



EUROPEAN CENTRAL BANK

EUROSYSTEM

# ECB Monetary Policy and challenges

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Universidad Carlos III  
Madrid



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# Overview

## 1. The ECB

- Organization
- Monetary Policy

## 2. Monetary Policy

- The situation before the pandemic
- The ECB's monetary policy response to the crisis
- The outlook today

## 3. Monetary Policy strategy review

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# 1. The ECB

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## Organisation and tasks

# The European Central Bank

We are an EU institution

We conduct monetary policy for the euro area

We supervise banks in the euro area (+HR and BG)



Around 3.500 staff in 3 buildings in Frankfurt

Employees come from all EU countries

Stable prices and safe banks benefit 340+ million Europeans

# Most EU countries have adopted the euro

■ EU Member States which have adopted the euro

■ EU Member States that have not yet adopted the euro

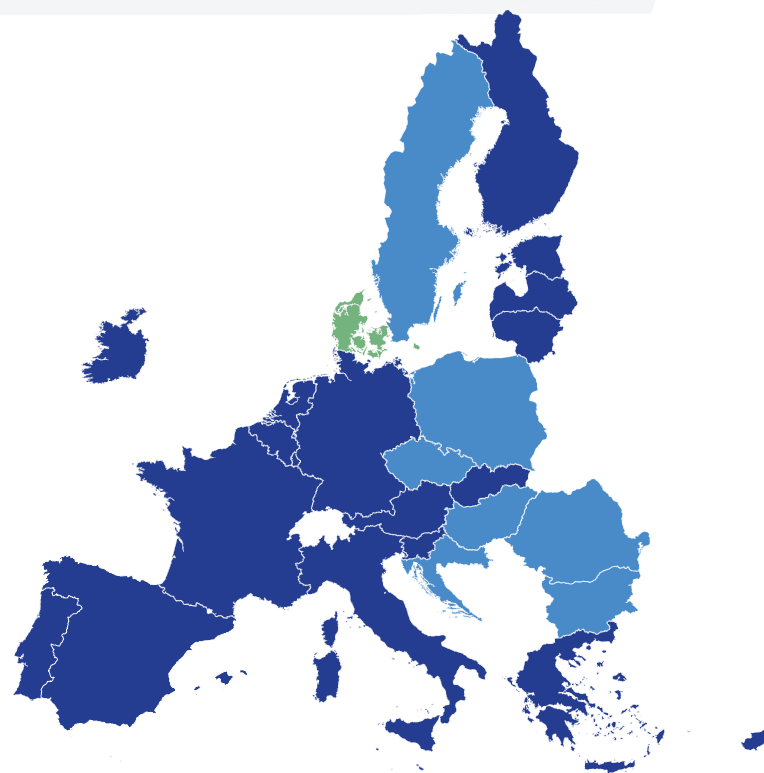
■ EU Member States with an exemption



**Monetary policy** is centralised at supranational level

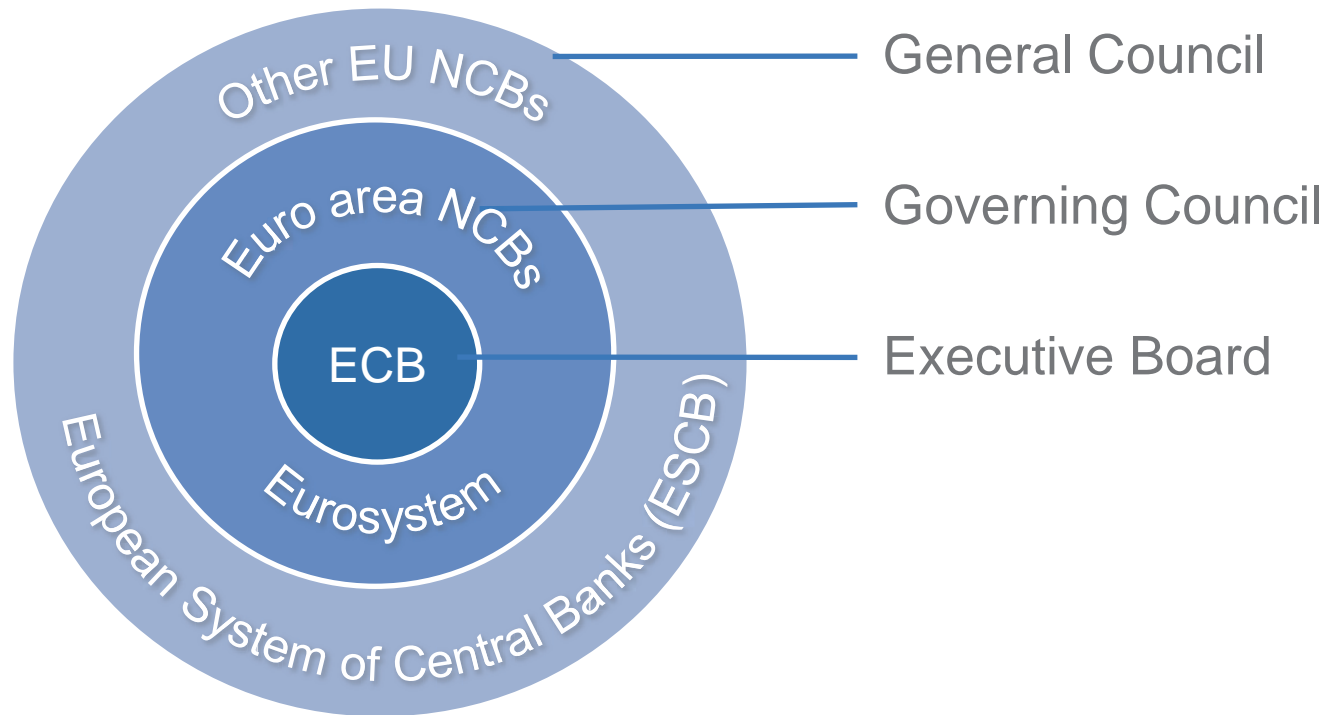


**Fiscal, economic and financial policies** are partly formulated at the national level





# The ECB is part of the European System of Central Banks



# The European Council appoints the ECB's Executive Board



**Christine Lagarde**  
President  
of the ECB

- Chief Services Officer
- DG-Secretariat
- DG-Communications
- ESRB Secretariat
- Directorate Internal Audit
- Counsel to the Executive Board



**Philip Lane**

- DG-Economics
- DG-Monetary Policy



**Isabel Schnabel**

- DG-Market Operations
- DG-Research
- DG-Statistics



**Luis de Guindos Jurado**  
Vice-President  
of the ECB

- Macroprudential Policy and Financial Stability
- Directorate Risk Management



**Fabio Panetta**

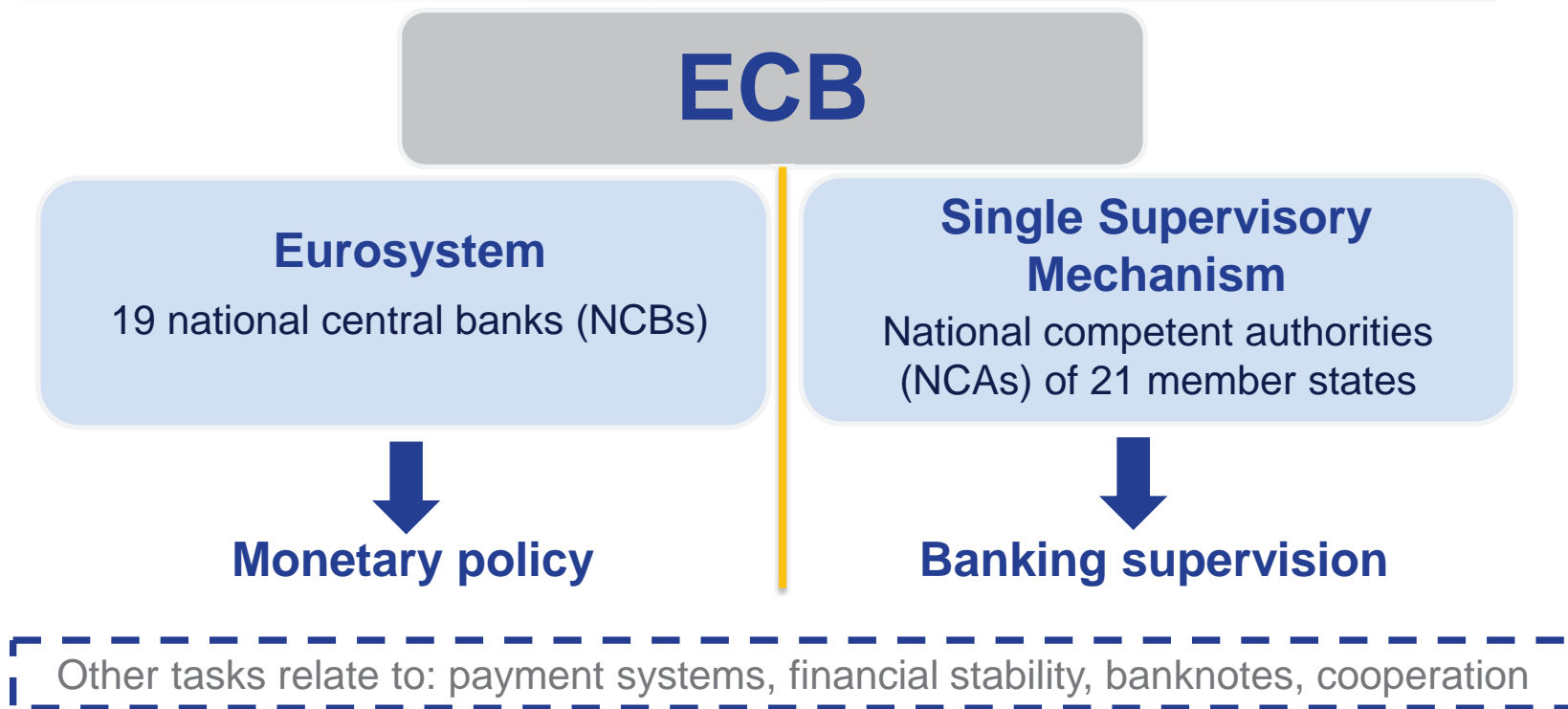
- DG-International and European Relations
- DG-Market Infrastructure and Payments
- Directorate Banknotes
- Division Oversight of Payment Systems



**Frank Elderson**

- DG-Legal Services
- SSM

# The ECB's monetary and supervisory functions are separated





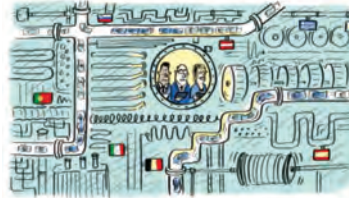
# The ECB's strategy review in a nutshell: *Content of the review*



1 Inflation measurement



2 Price stability objective



3 Analytical framework



4 Monetary policy and financial stability



5 Productivity, innovation and technological progress



6 Climate change



7 Monetary policy communication



8 Monetary policy instruments



9 Digitalisation



10 Globalisation



11 Inflation expectations



12 Shadow banking



13 Fiscal and monetary policy in a monetary union

# Price stability is the ECB's primary objective

**Article 127** of the Treaty on the Functioning of the European Union:

*“1. The primary objective of the ESCB [Eurosystem] shall be to maintain price stability.*

*Without prejudice to the objective of price stability, the ESCB [Eurosystem] shall support the general economic policies in the Union [...].”*

The ECB's Governing Council has defined price stability as annual **inflation below, but close to, 2% over the medium term.**

Breaking News:

ECB's Strategy has been updated

See next slide

# The ECB's strategy review in a nutshell: *Outcome of the review*

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Home > Homepage

## An overview of the ECB's monetary policy strategy

Publications 1 Introduction

### 1 Introduction

The new **monetary policy strategy** of the European Central Bank (ECB) was published on **8 July 2021**. While the mandate is conferred upon the ECB by the Treaties, the ECB has to devise its monetary policy strategy. This strategy sets out how to achieve the primary objective of maintaining price stability in the euro area, referring to an appropriate set of monetary policy instruments, indicators and intermediate targets, as well as how to take into account other considerations without prejudice to price stability. A monetary policy strategy serves two main purposes: first, it provides policymakers with a coherent analytical framework that maps actual or expected economic developments into policy decisions; second, it serves as a vehicle for communicating with the public. The ECB's monetary policy strategy was last reviewed in 2003 and the changes that have since occurred to the economic and financial backdrop as well as to the predominant policy challenges warranted an update. This overview details the rationale and thinking behind the strategy and its main elements.

