7 April 2022

Meeting of 9-10 March 2022

Account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 9-10 March 2022

1. Review of financial, economic and monetary developments and policy options

Financial market developments

Ms Schnabel reviewed the latest financial market developments since the Governing Council's monetary policy meeting on 2-3 February 2022. Before Russia's invasion of Ukraine, the shift in the ECB's communication agreed at the February meeting had contributed to the orderly adjustment in financial markets towards less accommodative financial conditions that were more consistent with a changing medium-term inflation outlook. The uncertainty triggered by the war had temporarily halted and partly reversed the repricing of monetary policy expectations globally, leading to heightened volatility across market segments. However, so far, market stress and dislocations appeared less severe than at the peak of the coronavirus (COVID-19) pandemic shock.

The largest market impact of the Russian invasion of Ukraine to date had been on commodity prices, with oil and gas registering new multi-year highs and futures curves shifting up significantly from already elevated levels. The resulting energy price rise had contributed to a substantial reappraisal by markets of the euro area inflation outlook. First, the entire inflation-linked swap-based forward curve had shifted significantly upwards and was now above 2% up to the ten-year horizon. As these measures contained inflation risk premia, genuine inflation expectations were likely to be somewhat lower. Moreover, longer-term indicators of market-based inflation expectations had also moved materially higher, going above 2%. Most of this uptick had come at the beginning of the previous week when markets had started to price in a shallower path for the anticipated tightening of euro area monetary policy.

With inflation continuing to surprise on the upside, a discernible repricing of euro area monetary policy expectations had been observed at the start of the year. Most of the upward shift in the forward curve for the overnight index swap (OIS) rate observed prior to the war had happened before the Governing Council's 2-3 February meeting. The Russian invasion of Ukraine had halted and partly reversed the repricing of ECB policy rate expectations, as markets had priced in around a two-month postponement of a first interest rate hike relative to pre-war expectations. Investors expected one 25-basis point increase around the turn of the year, while the expected speed of the tightening cycle after “lift-off” remained broadly unchanged. Uncertainty around policy rate expectations based on information from option prices had also increased. Since February, the distribution of risks around the expected path of the three-month EURIBOR had widened substantially, reflecting the heightened uncertainty surrounding both the economic and the inflation outlook. The more pronounced skewness of the distribution suggested that markets had become even more concerned about upside risks to inflation.

Risk-free long-term yields on both sides of the Atlantic had continued to move in close step, even though the drop in German Bund yields had been somewhat more pronounced than for US Treasury yields. This signalled that investors seemed to see the war driving only a small wedge between the growth outlook in the United States and in the euro area. The sharp and unprecedented widening of the Bund-OIS spread following the Russian attack suggested that flight to safety had been a more relevant factor than the repricing in monetary policy expectations, which affected Bund and OIS yields to the same extent.

Developments in real interest rates could similarly be characterised as having gone through two phases since the Governing Council’s February monetary policy meeting. In the first phase, before the Russian invasion, real yields had increased strongly at the short and the long end of the curve in line with a gradual normalisation of financial conditions following the reappraisal of monetary policy expectations globally. After the Russian attack, real yields had fallen sharply across global risk-free sovereign yield curves driven by safe haven flows, with the decline being more pronounced at the short end, also reflecting a sharp increase in expected inflation.

Spreads of euro area sovereign bond yields over German Bund yields had initially widened after the Governing Council’s February monetary policy meeting, but the speed and magnitude of the adjustment had remained contained. The relative resilience reflected three factors: first, the continued strong ECB monetary stimulus, including from the substantial stock of acquired assets and the ECB’s announced re-investment policies; second, the combination of a long period of low interest rates and the increase in the weighted average maturity of public debt, which reduced the sensitivity of the cost of debt servicing to rising risk-free rates; and third, the easing of pandemic restrictions as well as sound growth expectations, also in view of structural reforms and investments related to the Next Generation EU programme. The same factors had played a role in the resilience of spreads in response to the latest geopolitical risk shock.

