

Press release

15 December 2022

Monetary policy decisions

The Governing Council today decided to raise the three key ECB interest rates by 50 basis points and, based on the substantial upward revision to the inflation outlook, expects to raise them further. In particular, the Governing Council judges that interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to the 2% medium-term target. Keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations. The Governing Council's future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

The key ECB interest rates are the Governing Council's primary tool for setting the monetary policy stance. The Governing Council today also discussed principles for normalising the Eurosystem's monetary policy securities holdings. From the beginning of March 2023 onwards, the asset purchase programme (APP) portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time.

At its February meeting the Governing Council will announce the detailed parameters for reducing the APP holdings. The Governing Council will regularly reassess the pace of the APP portfolio reduction to ensure it remains consistent with the overall monetary policy strategy and stance, to preserve market functioning, and to maintain firm control over short-term money market conditions. By the end of 2023, the Governing Council will also review its operational framework for steering short-term interest rates, which will provide information regarding the endpoint of the balance sheet normalisation process.

The Governing Council decided to raise interest rates today, and expects to raise them significantly further, because inflation remains far too high and is projected to stay above the target for too long.

European Central Bank
Directorate General Communications
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.ecb.europa.eu

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According to Eurostat's flash estimate, inflation was 10.0% in November, slightly lower than the 10.6% recorded in October. The decline resulted mainly from lower energy price inflation. Food price inflation and underlying price pressures across the economy have strengthened and will persist for some time. Amid exceptional uncertainty, Eurosystem staff have significantly revised up their inflation projections. They now see average inflation reaching 8.4% in 2022 before decreasing to 6.3% in 2023, with inflation expected to decline markedly over the course of the year. Inflation is then projected to average 3.4% in 2024 and 2.3% in 2025. Inflation excluding energy and food is projected to be 3.9% on average in 2022 and to rise to 4.2% in 2023, before falling to 2.8% in 2024 and 2.4% in 2025.

The euro area economy may contract in the current quarter and the next quarter, owing to the energy crisis, high uncertainty, weakening global economic activity and tighter financing conditions. According to the latest Eurosystem staff projections, a recession would be relatively short-lived and shallow. Growth is nonetheless expected to be subdued next year and has been revised down significantly compared with the previous projections. Beyond the near term, growth is projected to recover as the current headwinds fade. Overall, the Eurosystem staff projections now see the economy growing by 3.4% in 2022, 0.5% in 2023, 1.9% in 2024 and 1.8% in 2025.

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 2.50%, 2.75% and 2.00% respectively, with effect from 21 December 2022.

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

The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP until the end of February 2023. Subsequently, the APP portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time.

As concerns the PEPP, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the programme until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

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

Refinancing operations

As banks are repaying the amounts borrowed under the targeted longer-term refinancing operations, the Governing Council will regularly assess how targeted lending operations are contributing to its monetary policy stance.

The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation returns to its 2% target over the medium term. The Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

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