- 1 Introduction
- 2 The economic backdrop and the past inflation narrative
- 3 The new ECB monetary policy strategy
- 4 The ECB's integrated analytical framework
- 5 The communication of the ECB's monetary policy decisions
- 6 A regular review cycle

## Core elements of the new strategy:

- ✓ Updated price stability definition (symmetric 2%-target)
- ✓ Roadmap to update HICP
- ✓ Take further relevant considerations within the ECB's price stability mandate into account, including climate change considerations.

# The ECB's strategy review in a nutshell: *Outcome of the review*

## **Aim:**

- monetary policy strategy → fit for purpose

## **Content:**

- All aspects related to price stability mandate
- One of them: measurement of inflation ([Occasional Paper](#))  
→ review of HICP including **Owner-Occupied Housing Price Index (OOHPI)**

## **Stakeholders:**

- Governing Council = ECB Board Members + Governors of National Central Banks

## Main messages on Owner-Occupied Housing

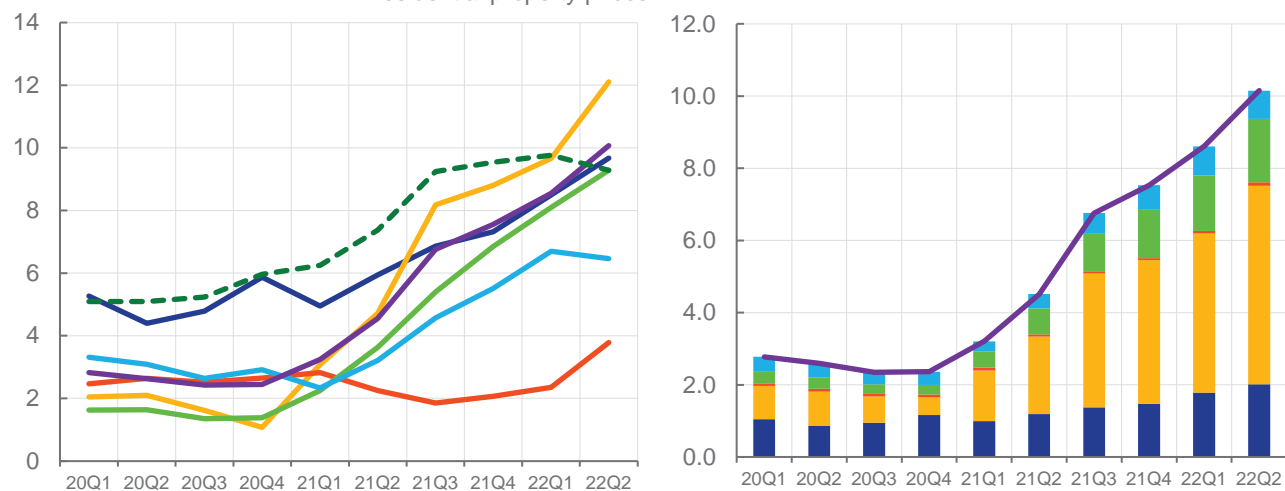
- **Inclusion of OOH in HICP:** most pressing in inflation measurement
- **Importance attached by citizens** (["ECB Listens"](#))
- **GovC welcomes good progress made by European Statistical System**
- **Steps:**
  - (i) **Quarterly HICP + OOHPI:** experimental, by 2023
  - (ii) **Amending the legal basis**
  - (iii) **HICP + monthly & timely OOHPI:** important target
- **Investment (asset component) vs. consumption:** requires further research

# Residential property and owner-occupied housing prices

## Residential property prices and components of owner-occupied housing price index (OOHPI)

(annual percentage change and pp contributions)

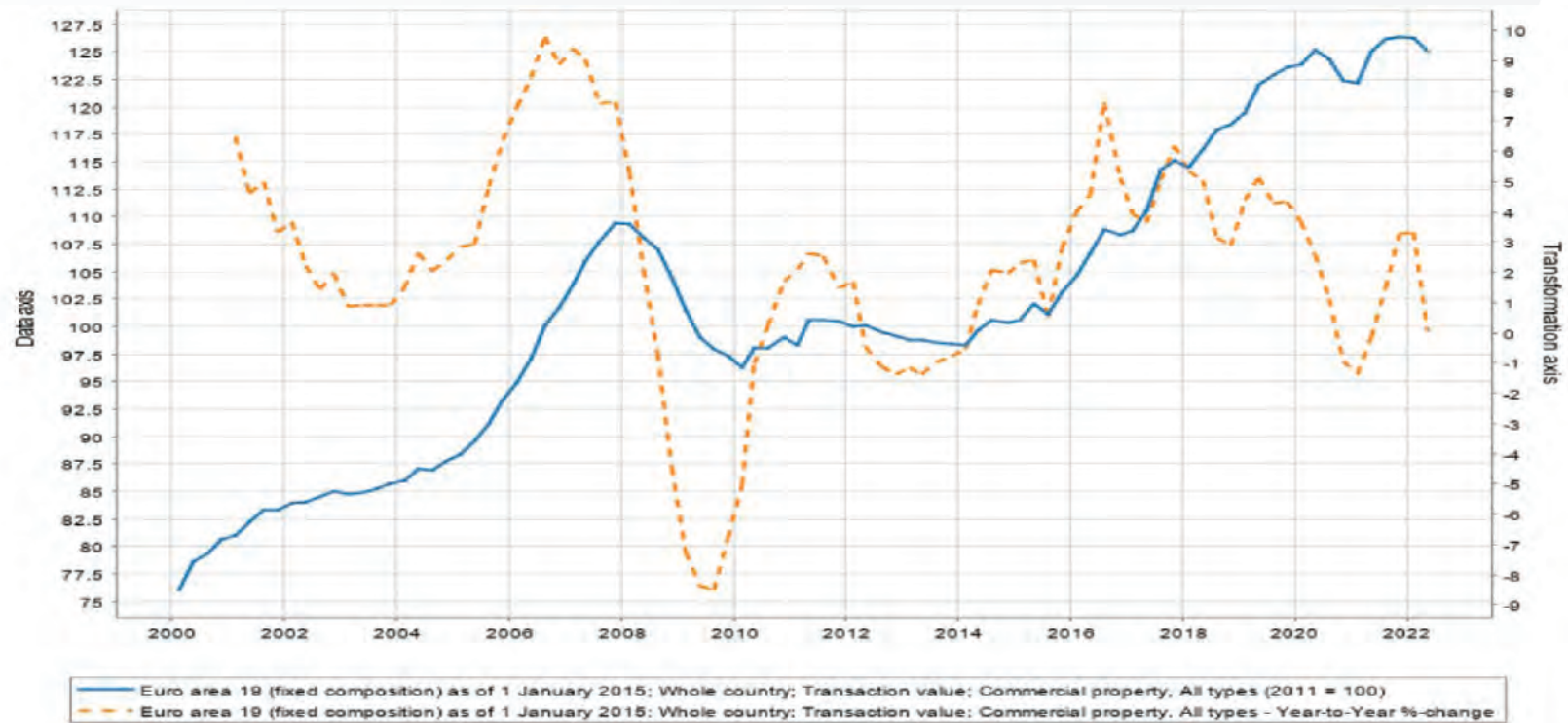
- Purchases of new dwellings (21%)
- Self-build dwellings and major renovations (44%)
- Insurance connected with dwellings (3%)
- Major repairs and maintenance (19%)
- Other services related to the acquisition of dwellings (13%)
- Owner-occupied housing price index (OOHPI)
- - - Residential property prices



Sources: Eurostat and ECB staff calculations.  
Latest observations: 2022 Q2.



# Commercial property prices



Sources: Eurostat and ECB staff calculations.  
Latest observations: 2022 Q2.

# Price stability supports income and employment



## How? By contributing to:

Recognizing changes in relative prices

Avoiding “inflation risk premium”

The productive use of resources

Reducing the distortionary impact of tax and social security systems

Maintaining social cohesion and stability

Financial stability

# Single Supervisory Mechanism (SSM)



ECB

Key pillar of the banking union. Ensures:

- safety and soundness of the banking system
- financial integration and stability
- consistency

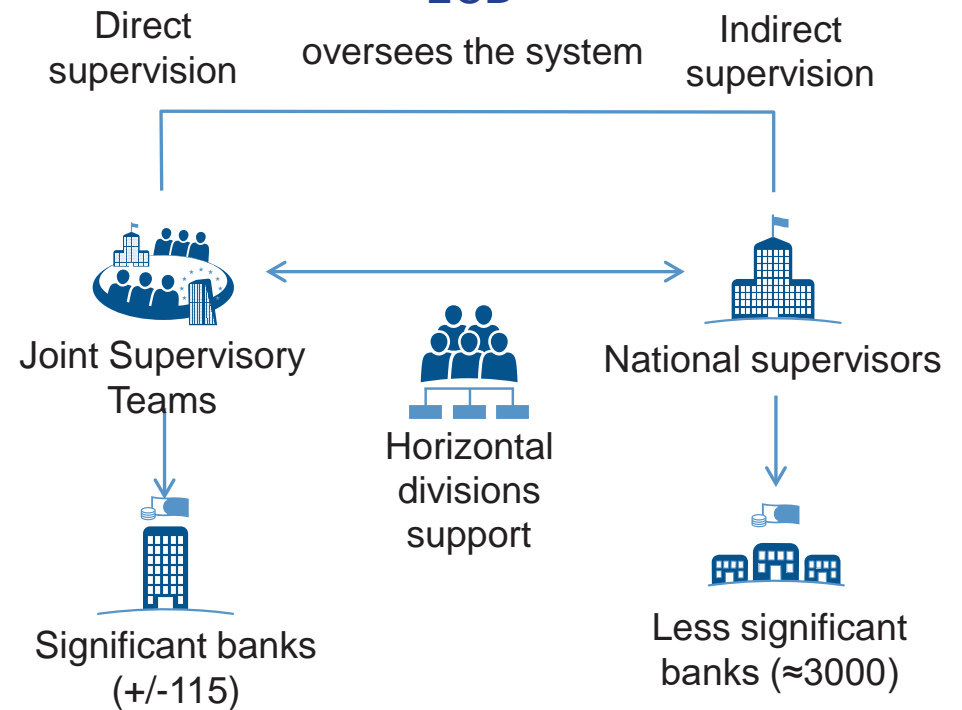
Based on common rulebook

Micro- and macro-prudential powers

Separation from monetary policy

Open to non-EA EU countries (BG, HR joined)

ECB 'call back right' for non-significant banks







# 2.

## Monetary Policy

- 
- The situation before the pandemic
  - The ECB's monetary policy response to the pandemic crisis
  - The situation today



## The situation before the pandemic



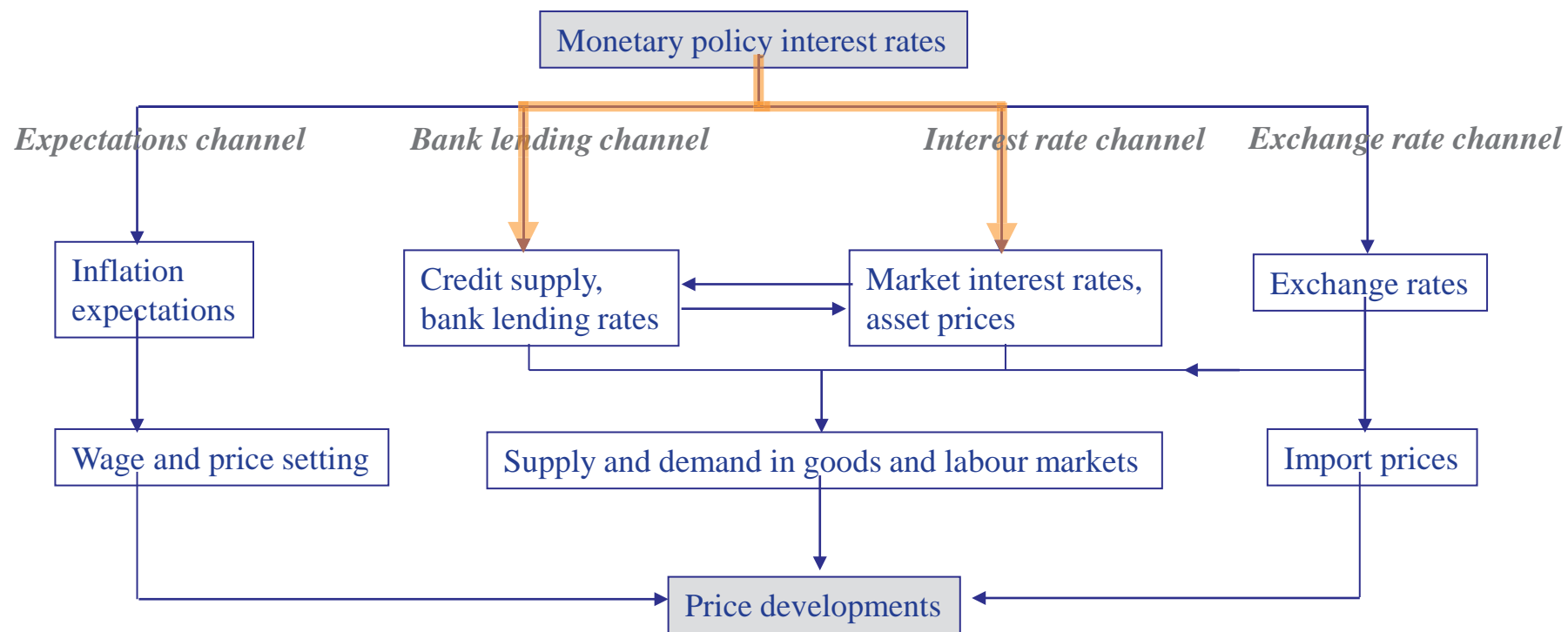


## Monetary policy in a nutshell

- The ECB tries to steer financial market interest rates by setting the price of short-term credit to commercial banks (**official interest rates**) and determining the amount of that credit (**liquidity**) to ultimately influence price developments
- In crisis situations and when official interest rates are no longer effective (**zero lower bound**), the ECB has to use alternative instruments to influence financial market conditions (**non-standard instruments**)