Developments in equity markets signalled that the uncertainty about the direct implications of the invasion was expected to be greater for the euro area than for other major currency areas. Most of the recent decline in equity prices likely reflected a rise in the equity risk premium, consistent with the flight to safety in bond markets.

Looking at exchange rates, until the start of the war the EUR/USD exchange rate had co-moved very closely with changes in policy rate expectations. With the onset of the war, the US dollar had appreciated as investors moved into classic safe-haven currencies, despite broadly unchanged relative monetary policy expectations.

The global environment and economic and monetary developments in the euro area

Mr Lane went through the latest economic, monetary and financial developments in the global economy and the euro area. He started by noting that the economic shock from the Russian invasion of Ukraine came in the context of otherwise solid foundations for a strong recovery in the euro area this year. It was therefore useful to recall the point at which the economy had been before the start of the war.

The global economy was recovering from the pandemic. The Omicron wave had had a short-lived negative impact, mainly on services. This was shown by the change in output Purchasing Managers' Indices (PMIs) by industry – particularly for tourism and recreation – from November 2021 to February 2022. However, with the Omicron wave fading and economies reopening, it was natural to expect a catch-up. The latest data also suggested that there had been a slight improvement in supply bottlenecks, especially in the United States and the United Kingdom. Once supply bottlenecks eased, more production could be expected to take place to satisfy demand. Trade in goods was already above pre-pandemic levels, but there was still ample scope for catching up in tourism during 2022 and this could be a strong engine of growth for European countries.

Looking at developments in commodities and exchange rates, the picture for oil prices was changing by the day, with the oil price on 7 March clearly above the level assumed in the March 2022 ECB staff projection exercise. Regarding the exchange rate, a distinction needed to be drawn between what was happening in bilateral movements of the euro exchange rate and the evolution of the euro's effective (trade-weighted) exchange rate. The heightened uncertainty from the Russian invasion had led investors to move into safe-haven currencies. The euro had appreciated strongly against the currencies of central and eastern European countries and had depreciated notably against the US dollar. When weighting the different developments, in nominal effective terms, the fall in the euro had not been very pronounced.

Turning to the euro area, some improvements had been observed in supply bottlenecks, although they remained acute. However, there was a risk that the Russia-Ukraine war could lead to further bottlenecks. Reviewing the demand components of GDP, the recovery in private consumption had been very strong until the third quarter of 2021, i.e. before the Omicron wave. The strength of the recovery had reflected higher incomes and a running down of savings. This had led to more robust consumption even though fiscal support had been reduced from the levels at the height of the pandemic. This positive trend had been reversed in the fourth quarter of 2021, when private consumption fell, largely on account of higher energy and consumer prices, which translated into a decline in real disposable income. This mechanism was expected to operate also in the first quarter, despite the expectation that a reduction in savings could partly buffer a decline in consumption. The energy price shock had been negatively affecting private consumption, as people had experienced an increase in their cost of living and a reduction in purchasing power.

Investment had recovered in the fourth quarter of 2021. This was largely due to a sharp rebound in the automotive industry, which had been a drag on investment in the previous quarters. Housing investment continued to be affected by large demand but also supply bottlenecks in production. Demand for houses or house renovation remained elevated, even though the most recent data showed a slight dip in expectations. On the production side, although recent surveys indicated some easing in the shortages of materials, equipment and labour, these were still close to their historical peaks.

To appreciate the impact of the energy price shock on real income, it was useful to look at the deterioration in the trade balance and in the terms of trade. The euro area goods trade balance had progressively worsened, resulting in a deficit at the end of 2021. The deterioration had been largely driven by an increasing deficit in the energy balance. A similar deterioration was visible in the terms of trade. In the final quarter of 2021, the contribution of energy to the deterioration in the terms of trade had been 4 percentage points of GDP. When accounting for gains from companies charging higher export prices to their global customers, the net loss of income vis-à-vis the previous year due to the energy price shock had amounted to 2 percentage points at the end of 2021.

