** ~~smooth transmission of its monetary policy.~~ The Governing Council **also decided to offer banks additional voluntary early repayment dates. In any case, 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 the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

PRESS RELEASE

ECB recalibrates targeted lending operations to help restore price stability over the medium term

27 October 2022

- ECB recalibrates third series of targeted longer-term refinancing operations (TLTRO III) to ensure consistency with broader monetary policy normalisation process
- Recalibration will help address unexpected and extraordinary inflation increases by reinforcing transmission of policy rates to bank lending conditions
- From 23 November 2022, interest rate on all remaining TLTRO III operations to be indexed to average applicable key ECB interest rates from that date onward
- Existing interest rate calculation maintained for period up to 22 November 2022
- Modification accompanied by three additional voluntary early repayment dates introduced for banks wishing to terminate or reduce borrowings before maturity

The Governing Council of the European Central Bank (ECB) today decided to recalibrate the conditions of the third series of targeted longer-term refinancing operations (TLTRO III) as part of the monetary policy measures adopted to restore price stability over the medium term. In view of the current inflationary developments and outlook, it is necessary to adapt certain parameters of TLTRO III to reinforce the transmission of our policy rates to bank lending conditions so that TLTRO III contributes to the transmission of the monetary policy stance needed to ensure the timely return of inflation to the ECB's 2% medium-term target.

The recalibration of the TLTRO III terms and conditions will contribute to the normalisation of bank funding costs. The ensuing normalisation of financing conditions, in turn, will exert downward pressure on inflation, contributing to restoring price stability over the medium term. The recalibration also removes deterrents to early voluntary repayment of outstanding TLTRO III funds. Earlier voluntary repayments would reduce the Eurosystem balance sheet and, with that, contribute to the overall monetary policy normalisation.

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 existing interest rate calculation method will be maintained for the period from the settlement date of each respective TLTRO III operation until 22 November 2022, albeit with indexing to the applicable key ECB interest rates ending on that date.

Furthermore, three additional voluntary early repayment dates will be introduced to provide TLTRO III participants with additional opportunities to partly, or fully, repay their respective TLTRO III borrowings before their maturity.

The first additional voluntary repayment opportunity will coincide with the start of the new interest rate calculation method on 23 November 2022. Counterparties will need to inform their respective national central bank by 16 November 2022 of their intention to use this repayment option. The repayment calendar will be updated on the ECB's website accordingly.

These changes to the terms and conditions of TLTRO III will apply to all TLTRO III operations still outstanding and will be implemented via a sixth amendment to the Decision of the ECB of 22 July 2019 on a third series of targeted longer-term refinancing operations (ECB/2019/21), as amended by the Decisions of the ECB of 12 September 2019 (ECB/2019/28), 16 March 2020 (ECB/2020/13), 30 April 2020 (ECB/2020/25), 29 January 2021 (ECB/2021/3) and 30 April 2021 (ECB/2021/21). The amendment will shortly be published on the ECB's website and subsequently in the Official Journal of the European Union. The Governing Council stands ready to adjust all instruments within its mandate to ensure that inflation stabilises at the 2% medium-term target.

For media queries, please contact Silvia Margiocco, tel.: +49 69 1344 6619.

Notes

- The ECB announced TLTRO III on 7 March 2019 and published further details on 6 June 2019. It announced changes to TLTRO III on 12 September 2019, an easing of the conditions on 12 March 2020, a recalibration on 30 April 2020 and an extension of support for banks on 10 December 2020.
- Further information on TLTRO I, TLTRO II and TLTRO III can be found on the ECB's website.
- See the other monetary policy decisions of the ECB's Governing Council of 27 October 2022, also available on the ECB's website.

PRESS RELEASE

ECB adjusts remuneration of minimum reserves

27 October 2022

- Minimum reserves to be remunerated at deposit facility rate
- Change better aligns minimum reserves remuneration with money market rates

The Governing Council of the European Central Bank (ECB) today decided to set the remuneration of minimum reserves at the Eurosystem's deposit facility rate (DFR). The change will become effective as of the beginning of the reserve maintenance period starting on 21 December 2022.

Minimum reserves are the average funds that credit institutions are required to hold in their reserve accounts at their national central bank over a maintenance period.
These have until now been remunerated at the ECB's main refinancing operations (MRO) rate. However, under the prevailing market and liquidity conditions, the DFR better reflects the rate at which funds can be invested in money market instruments if not held as minimum reserves and the rate at which banks borrow funds in the money market to fulfil minimum reserves.
For media queries, please contact William Lelieveldt, tel.: +49 69 1344 7316.

Notes

- The ECB has published explanations of minimum reserves and the deposit facility rate.
- Further information on minimum reserves can be found in Regulation (EC) No 1745/2003 of the European Central Bank of 12 September 2003 on the application of minimum reserves (ECB/2003/9), (OJ L 250, 2.10.2003, p. 10).