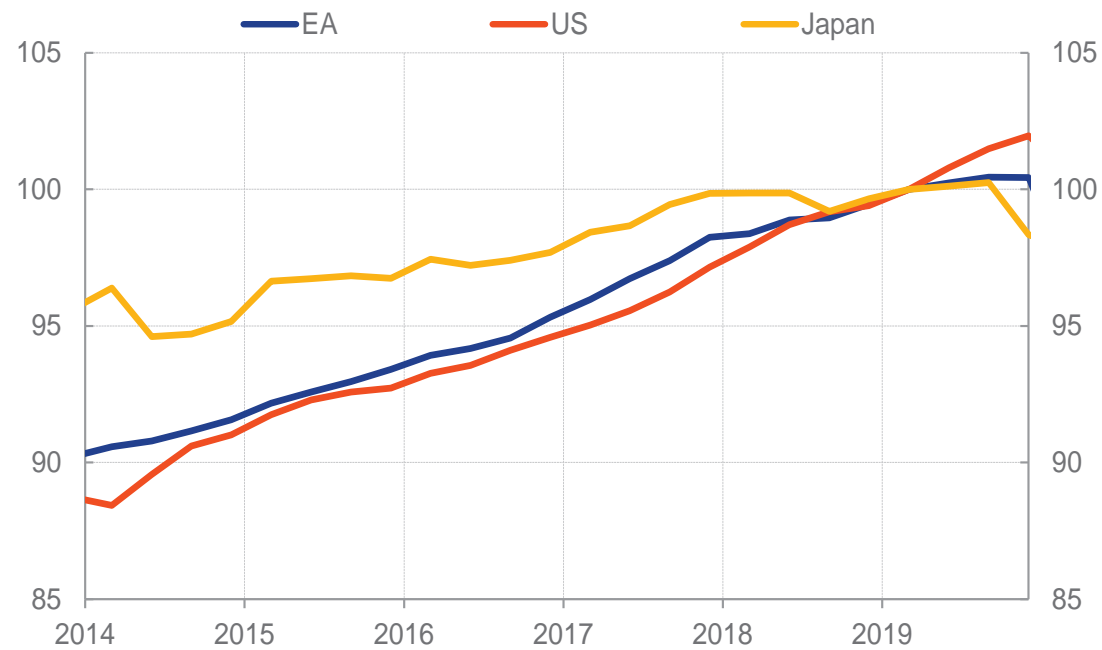


## Transmission channels of monetary policy decisions



## Economic dynamics weakening in Europe already before the pandemic...

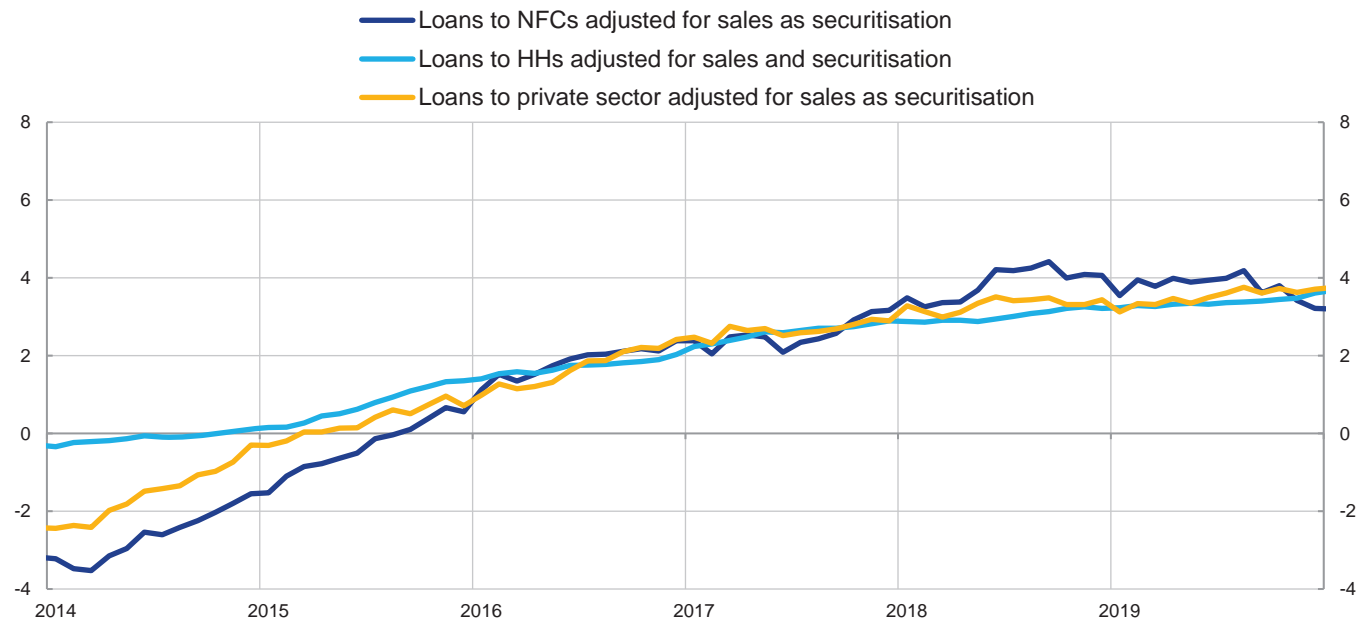
**Real GDP**  
(index, 2019Q1=100)



Sources: Eurostat, BEA, Cabinet Office, ECB calculations.  
Latest observation: 2019Q4 for the euro area, the US, and Japan.

... with credit growth slowing down...

### MFI loans to the private sector (annual growth rates)



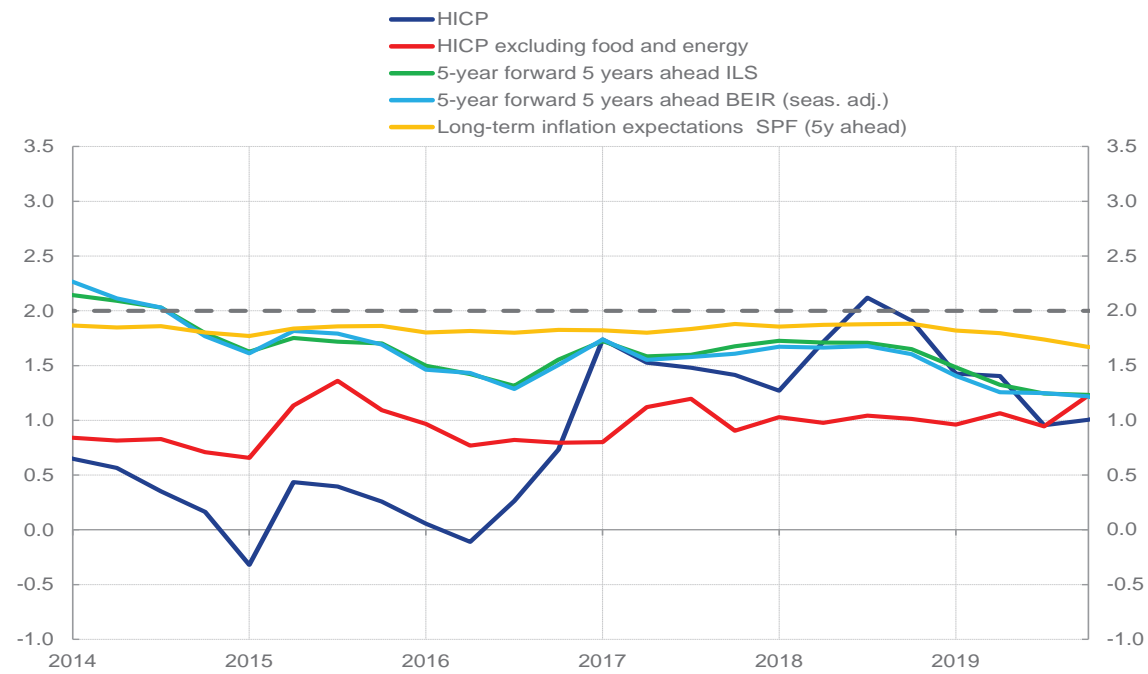
Source: ECB.

Notes: Monthly data. "NFCs" stands for non-financial corporations and "HHs" stands for households.

Latest observation: December 2019.

## ... and inflation below the ECB's aim

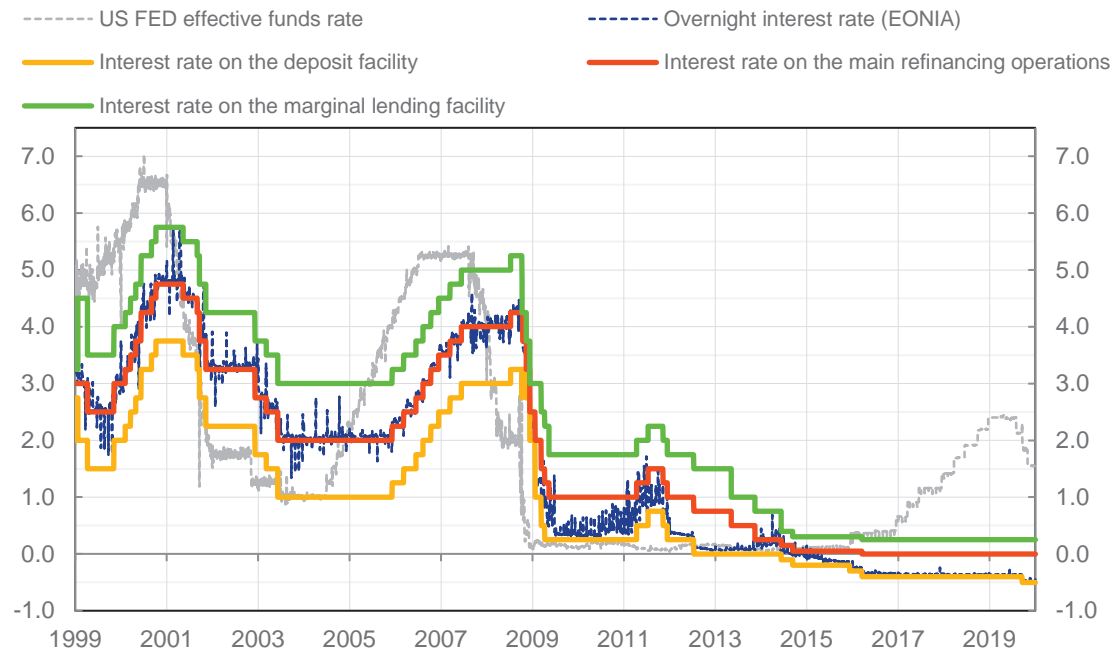
### HICP inflation and inflation expectations (percent)



Source: ECB.  
Latest observation: 2019Q4.

## With limited space for additional stimulus via policy rates in Europe...

### Key interest rates (percent per annum)



Source: ECB and Federal Reserve Bank of New York.  
Latest observation: in the chart December 2019.