With regard to labour market developments, the evidence continued to point to a recovery story, with the PMI employment index remaining in expansionary territory (above 50) in all sectors in February. The unemployment rate had continued to fall and was 6.8% in January. The job vacancy rate showed that more and more sectors were recording a greater number of vacancies. The euro area vacancy rate had not reached the level seen in the United States, but it was consistent with strengthening labour demand.

Turning to the March 2022 ECB staff projection exercise, Mr Lane noted that the variables used in the technical assumptions had already changed significantly since the 28 February projection cut-off date, which had already been moved back from 24 February on account of the Russian invasion of Ukraine. The projection exercise foresaw real GDP growing by 3.7% in 2022. This represented a downward revision of 0.5 percentage points for 2022, which was mainly due to the impact of the Ukraine crisis on energy prices, confidence and trade. GDP growth in 2023 and 2024 was broadly unrevised from the December 2021 Eurosystem staff projections. On the nominal side, following a series of unprecedented energy price shocks, headline inflation was now expected to average 5.1% and core inflation 2.6% in 2022. Headline inflation in the Harmonised Index of Consumer Prices (HICP) was expected to remain slightly above 2.0% in 2023 and to fall to 1.9% in 2024. Since the December 2021 projections, headline inflation had been revised up by 1.9 percentage points and core inflation by 0.7 percentage points for 2022.

As regards the saving ratio, some decline was foreseen over the projection horizon, with households expected to reduce savings to cushion the energy price shock in the short term and to boost their consumption spending later in the horizon as the economy reopened.

Owing to the high uncertainty surrounding the consequences of the military conflict for the euro area, the ECB staff had prepared two scenarios: an "adverse" scenario and a "severe" scenario. Both scenarios entailed a permanent loss of income, with the level of GDP projected to be significantly lower than in the baseline. The adverse scenario assumed additional sanctions against Russia, with euro area energy market disruptions as well as rising uncertainty and financial repercussions. On top of these features, the severe scenario included a higher price sensitivity of energy markets to supply cuts, additional financial tightening and stronger second-round effects from higher wages on inflation. In both scenarios inflation would be significantly higher in the short term, but it would fall back to slightly below target in 2024.

Moving to a model-based analysis of risks to the inflation outlook, two alternative approaches were used in the assessment. The first approach relied on model simulations, which estimated the probability that annual HICP inflation would be higher than 2% in 2024. This indicated that risks were broadly balanced, with most model simulations showing that the probability of inflation being above target in 2024 was less than 50%. The second approach was that of calculating the forecast probability for HICP inflation one year and three years ahead, based on financial and monetary indicators. With this approach, too, the forecast probability of inflation being above 2% in 2024 was less than 50%. Overall, the two approaches suggested that there were risks in both directions, but the risks looked broadly balanced. These analyses therefore confirmed the view that end-point inflation in 2024 would be around the 2% target.

Similarly, according to the March Survey of Monetary Analysts (SMA), the median of the distribution of longer-term inflation expectations remained around 2%, meaning there was no significant difference from the February round. Given the relative stability of the inflation expectations component, it could also be argued that movements in the real rate were being driven by developments in the risk premium. As regards the balance of risks, SMA respondents saw risks to inflation in 2024 to be balanced around the inflation target. This fairly even distribution between levels above and below 2% implied that there were both upside and downside risks to inflation.

Turning to the latest inflation developments, HICP headline inflation had been increasing strongly since summer 2021, reaching 5.8% in February 2022. The most important contribution to the rise in inflation was from energy, which in February accounted for 3.1 percentage points of the 5.8% inflation rate increase, as energy prices rose by 31.7%. Among the energy components, not only fuel but also gas and electricity had contributed significantly to the increase in energy inflation. The prices of other HICP components, such as food, goods and services, had also been rising. Since energy was an input in every sector, whenever there was a very large and persistent energy price shock the pass-through to other components would become stronger. Indicators of underlying inflation, which traditionally sought to identify the persistent elements of inflation, had been increasing. Taken at face value, they signalled that headline and core inflation would be higher in the future.

However, while these indicators captured medium-term inflation developments well in normal times, they were currently affected by two shocks: the pandemic shock and the massive energy price shock. This called for careful analysis of what was behind inflation dynamics in the present environment and behind the developments in the different components of core inflation, i.e. inflation excluding food and energy.

Starting with goods inflation (non-energy industrial goods), in recent times about 1 percentage point of goods inflation could be attributed to a combination of supply bottlenecks – as captured by PMI supply delivery times – and oil prices. Historically, goods inflation had been hovering around 0.5%. Then, more recently, it had risen to around 1.5%, before increasing further to above 2% in the latest data. However, 1 percentage point of the increase was estimated to be due to factors that were not persistent, namely supply bottlenecks and the energy price shock.

Mr Lane went on to explain that the March HICP staff projection was built around the assumption that the energy price shock was a level effect and would not last. The same assumption applied to the bottlenecks, which also generated a level effect that would nonetheless not be a permanent source of inflation. Therefore, for goods inflation, there were temporary reasons why inflation was high. Once these shocks vanished, inflation was expected to fall.

The second component of core inflation, services inflation, included similar temporary elements. One key temporary element was the reopening of the economy, which also needed to be interpreted as a level rather than permanent effect on inflation.

When looking at the whole projection horizon and cumulating the impact of the energy price shock on core inflation from the last quarter of 2021, ECB staff analysis showed that around 3 percentage points of the cumulative increase in core inflation had been driven by the indirect effects of energy. In the short term (until early 2023), the indirect impact was estimated to account for the bulk of the increase in core inflation. But over time, with the disappearance of slack and the levelling-off of the energy effect, core inflation would return to being mostly determined by the traditional factors and a Phillips curve-type effect would start kicking in. In short, these analyses showed the very large effect that energy prices, supply bottlenecks and the reopening were having on core inflation.

Turning to wages, the March staff projection was built on the observation that, so far, there had been no signs of strong wage pressures, which was in line with the assessment that the labour market was not very tight. The projection suggested a gradual pick-up in wages in 2022, on the basis of the evidence collected on new wage settlements. Since collective bargaining agreements frequently covered one to two years, examining agreements that had already been concluded was informative about increases in negotiated wages in the coming months. For the euro area as a whole, growth in compensation per employee in 2023 was projected to be 3.4%, with the impact of the minimum wage increase in Germany estimated to be around 0.5 percentage points.

With regard to fiscal policies, the March ECB staff projections showed continued improvement in the euro area fiscal outlook. The expected path of fiscal correction was gradual and largely due to the improved cyclical component. Overall, the euro area fiscal deficit was projected to still remain higher than in the pre-pandemic period. The debt-to-GDP ratio was also expected to improve – by about 10 percentage points between 2020 and 2024 – largely thanks to the strong projected path of growth, which was foreseen to return to its pre-pandemic trajectory.

While fiscal balances were expected to improve, interest payments had been revised upwards since the December projections. However, it was important to remember with regard to interest payments that a lot of expiring ten-year bonds were still paying rates of interest that were higher than current rates. Looking at the measures that governments had implemented or announced to cushion the impact of the energy price shock, for the euro area aggregate the baseline incorporated an associated impact of about 0.2% of GDP in 2022. Additional measures – not yet included in the baseline – had recently been approved in several countries.

Monetary policy considerations and policy options

Summing up, Mr Lane stressed that the Russian invasion of Ukraine would have a material impact on economic activity and inflation through higher energy and commodity prices, the disruption of international commerce and weaker confidence. The prospects for the economy would depend on how the conflict evolved, on the impact of economic and financial sanctions and on possible further measures. In any event, the degree of uncertainty would remain extraordinarily high.