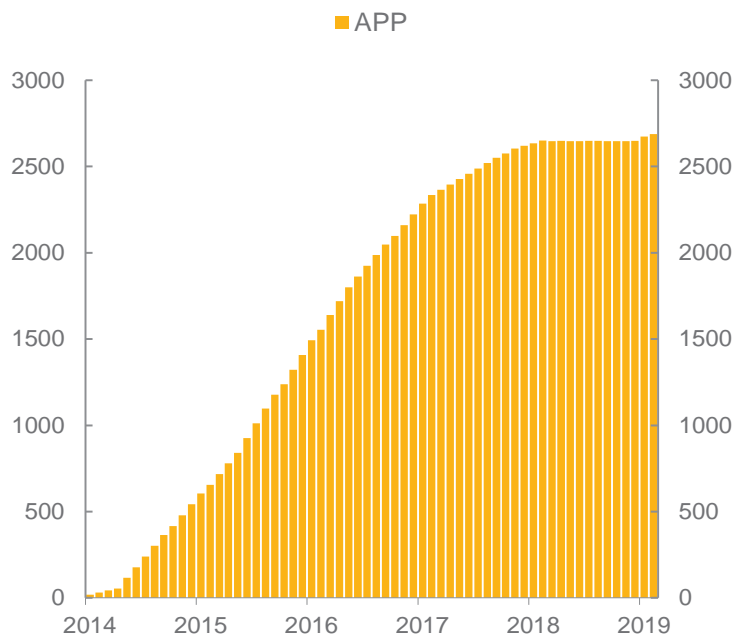


## ... recourse to other monetary policy instruments instead

- 1 Negative interest rates (on deposit facility)
- 2 Forward guidance
- 3 Asset Purchase Programme (APP)
- 4 Targeted Longer-Term Refinancing Operations (TLTRO)

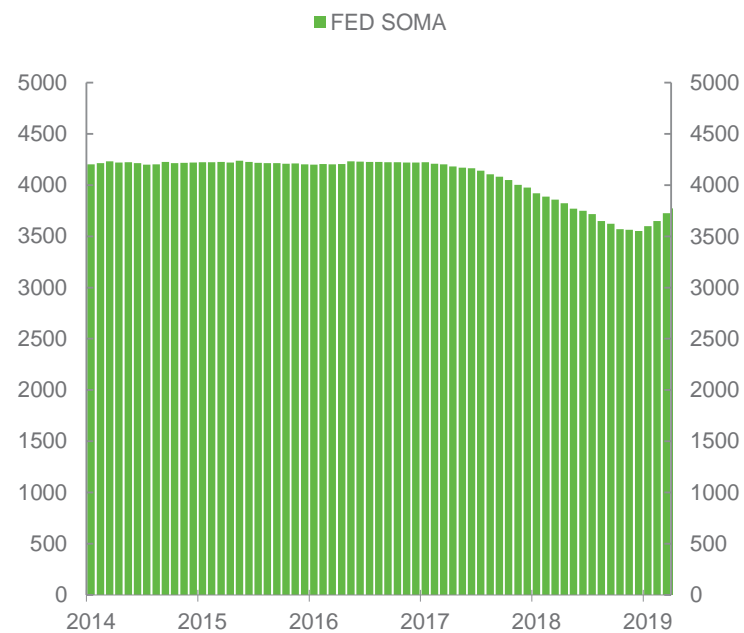
# Asset purchase programme (APP)

**Cumulative net purchases under the APP**  
(EUR billion, book value)



Source: ECB.  
Latest observation: December 2019.

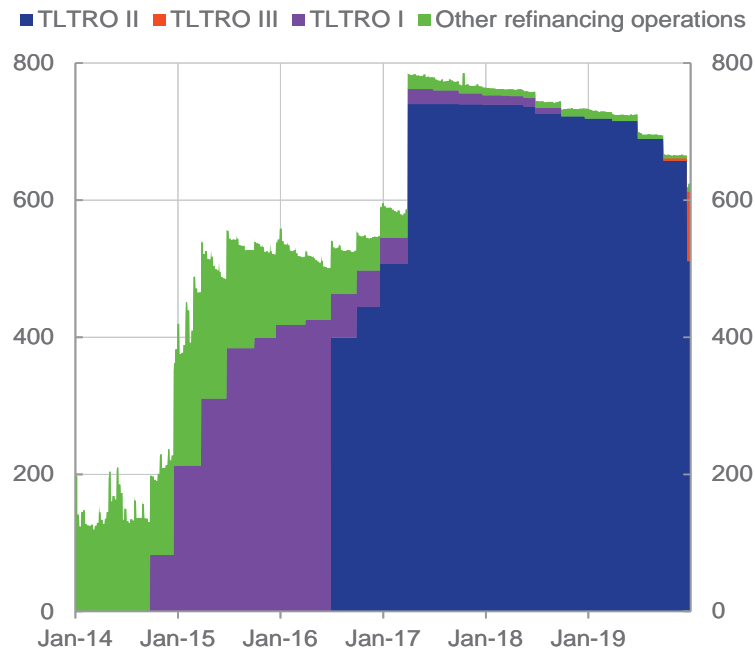
**Federal Reserve System Open Market Account holdings**  
(USD billion, book value)



Source: Federal Reserve Bank of New York.  
Latest observation: December 2019.

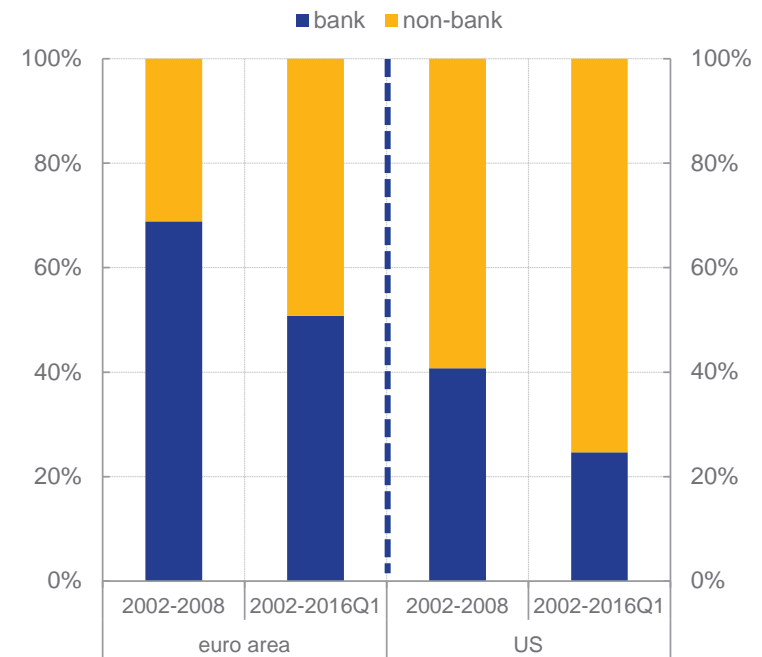
# Targeted long-term refinancing operations (TLTRO)

**Outstanding credit operations**  
(EUR bn)



Source: ECB and ECB calculations.  
Latest observation: 31 Dec 2014.

**Share of bank and non-bank financing in total non-financial corporation financing**  
(cumulated transactions, percentages)



Source: ECB, Federal Reserve System.  
Notes: Calculations are based on cumulated transactions since 2002.  
Latest observation: Q12016.

# The ECB's monetary policy response to the pandemic crisis



# The ECB uses non-standard measures

## Rationale of non-standard measures:

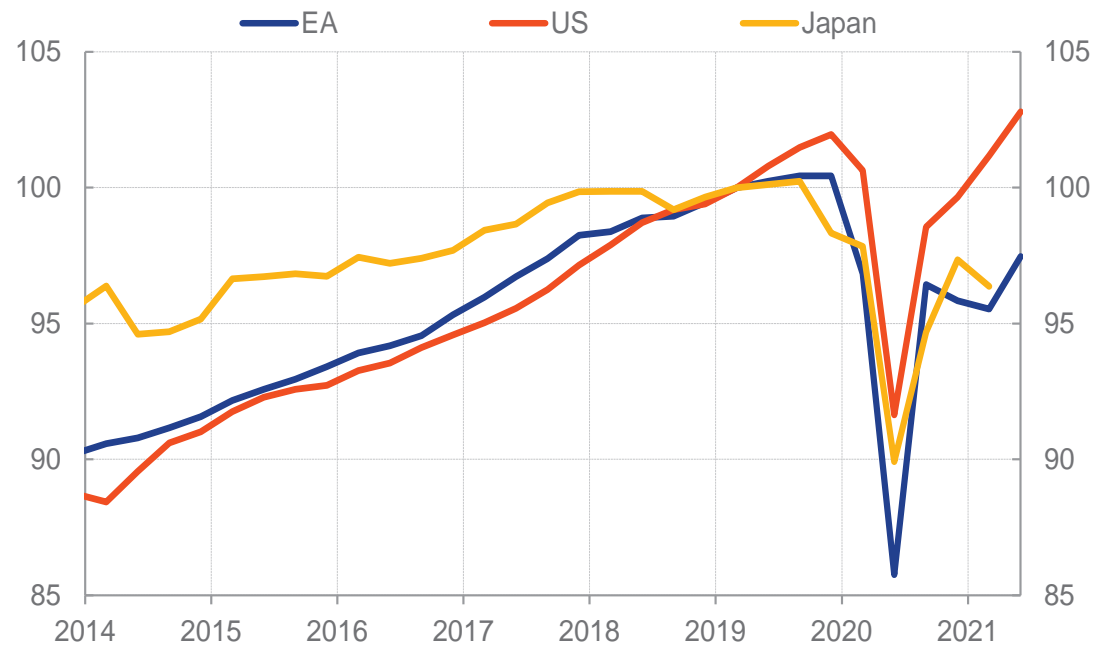
- Providing further monetary accommodation at the effective lower bound ('quantitative easing')
- Ensuring that key interest rates are appropriately transmitted through the financial sector to the real economy ('credit easing')
- Funding reassurance for the banking system ('lender of last resort')

## Core elements:

<b>Asset purchases</b> (public & private assets)	<b>Targeted longer-term refinancing operations</b> (TLTROs)
<b>Forward guidance</b> (on future monetary policy)	<b>Negative interest rates</b> (for banks' deposits with the Eurosystem)

## Unprecedented decline in economic activity...

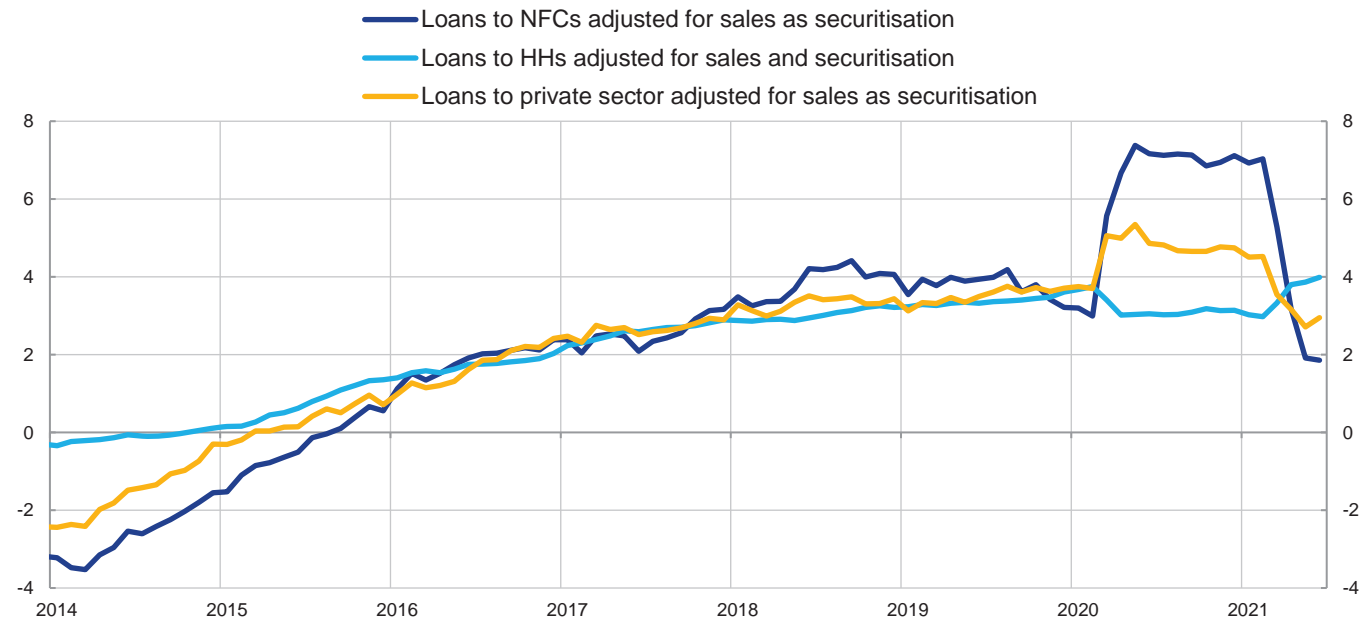
**Real GDP**  
(index, 2019Q1=100)



Sources: Eurostat, BEA, Cabinet Office, ECB calculations.  
Latest observation: 2021Q2 for the euro area and the US, 2021Q1 for Japan.