At the same time, the underlying conditions in the euro area remained solid, helped by ample policy support. The labour market continued to improve, with unemployment falling to 6.8% in January. Previous headwinds to growth were gradually waning. Measures to contain the spread of the Omicron coronavirus variant had had a milder impact than during previous waves and were being lifted, and supply bottlenecks showed some signs of easing. The impact of the massive energy price shock on people and businesses might be partly cushioned by drawing on savings accumulated during the pandemic and by compensatory fiscal measures. Barring a materialisation of worse scenarios, in the baseline scenario it was expected that the economy would rebound in the course of 2022.

The March staff projections for output had been revised downwards for the near term owing to the Russia-Ukraine war. But the baseline projections still foresaw that the economy would grow at a robust pace over the remainder of 2022. Later in the projection horizon, energy prices were expected to moderate and the foreseen normalisation of the saving ratio, alongside the strong conditions in the labour market, should support household consumption. Output was expected to rise by 3.7% in 2022, 2.8% in 2023 and 1.6% in 2024.

The risks to the economic outlook had increased substantially with the Russian invasion of Ukraine and were tilted to the downside. While risks relating to the pandemic had declined, the war might weaken economic sentiment and could generate new supply-side constraints. Persistently high energy costs, together with a loss of confidence, could drag down demand more than expected and constrain consumption and investment. Alternative scenarios for the economic and financial impact of the war, which would be published together with the projections, foresaw that economic activity could be dampened significantly by a steeper rise in energy and commodity prices and a more severe drag on trade and sentiment.

Inflation had increased sharply in recent months. HICP inflation had surprised to the upside in February, rising to 5.8% from 5.1% in January. Energy prices, which had increased by 31.7% in February, continued to be the dominant force behind the rise in inflation. Food prices had also increased on account of seasonal factors, elevated transportation costs and the higher price of fertilisers. Price pressures had become more widespread, with the prices of many goods and services having increased markedly as energy prices percolated across cost structures in many sectors, and bottlenecks were sustaining pipeline pressures. Inflation was expected to increase further in the near term as a consequence of the risk related to energy costs. There would also be further pressure on some food and commodity prices owing to the war in Ukraine. Most measures of underlying inflation had risen over recent months, but the persistence of the rise in these indicators remained uncertain owing to the indirect effects of higher energy prices and the role of temporary pandemic factors. Even though labour shortages were affecting more and more sectors, wage growth remained muted overall.

The March staff projections foresaw HICP inflation at 5.1% in 2022, 2.1% in 2023 and 1.9% in 2024. The substantial upward revision to inflation in 2022 reflected mainly the effect of the upward surprises in January and February and the impact of the war on the path of energy and commodity prices. HICP inflation excluding food and energy was projected to follow a similar profile, reaching 2.6% this year before declining to 1.8% in 2023 and 1.9% in 2024. Projected wage growth in 2022 was higher, partly as a result of some catching-up in wages and the indirect impact of minimum wage increases further up the wage scale. Looking ahead, a further improvement in labour market conditions and the return of the economy to full capacity should support faster growth in wages over the projection horizon.

Longer-term inflation expectations across a range of measures were re-anchoring at the 2% inflation target. Taken together, the improvement in the labour market and the re-anchoring of inflation expectations made it increasingly likely that inflation would stabilise around the 2% target over the medium term.

The war in Ukraine constituted a substantial upside risk to energy prices. If price pressures fed through into higher than anticipated wage rises, inflation could also turn out to be higher over the medium term. However, if economic growth were to weaken over the medium term, this could lead to lower pressure on prices. In the alternative scenarios for the economic and financial impact of the war, inflation could be considerably higher in the near term. However, inflation was still expected to fade progressively and settle at levels around the 2% inflation target in 2024.