## ... high demand for credit to bridge the lockdown...

### MFI loans to the private sector (annual growth rates)



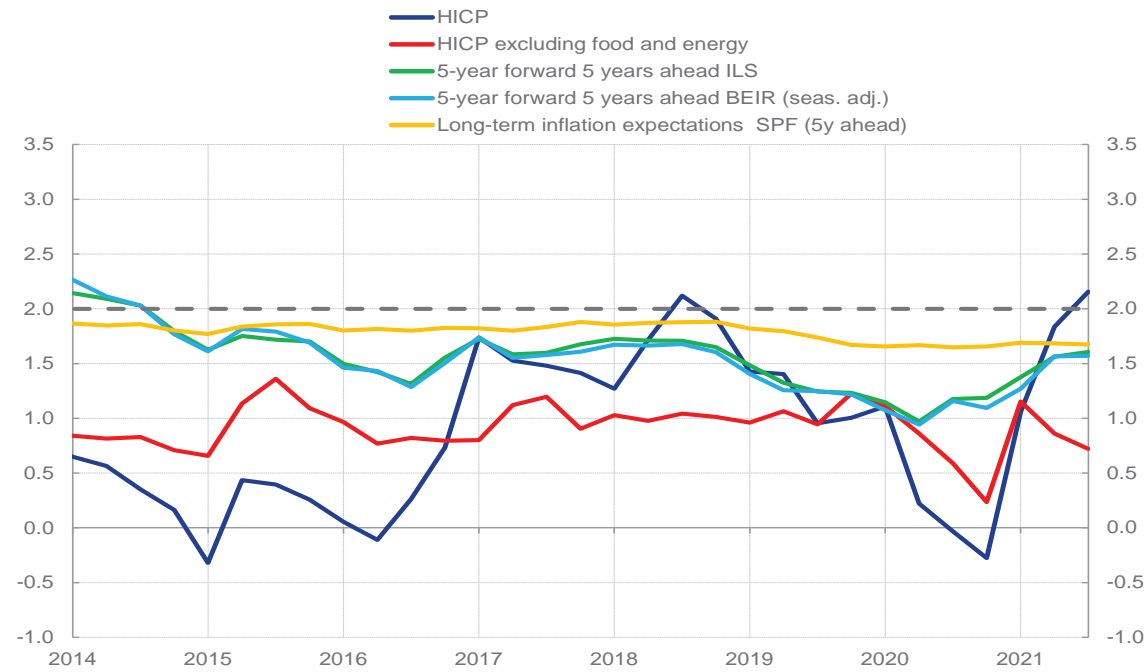
Source: ECB.

Notes: Monthly data. "NFCs" stands for non-financial corporations and "HHs" stands for households.

Latest observation: June 2021.

## ... and rapid disinflation

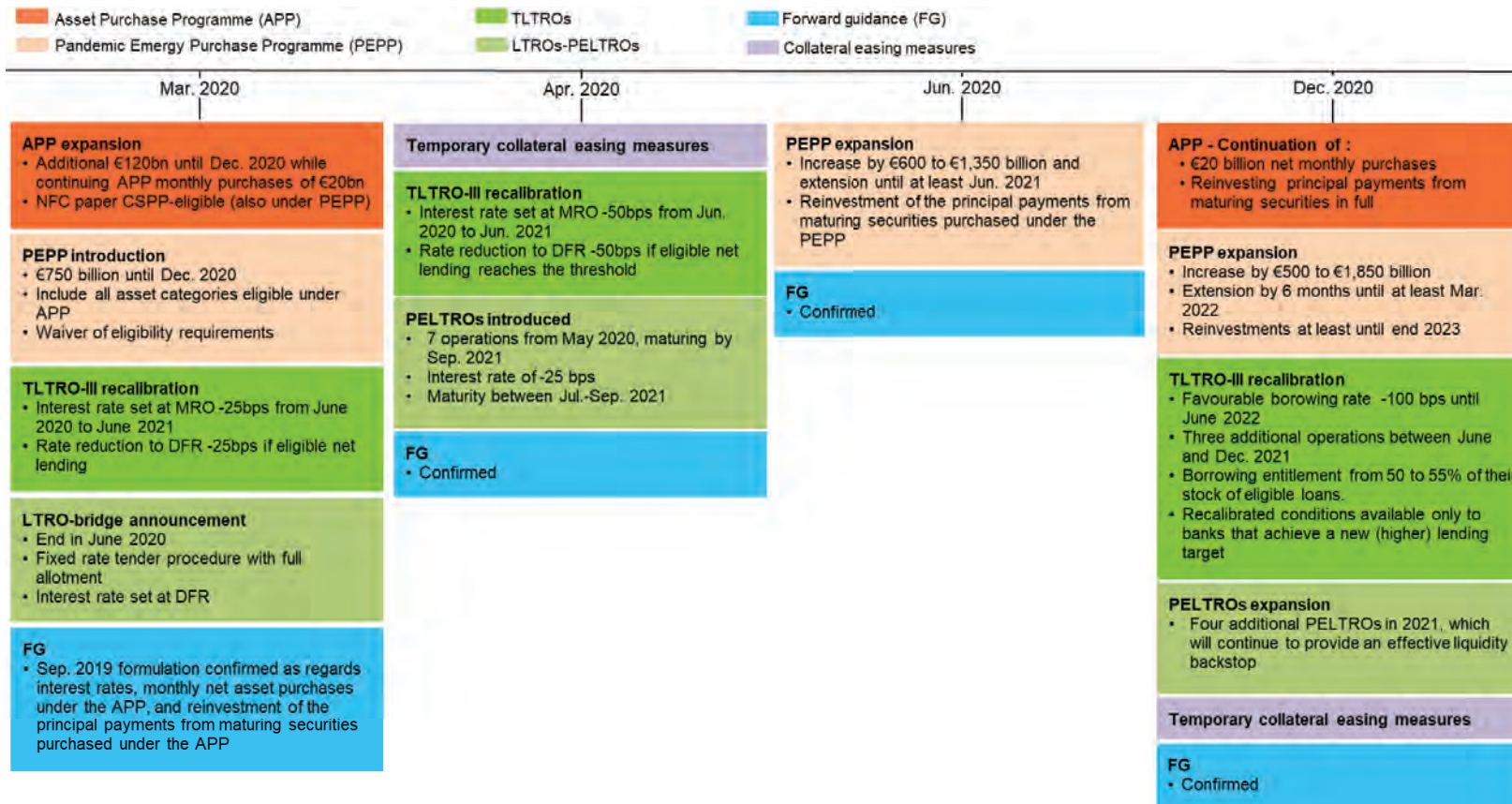
### HICP inflation and inflation expectations (percent)



Source: ECB.  
Latest observation: 2021Q3.

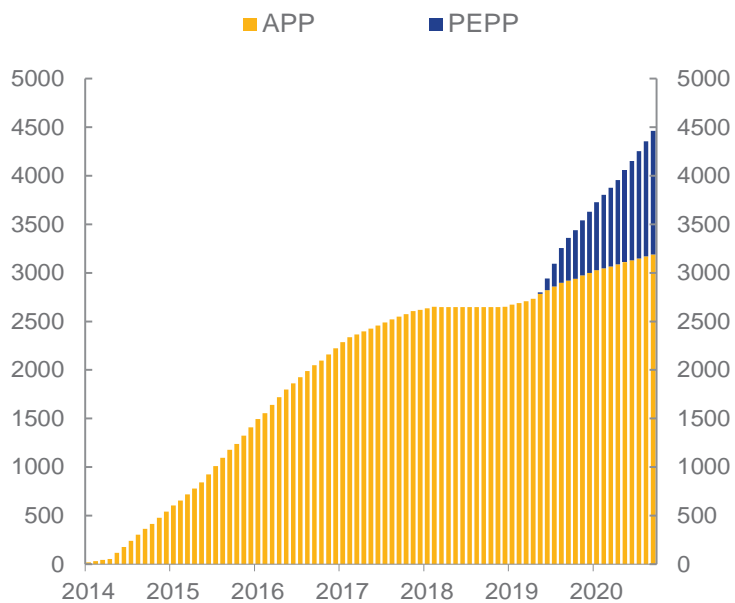


# The ECB's measures in response to the pandemic



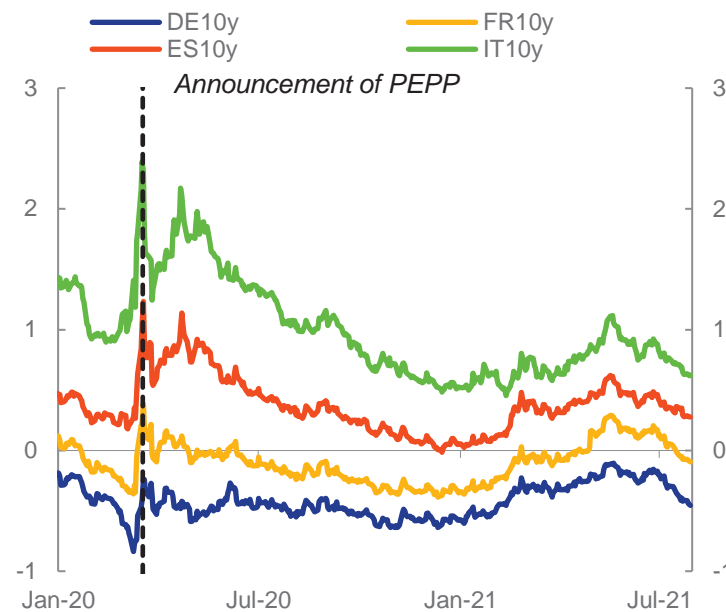
# Pandemic emergency purchase programme offsets transmission risks and eases

**Cumulative net purchases under the APP and PEPP**  
(EUR billion, book value)



Source: ECB.  
Latest observation: July 2021.

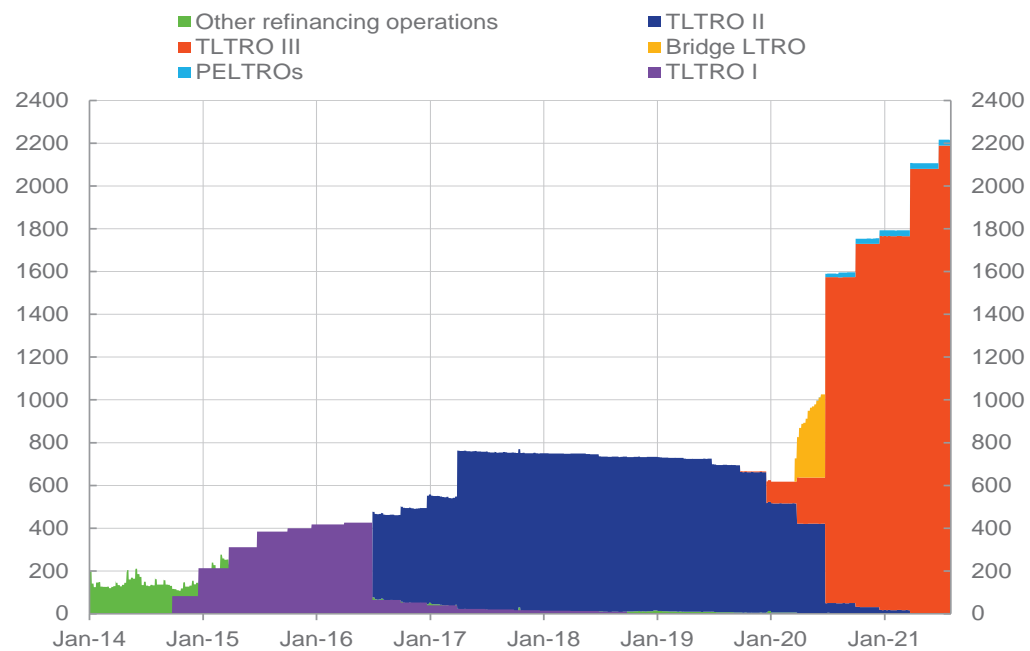
**10-year sovereign bond yields**  
(percent)



Source: Refinitiv.  
Latest observation: 30 July 2021.