The Russian invasion of Ukraine had caused substantial volatility in financial markets. Following the outbreak of the war, risk-free market interest rates had partially reversed the increase observed since the February meeting. Sovereign yields had also partly retraced the significant increases that had accompanied the steepening of the risk-free curve in early February. Euro area equities had recorded hefty declines, especially in the banking sector. The euro had depreciated against the US dollar, as investors were evaluating the consequences of the war for the euro area economy. The spillovers from the financial market turmoil to unsecured and secured money market rates had been contained so far, while bank lending rates on loans to firms, despite some upward correction, remained favourable overall.

More than ever there was a need to maintain optionality in the conduct of monetary policy. In the current conditions, it was especially important for monetary policy to remain data-dependent and for optionality to be two-sided. On the one hand, policy should not be restricted in its timely response to the risk of excess inflation, should the observed price pressures extend into the medium term. On the other, the possibility to take all the measures necessary if the current crisis continued to escalate should not be ruled out, as further escalation might stifle the economic rebound in the euro area and jeopardise the stability of the financial system. The new inflation landscape and the skew of risks around the inflation baseline suggested that the mission of the net asset purchases – to “reinforce the accommodative impact of our policy rates” – could be considered as coming close to being accomplished. This argued for scaling back the profile of purchases under the asset purchase programme (APP) relative to the path decided on in December. At the same time, the war had generated uncertainty about the euro area economic outlook. There was a need to ensure smooth liquidity conditions and take whatever action was needed to safeguard financial stability and to fulfil the mandate to pursue price stability.

With these considerations in mind, Mr Lane proposed announcing a path for net purchases of €40 billion in April, €30 billion in May and €20 billion in June. The calibration of net purchases for the third quarter would be data-dependent and reflect the evolving assessment of the outlook. If incoming data supported the expectation that the medium-term inflation outlook could be maintained even after the end of the net asset purchases, then net purchases would be ended in the third quarter of 2022. However, if the outlook deteriorated, or if financing conditions became inconsistent with further progress towards the 2% target, the Governing Council would stand ready to revise the schedule for net asset purchases in terms of size and/or duration.

Finally, Mr Lane proposed three adjustments to the rate forward guidance. First, in the current conditions, the “easing bias” – the expectation that, looking ahead and until the three conditions were judged to have been met, policy rates would be kept at their present “or lower” levels – was no longer necessary. In particular, if further easing were warranted in response to a significant deterioration in the outlook, asset purchases could be the appropriate tool to adjust. Second, there was a need to signal that any adjustments to the key ECB interest rates would take place ”some time after the end of the Governing Council’s net purchases under the APP”. As the indicated time limit for net asset purchases would be tentative and data-dependent, the calendar for any rate hikes should be disentangled from the end date for net purchases. This would give the Governing Council some extra space to test conditions after ending purchases of bonds and before taking the next step towards normalisation. Therefore, communication about the sequencing of and spacing between policy actions should be factored directly into the rate forward guidance in a way that reiterated the sequencing of the policy instruments. The reference to “some time” conveyed the notion that the time interval between the end of net asset purchases and lift-off was not predetermined. This was especially important in an uncertain environment. Rather, it would depend on the timeline for the fulfilment of the rate forward guidance criteria and the appropriate incorporation of prevailing economic, financial and market conditions into the interest rate decisions. All in all, this new formulation clearly enhanced flexibility and optionality. It would help manage – in a more agile manner – the specific steps towards implementing the sequence of normalisation decisions, allowing such steps to be better attuned to incoming data. The proposed third innovation concerning the rate forward guidance consisted of two elements. The Governing Council should reconfirm that the path for the policy rates would continue to be determined by the forward guidance and by the strategic commitment to stabilise inflation at 2% over the medium term. Additionally, it should signal that any adjustments to the interest rates would be “gradual”, which was especially important in times of uncertainty.