## Special interest rates under TLTRO III avoid banks deleveraging

### Outstanding credit operations (EUR bn)



Source: ECB and ECB calculations.  
Latest observation: 02 Aug 2021.

## The situation today



# The ECB and the Russian invasion of Ukraine



"The Russian invasion of Ukraine is a watershed for Europe. The Governing Council expresses its full support to the people of Ukraine. We will ensure smooth liquidity conditions and implement the sanctions decided by the European Union and European governments. We will take whatever action is needed to fulfil the ECB's mandate to pursue price stability and to safeguard financial stability."

Christine Lagarde  
Press Conference March 2022





# The ECB and the Russian invasion of Ukraine

"In view of the highly uncertain environment caused by the Russian invasion of Ukraine and the risk of regional spillovers that could adversely affect euro area financial markets, the Governing Council decided to extend the Eurosystem repo facility for central banks (EUREP) until 15 January 2023. [...] Requests from non-euro area central banks for individual euro liquidity lines will be assessed by the Governing Council on a case-by-case basis."

Christine Lagarde  
Press Conference March 2022



## Other decisions taken (1)

- Net purchases in the Asset Purchase Programme (APP) to be phased out in three steps: €40 billion in April, €30 billion in May and €20 billion in June. After that, it depends on data. Redemptions will continue to be reinvested for as long as considered necessary
- Decisions on interest rates to be taken “some time” after the end of net purchases
- Net purchases in the PEPP will be terminated, reinvestments will be flexible “across time, asset classes and jurisdictions” and continue until at least the end of 2024.

## Other decisions taken (2)

- TLTROIII special benefits to be terminated at the end of June 2022
- Review of the “two-tier” system to make sure banks don’t suffer too much from the negative rates
- And as always: “The Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation stabilises at its 2% target over the medium term.”



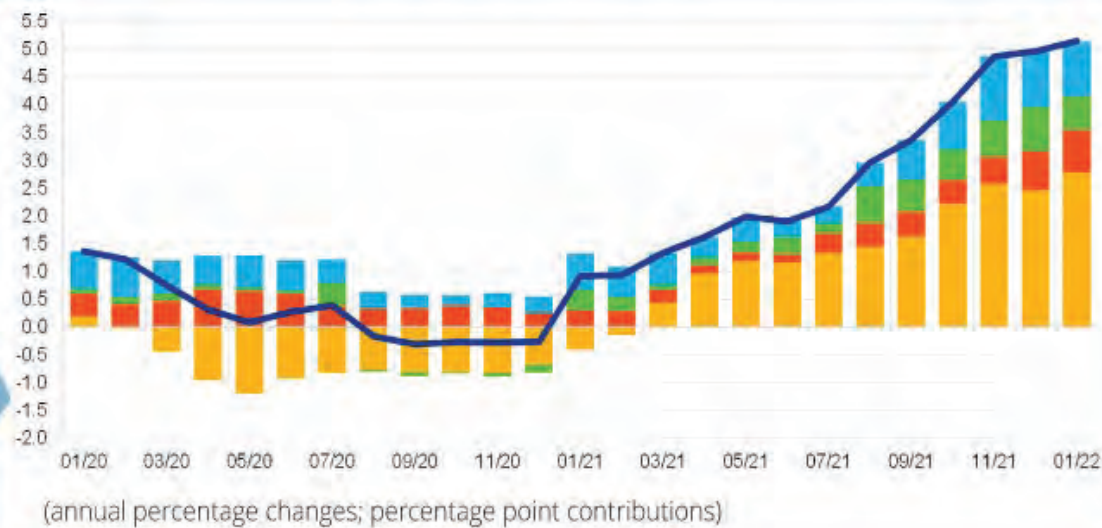
# Monetary policy outlook

**Energy prices** continue to be the **main reason for higher inflation.**

- HICP
- Energy
- Food
- Non-energy Industrial goods
- Services



### HEADLINE INFLATION AND ITS COMPONENTS



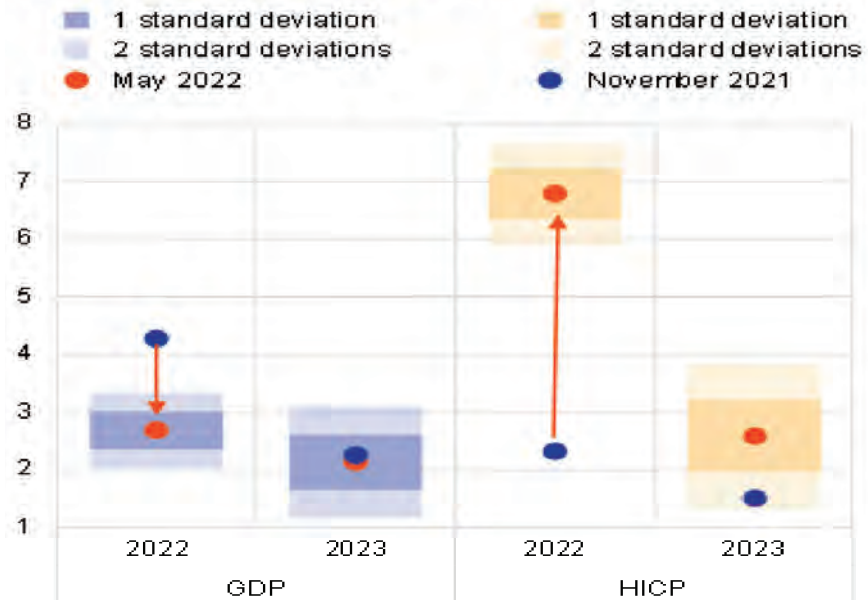
Source: Eurostat and ECB staff calculations

# Monetary policy outlook

Risks of higher inflation and lower growth outturns in the euro area amplified by an intensified commodity and energy price shock

**a) 2022 and 2023 real GDP growth and HICP inflation forecasts for the euro area**

(2022-23, annual percentage changes)



**b) Oil and other commodity price developments**

(1 Jan. 2008-17 May 2022, USD, index: 2020 = 100)



# Monetary policy outlook

## Euro area HICP (annual rate of change)





# Monetary policy outlook

## 21 July 2022 - ECB raises interest rates for the first time in 11 years



Following its July 21 meeting, the Governing Council of the ECB has decided to raise its three key interest rates by 50 basis points. This is the first time that the ECB has raised interest rates since 2011, and comes in response to a period of surging inflation above the 2% target.

# Monetary policy outlook

## 21 July 2022 – ECB Transmission Protection Instrument (TPI)

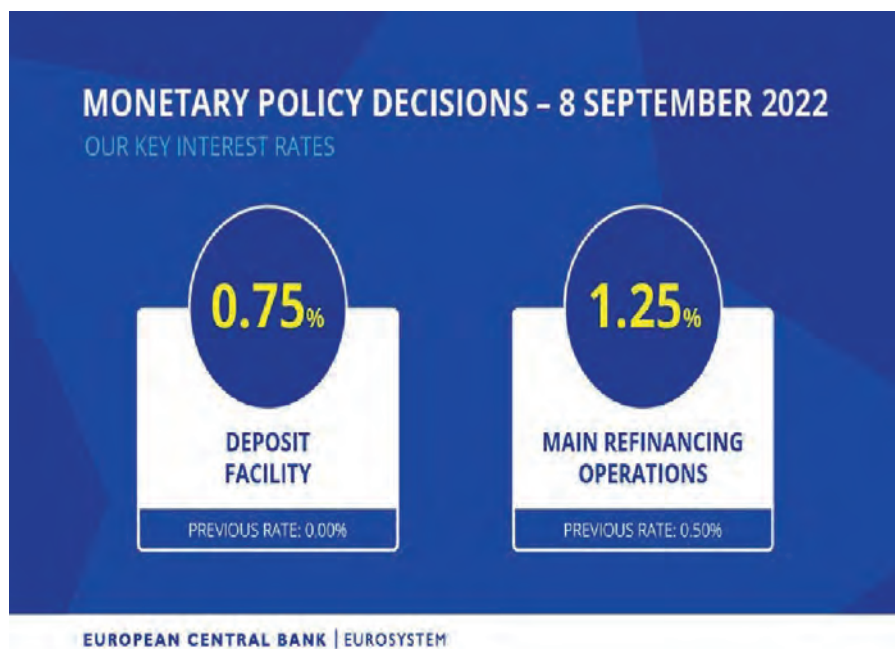
- On July 21st, the European Central Bank (ECB) announced the latest addition to its monetary policy toolbox. If member states experience unjustified increases in borrowing costs, the ECB can now buy their bonds under the new Transmission Protection Instrument (TPI).
- Under the [new program](#), the ECB will, thus, buy government bonds with maturities between one and ten years of any member state *“experiencing a deterioration in financing conditions not warranted by country-specific fundamentals”*

To judge eligibility, the ECB therefore relies on four criteria:

- 1. Compliance with the EU fiscal framework:** Member states cannot be subject to an excessive deficit procedure (EDP) and be assessed as having failed to take effective action in response to an EU Council recommendation.
- 2. Absence of severe macroeconomic imbalances:** Member states cannot be subject to an excessive imbalance procedure (EIP) and be assessed as having failed to take corrective action in response to an EU Council recommendation.
- 3. Fiscal sustainability:** Public debt must be deemed sustainable based on the ECB’s own analysis considering also debt sustainability analyses by the European Commission, the ESM, the IMF and other institutions.
- 4. Sound and sustainable macroeconomic policies:** Member states must comply with the commitments set out in the NRRPs and the country-specific recommendations (CSRs) in the fiscal sphere under the European Semester.



## Monetary policy outlook – further rates hikes....



## Monetary policy outlook - Is euro area inflation primarily supply or demand driven (I)?

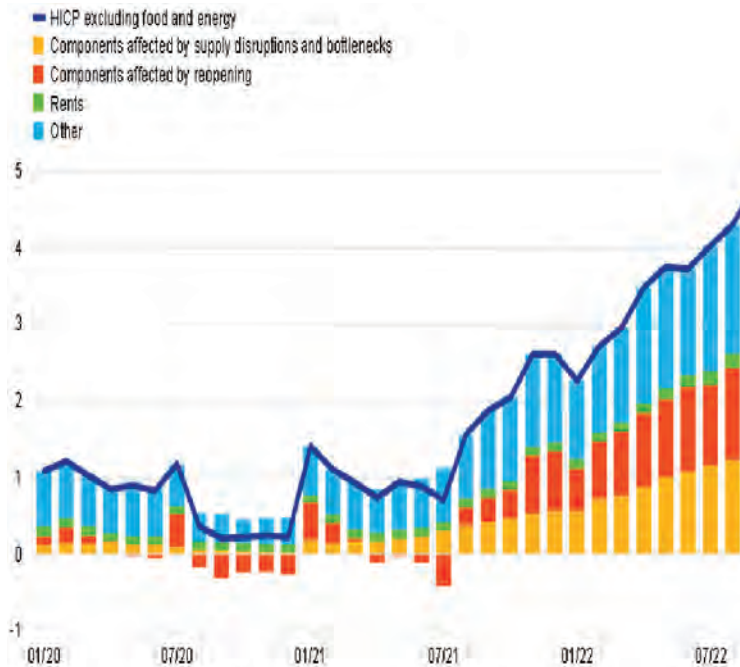
Source: The role of demand and supply in underlying inflation – decomposing HICPX inflation into components  
Eduardo Gonçalves and Gerrit Koester, ECB Economic Bulletin, Issue 7/2022

- **The HICP is the index underlying the ECB's definition of price stability.** Headline HICP inflation reached **9.9% in September** and **10.7% in October 2022**, with **energy and food contributing around two-thirds of headline inflation.**
- **The HICPX index excludes energy and food items** – which are usually more volatile and depend strongly on global developments. HICPX inflation, which depends more on domestic developments, has also been increasing and reached **4.8% in September** and **5.0% in October 2022.**

# Monetary policy outlook - Is euro area inflation primarily supply or demand driven (II)?

**Chart A**

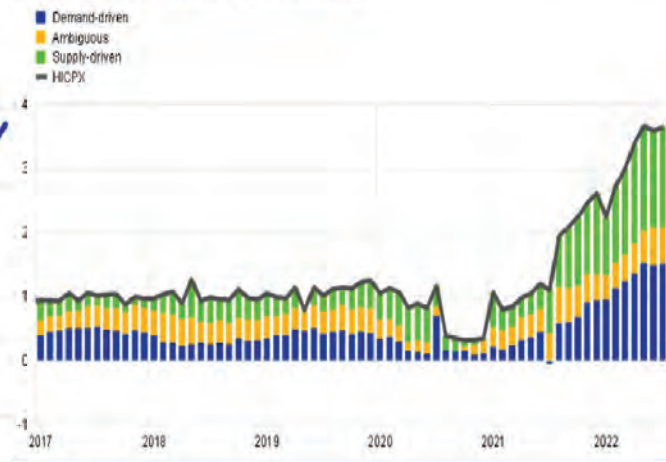
Decomposition of HICPX inflation in the euro area (annual percentage changes; percentage point contribution)



**Chart B**

HICPX inflation – decomposition into supply and demand-driven factors

(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB staff calculations.

Notes: Seasonally adjusted data. Based on the approach developed by Adam Shapiro, HICPX inflation reflects the sum of demand-driven, supply-driven and ambiguous components, calculated as the trailing sum of the last 12 monthly contributions. While price data are available for August 2022, the latest observation is for July 2022 as the turnover series used as a proxy for activity are published with some delay.

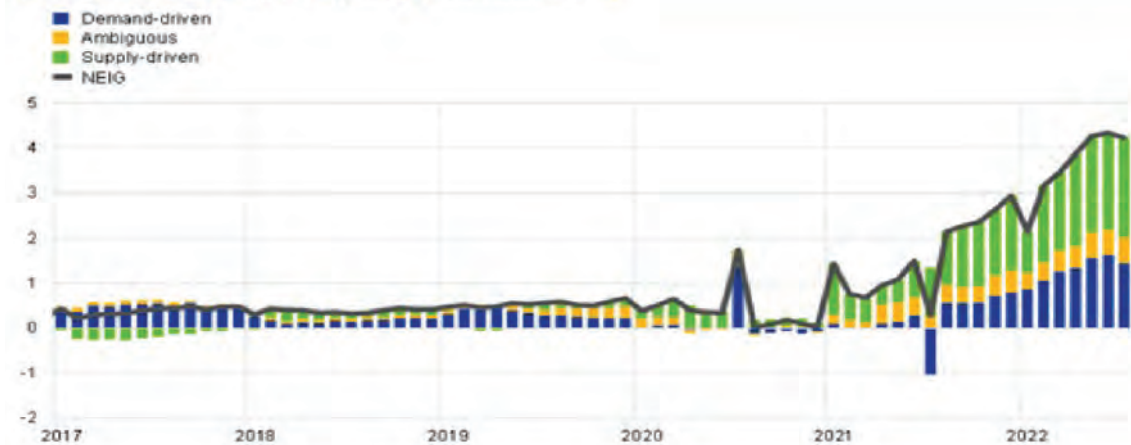
The increase in euro area HICPX inflation starting in the third quarter of 2021 was initially mainly supply-driven, but the importance of demand factors has gradually increased over time. Over recent months, supply and demand factors have played broadly similar roles in HICPX inflation

## Monetary policy outlook - Is euro area inflation primarily supply or demand driven (III)?

**Chart C**

### Decomposition of NEIG inflation

(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB staff calculations.

Notes: Seasonally adjusted data. Based on the approach developed by Adam Shapiro. NEIG inflation reflects the sum of demand-driven, supply-driven and ambiguous components, calculated as the trailing sum of the last 12 monthly contributions. While price data are available for August 2022, the latest observation is for July 2022 as the turnover series used as a proxy for activity are published with some delay.

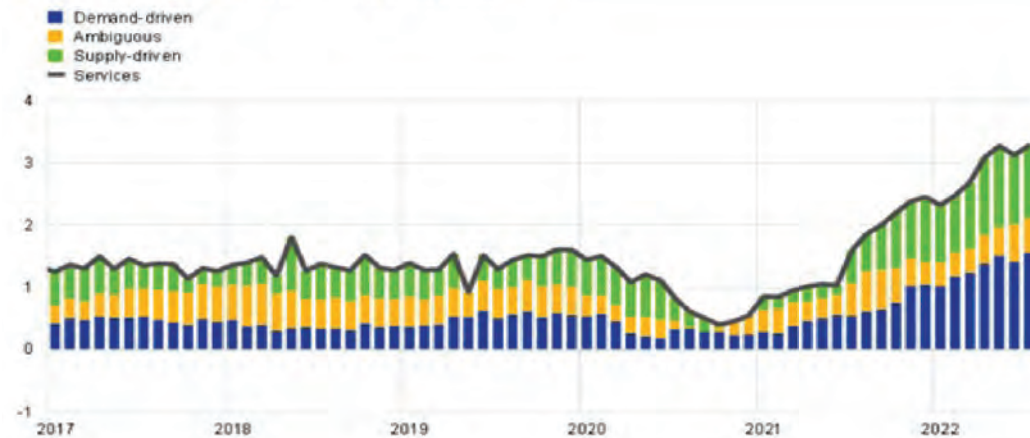
If we look separately at inflation in non-energy industrial goods, we find that supply factors play a somewhat bigger role in early 2021, but that since autumn 2021, both demand and supply factors have been strong contributors. For non-energy industrial goods inflation, major components such as motor cars and major household appliances are classified as mainly supply-driven, while the rise in furniture prices, for example, is classified as mainly demand-driven.

## Monetary policy outlook - Is euro area inflation primarily supply or demand driven (IV)?

**Chart D**

### Decomposition of services inflation

(annual percentage changes; percentage point contributions)



Sources: Eurostat and ECB staff calculations.

Notes: Seasonally adjusted data. Based on the approach developed by Adam Shapiro. Services inflation reflects the sum of demand-driven, supply-driven and ambiguous components, calculated as the trailing sum of the last 12 monthly contributions. While price data are available for August 2022, the latest observation is for July 2022 as the turnover series used as a proxy for activity are published with some delay.

If we then look at the increase in services inflation, we see a strong contribution by both demand and supply factors, with demand playing a somewhat stronger role than for non-energy industrial goods. Initially from mid-2021, services inflation was mainly supply driven, but the role of demand factors increased significantly from late-2021 until mid-2022. For services, major components like package holidays and air flights are classified as mainly demand-driven, while maintenance and repair services for dwellings are classified as predominantly supply-driven.

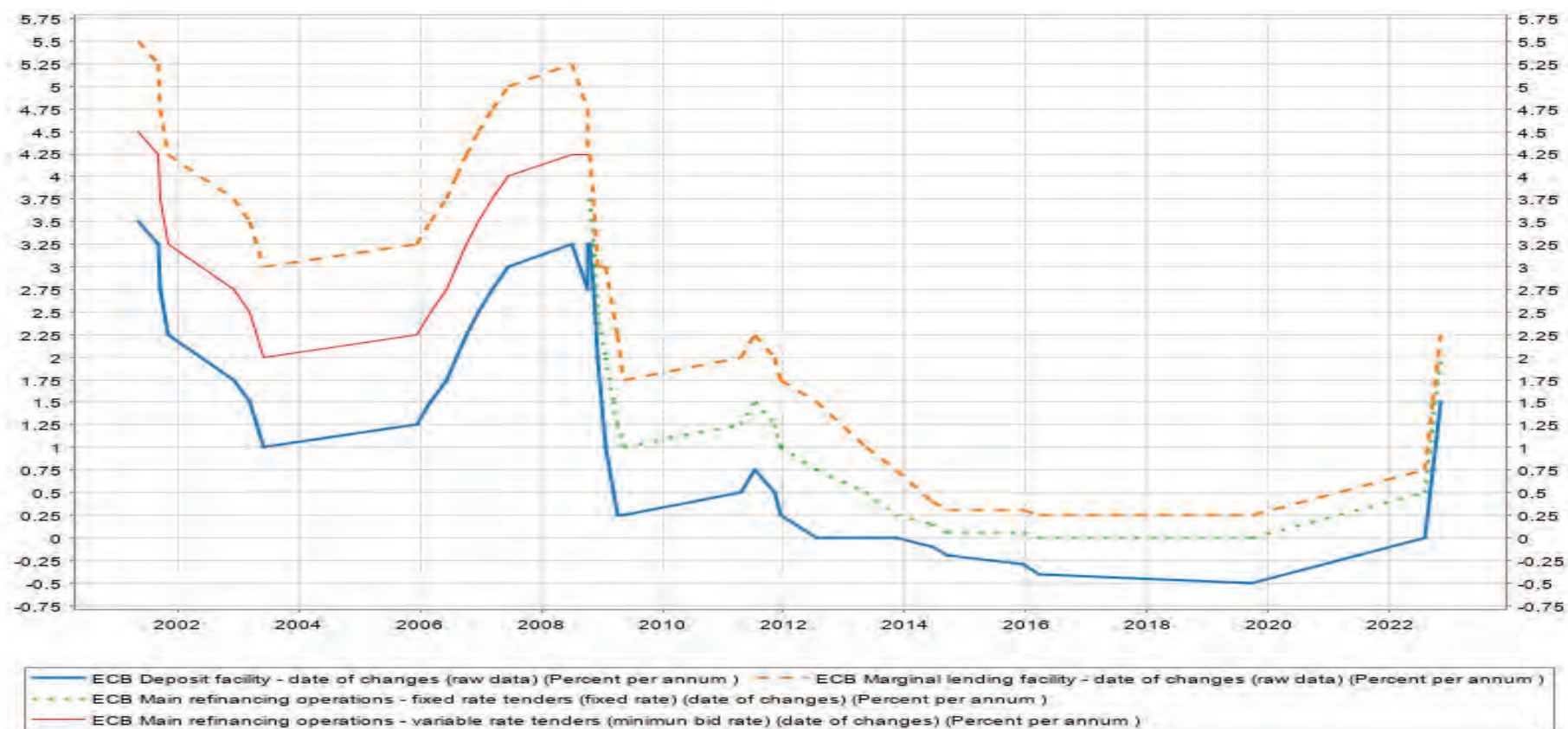
## Monetary policy outlook - Is euro area inflation primarily supply or demand driven (V)?

- As the authors say in conclusion, **“there are important caveats with this method”**. It should be noted that though the approach assigns items to three different baskets, the inflation for individual item can be driven by both supply and demand factors, which this binary model does not take into account.
- **Recent inflationary developments have clearly been exceptional due to major unexpected shocks such as the pandemic and the Russian war on Ukraine**, and this makes building a reliable model for classification of items even more difficult than in normal times.



## Interest rates in the euro area (1/2)

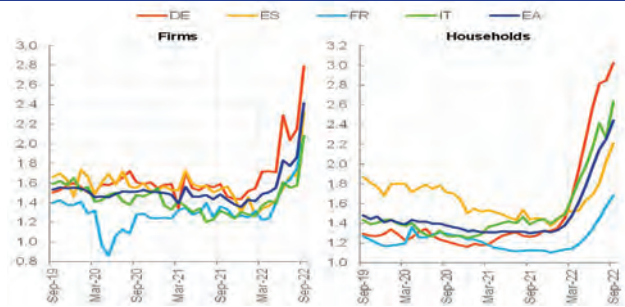
### ECB Official interest rates





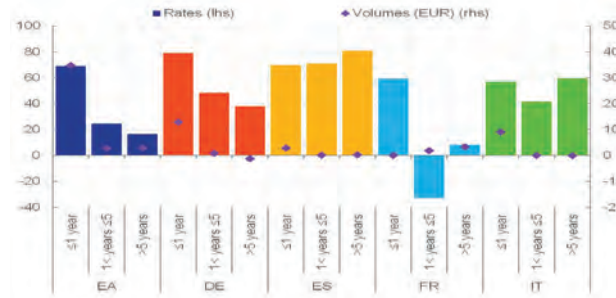
# Interest rates in the euro area (2/2)

**Chart 1: Cost of borrowing for firms and households for house purchase (percentages per annum)**



Source: ECB.  
Notes: The indicator for the total cost of borrowing for firms and for households for house purchase is calculated by aggregating short-term and long-term rates using a 24-month moving average of new business volumes.

**Chart 2: Changes in corporate bank lending rates and volumes in September by fixation period (lhs: basis points; rhs: EUR bn)**



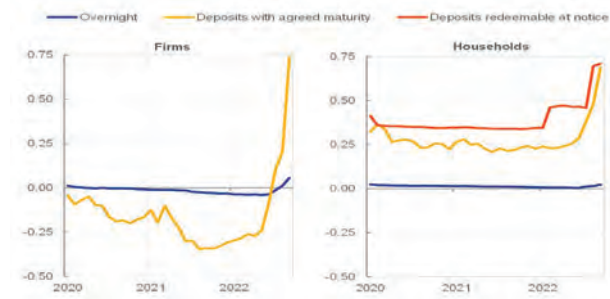
Source: ECB.