2. Governing Council's discussion and monetary policy decisions

Economic, monetary and financial analyses

With regard to the economic analysis, members broadly agreed with the assessment of the current economic situation in the euro area and the risks to the outlook provided by Mr Lane in his introduction. The economy had grown by 5.3% in 2021, with GDP returning to its pre-pandemic level at the end of the year. However, growth had slowed to 0.3% in the final quarter of 2021 and was expected to remain weak during the first quarter of 2022. The prospects for the economy would depend on the course of the Russia-Ukraine war and the impact of economic and financial sanctions, as well as possible retaliatory measures. The Russia-Ukraine war would have a material impact on economic activity and inflation through higher energy and commodity prices, the disruption of international commerce and weaker confidence. The extent of these effects would depend on how the conflict evolved, on the impact of current sanctions and on possible further measures. At the same time, the impact of the war had to be assessed in the context of solid underlying conditions for the euro area economy, with the waning of a number of headwinds to growth. Measures to contain the spread of the Omicron coronavirus variant had had a milder impact than during previous coronavirus waves and were now being lifted. The supply disruptions caused by the pandemic also showed some signs of easing. Furthermore, the impact of the massive energy price shock on people and businesses might be partly cushioned by drawing on savings accumulated during the pandemic and by compensatory fiscal measures.

Members welcomed the fact that, in recognition of the highly uncertain environment, the March staff projections considered alternative scenarios. In these alternative scenarios for the economic and financial impact of the Russia-Ukraine war, economic activity was seen to be dampened significantly by a steeper rise in energy and commodity prices and a more severe drag on trade and sentiment. Inflation would be considerably higher in the near term. However, inflation was still expected to decrease progressively and settle at levels around the 2% inflation target in 2024.

In their discussion, members highlighted the exceptional uncertainty that the war in Ukraine and its ramifications implied for the economic outlook. This held not only for the short term but also for the medium term. It was suggested that, in these conditions, the ECB was grappling with "Knightian uncertainty", i.e. a type of uncertainty that was not quantifiable. Fears and concerns associated with the war could not easily be captured by standard models.

There was broad agreement on the direction of the initial effects of the war on the euro area economy, namely upwards on inflation and downwards on economic growth, which was best characterised as yet another negative supply shock. This could have inflationary or disinflationary impacts in the longer term. The most prominent and imminent economic risk emerging from the war was that the prices of energy and raw materials would continue to increase. With the prices of energy and food likely to see further upward pressure and the prominence of these items in consumption baskets, there was a risk of strong impacts on household inflation perceptions and expectations.

The reaction of household savings was considered a key element in the macroeconomic transmission of the war shock. On the one hand, savings could be expected to rise. The drop in asset prices and the rise in uncertainty since the start of the war might lead to more precautionary behaviour and portfolio adjustments by households and businesses. The situation was seen as probably more comparable to the financial crisis than to the pandemic crisis, in which restrictions had led to forced savings. If combined with a complete cut-off of Russian oil and gas supplies to the euro area, heightened uncertainty and risk aversion could lead to a much more pessimistic assessment of the economic outlook than the one presented in the staff baseline projections and the scenarios. On the other hand, it was argued that households were faced with higher energy bills, which left little room to build up savings. Uncertainty effects could be even stronger for the countries bordering Russia. Finally, it was underlined that the high stock of savings accumulated by households during the pandemic might provide a partial cushion against the rise in energy prices.