**Chart 3: Lending rates on new loans to non-financial corporations broken down by size (lhs: percentages per annum; rhs: basis points)**



Source: ECB.  
Notes: Small loans are loans of up to € 1 million and large loans are those above € 1 million. The spread is calculated as the difference between the rates on small and large loans.

**Chart 4: Deposit rates by firms and households (percentages per annum)**

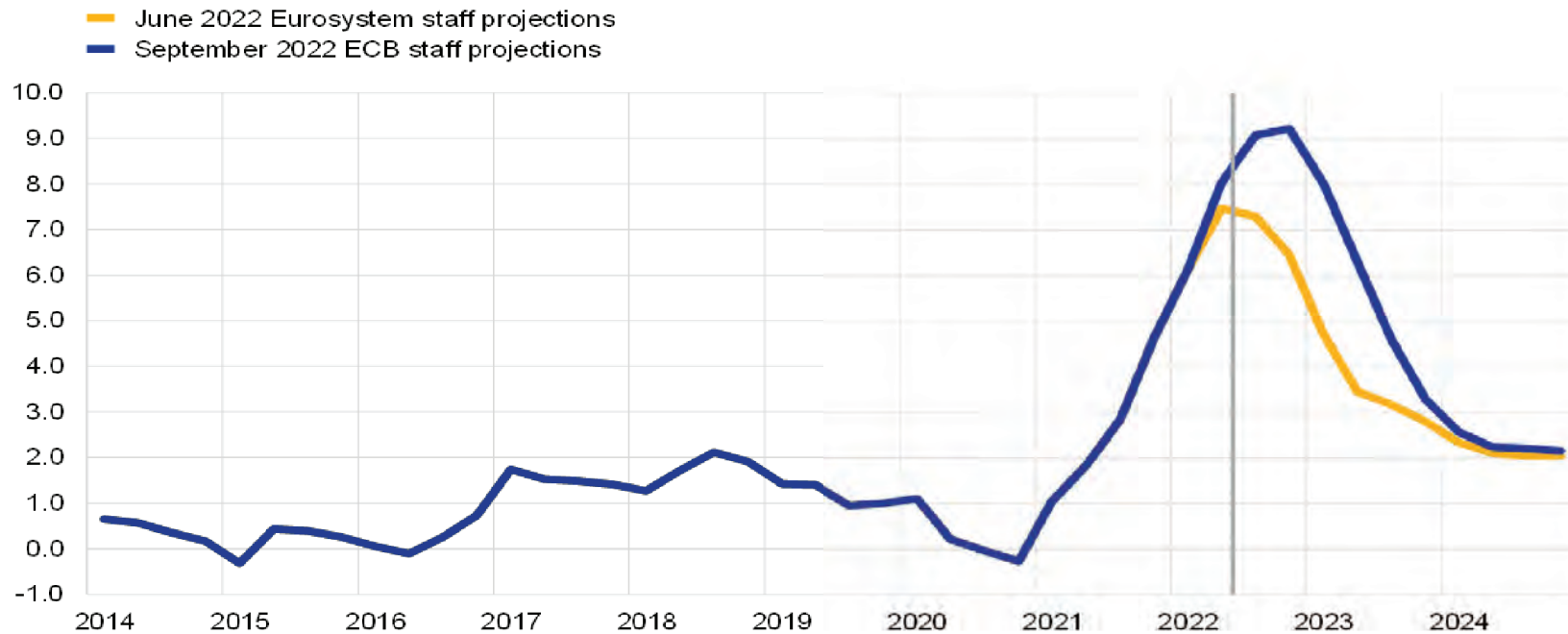


Source: ECB.

## Monetary policy outlook – conclusion (1/2)

Headline inflation is expected to decline from an average of 8.1% in 2022 to 5.5% in 2023 and 2.3% in 2024

### Euro area HICP (annual percentage changes)



Source: ECB staff macroeconomic projections for the euro area

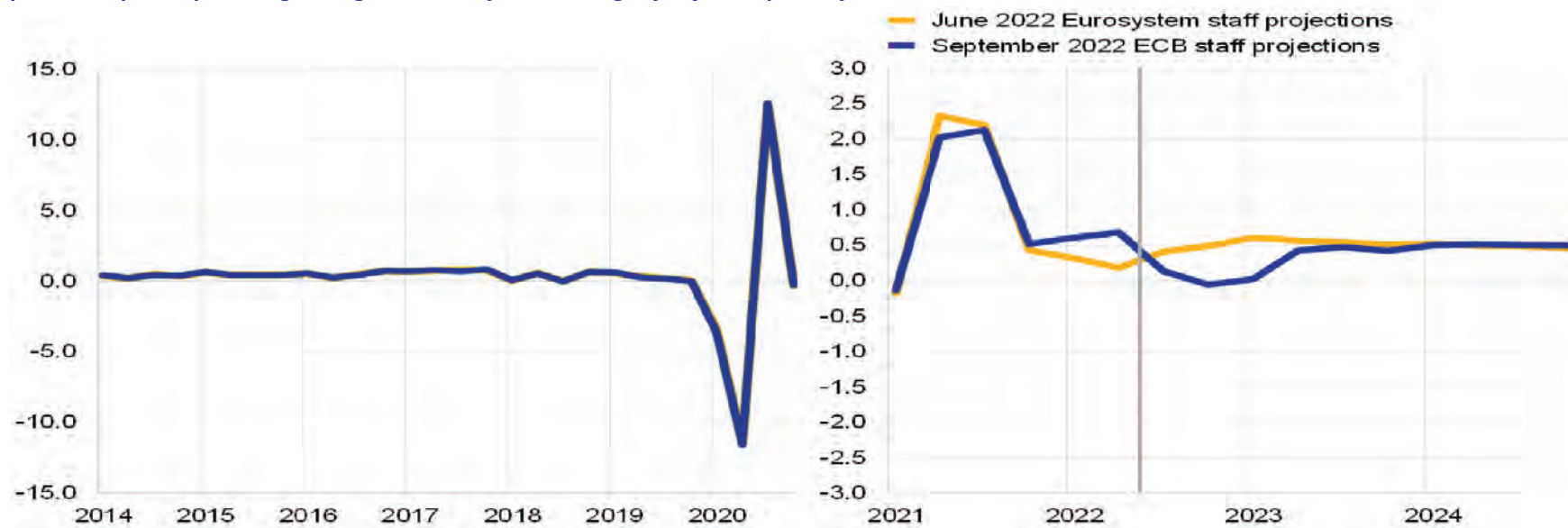
Note: The vertical line indicates the start of the current projection horizon.

## Monetary policy outlook – conclusion (2/2)

The euro area economy registered robust growth in the first half of 2022, markedly above the level foreseen in the June 2022 Eurosystem staff projections, in spite of the war in Ukraine ...but real GDP growth is expected to slow down significantly in the third quarter of the year as inflation takes a toll on real incomes and uncertainty and rising interest rates hold back investment

### Euro area real GDP growth

(quarter-on-quarter percentage changes, seasonally and working day-adjusted quarterly data)



Source: ECB staff macroeconomic projections for the euro area

Note: The vertical line indicates the start of the current projection horizon.



# 3.

## Monetary Policy strategy review

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# Overview of the ECB Strategy Review

Last strategy review

**2003**

Duration **18 months**  
January 2020 to July 2021

**> 650**  
staff involved

**14** separate  
Workstreams

**12** seminars of  
the ECB Governing  
Council



**18** “ECB listens” events  
across the euro area

**4000** online  
contributions from citizens

## The ECB's strategy review

- Launched in January 2020, first results announced in July 2021.
- Why a review of the strategy now?
  - **Economy has changed fundamentally since 2003 review.**
    - *“Smartphones were not around!”*
    - Declining trend growth and lower natural rate of interest.
    - Climate change, digitalisation, (de)-globalisation, and other transformations impacting inflation dynamics & functioning of the economy.
  - **Reduced scope for conventional MP instruments.**
  - **Changing financial structures.**
    - Affecting the way monetary policy is transmitted through economy
  - **Enhance public trust in the ECB.**
    - Reaching out to a wide set of stakeholders.
    - Reviewing the ECB monetary policy communication.
  - **Identify directions for future research.**



# Making the ECB's monetary policy fit for the future



<p><b>Climate change</b></p> <p>Examines the risks posed by climate change and how these risks feed into the monetary policy framework.</p>	<p><b>Digitalisation</b></p> <p>Studies the implications of digitalisation for the functioning of the economy and the conduct of monetary policy.</p>	<p><b>Eurosystem modelling</b></p> <p>Assesses knowledge gaps in the main models used for monetary policy decision-making.</p>
<p><b>Fiscal &amp; monetary policy in a monetary union</b></p> <p>Takes stock of the fiscal policy landscape in the euro area and assesses the implications for monetary policy.</p>	<p><b>Globalisation</b></p> <p>Assesses the impact of globalisation on the transmission of monetary policy decisions to the economy and inflation.</p>	<p><b>Inflation expectations</b></p> <p>Analyses how inflation expectations are formed and deepens the understanding of their main drivers.</p>
<p><b>Inflation measurement</b></p> <p>Analyses the most accurate method of measuring inflation, and assesses potential measurement issues.</p>	<p><b>Macropru, mon.pol. &amp; financial stability</b></p> <p>Contributes to the assessment of the interaction between macroprudential policies, financial stability and monetary policy.</p>	<p><b>Monetary policy communication</b></p> <p>Assesses the ECB's communication strategy in relation to monetary policy decisions and the general public's understanding of the ECB.</p>
<p><b>Non-bank fin. intermediation</b></p> <p>Examines how the changing structure of the financial sector, in particular the growing role of non-banks, affects the conduct of monetary policy.</p>	<p><b>Price stability objective</b></p> <p>Provides analysis on the ECB's numerical formulation of price stability and alternative approaches to achieving price stability.</p>	<p><b>Productivity, innov &amp; techn. progr.</b></p> <p>Assesses developments in productivity and technology, and analyses the implications of these developments for monetary policy.</p>



## Strategy review outcome (1)

- The 2% inflation target provides a **clear anchor for inflation expectations**.
- **Harmonised Index of Consumer Prices (HICP)** remains the appropriate price measure for assessing price stability.
- However, GC recognises that **costs related to owner-occupied housing** would capture the inflation rate that is relevant for households (a multi-year project with Eurostat).
- An **inflation buffer above 0%** provides policy with space for interest rate cuts in the event of adverse developments and a safety margin against the risk of deflation.
- We have seen a trend decline in equilibrium real interest rates that reduces room of manoeuvre.
- In a **low inflation environment**, this implies that the **effective lower bound (ELB)** on nominal interest rates will more frequently constrain monetary policy.

## Price stability objective

### ECB's price stability objective has evolved

#### Governing Council in October 1998:

- “Price stability shall be defined as a year-on-year increase in the **Harmonised Index of Consumer Prices (HICP)** for the **euro area** of below 2%. Price stability is to be maintained over the **medium term**.”

#### Clarification in 2003

- The Governing Council (GC) aims to maintain inflation rates at levels **below, but close to, 2%** over the **medium term**.

#### Strategy Review in 2020-21

- The GC aims to maintain inflation rates at **2% over the medium term**.
- This target is symmetric: both negative and positive **deviations are equally undesirable**.
- See press release at:  
<https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708~dc78cc4b0d.en.html>

## Strategy review outcome (2)

- **Forceful monetary policy measures** are needed when economy is **close to ELB** to avoid low inflation expectations becoming entrenched.
- GC will employ forward guidance, asset purchases and longer-term refinancing operations, as appropriate, plus the standard MP measures.
- Monetary policy decisions are based on an **integrated assessment** by means of:
  - **economic analysis** focussing on real and nominal economic developments; and
  - **monetary and financial analysis**, focussing on the monetary transmission mechanism and possible risks to medium-term price stability from financial imbalances and monetary factors.
- **As climate change has also implications for price stability**, the GC has also committed to an ambitious climate-related action plan. See press release at:  
[https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708\\_1~f104919225.en.html](https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708_1~f104919225.en.html)
- **Monetary policy decisions will be communicated through Monetary Policy Statement, at Press Conference, the Economic Bulletin and the monetary policy accounts.**

# Outcome of the Review – key points

- New symmetric 2% inflation target
- Inclusion of owner-occupied housing in inflation measurement
- Unconventional monetary policy instruments become conventional
- New analytical framework
- Action plan on climate change
- Modernised communication





**Thank you**