As regards the external environment, members took note of the assessment provided by Mr Lane that the Omicron variant had slowed global growth momentum at the turn of the year, especially in services, but that its impact had been diminishing. Moreover, global supply bottlenecks had seemingly passed their peak, although delivery times remained very long. The Russia-Ukraine war had led to a downward revision to euro area foreign demand, which was mostly visible in 2023 since, for 2022, the effect was dampened by positive carry-over effects from 2021. Following Russia's invasion of Ukraine commodity prices had surged, the euro had depreciated – particularly against the US dollar – and prices for risky assets had dropped. Regarding the characteristics of this new shock to the euro area economy, it was mentioned that it would have large economic, military and political implications for Europe, which would unfold gradually over time. It was mentioned that, in addition to oil and gas, Russia and Ukraine were also major exporters of several other important commodities (wheat, fertilisers and rare metals). This was likely to lead to more severe worldwide bottlenecks for a number of products. Finally, it was recalled that the recent weakening of the euro was amplifying the adverse terms-of-trade shock that the euro area was currently experiencing owing to the surge in commodity prices.

Members broadly agreed with Mr Lane that the Russia-Ukraine war had started in the context of otherwise solid foundations for a strong recovery in the euro area this year. With governments now ending most pandemic-related restrictions, the euro area economy had been set for a strong recovery before the escalation of the conflict. Hence, the euro area economy was entering this new crisis with better fundamentals than in March 2020. Even the severe scenario presented by staff was less damaging to growth than the comparable scenario that the Governing Council had considered two years ago in response to the emergence of the coronavirus. In this context, it was also recalled that at the global level, the Russia-Ukraine war, together with the economic and financial sanctions, could not be compared with the shutdown of the global economy in March 2020.

Comfort was widely drawn from the continuously improving labour market conditions, with unemployment falling to 6.8% in January. With more or less all labour market indicators at historically high levels, household income should continue to grow. At the same time, it was argued that a pessimistic assessment of the economic consequences of the Russia-Ukraine war would imply that the very strong labour market might have become a thing of the past. An economic contraction owing to the Russia-Ukraine war could lead to a weaker labour market, as observed in the 1980s. The resulting fall in incomes could lead to further economic weakness, including downward pressure on inflation.

Regarding the fiscal policy response to the Russia-Ukraine war, members agreed that further measures were likely and desirable at the national and European levels. At present, however, there was still a lot of uncertainty about such initiatives. While it was clear that economic activity would suffer in the short term, over the next few years consumption and investment might receive a boost through three types of fiscal spending. First, there would be additional investments in the energy sector to reduce the dependency on Russian gas and oil, including investment in the green energy transition. Second, there would be increased defence spending in Europe. Third, there would be more public spending to support Ukraine and the refugees. Overall, such increased government spending would tend to increase pressures on resources and prices.

All in all, members assessed the risks to the economic outlook as having increased substantially with the Russian invasion of Ukraine and as being tilted to the downside. While risks relating to the pandemic had declined, the war in Ukraine might have a stronger effect on economic sentiment and could worsen supply-side constraints again. Persistently high energy costs, together with a loss of confidence, could drag down demand more than expected and constrain consumption and investment.

Against this background, it was argued that the war constituted a stagflationary shock, which entailed weaker activity and higher inflation in the near term. However, given the extremely strong starting point and the anchoring of medium-term inflation expectations, it was difficult to see how this shock could push the euro area economy into stagflation. In this context, the fiscal response would also be very important to achieve a favourable outcome. At the same time, weaker activity in the second and third quarters of this year could nonetheless result in a technical recession in terms of quarter-on-quarter growth rates. Finally, even if the impact of the war was clearly inflationary in the short run, given the significant increase in uncertainty and the rise in financial stability risks, it could become either inflationary or disinflationary in the longer run.

With regard to price developments, members concurred with the assessment presented by Mr Lane in his introduction. Inflation had continued to surprise strongly to the upside in February, when it had increased to 5.8%, even before the effects of the war had become visible. Moreover, it was expected to rise further in the near term. Energy prices continued to be the main reason for this high rate of inflation and were also pushing up prices across many other sectors. Food prices had also increased, and there would be further pressure on some food and commodity prices owing to the war in Ukraine. Finally, price rises had become more widespread and most measures of underlying inflation had risen to levels well above 2%. However, there were different views on how persistent these rises would be, given the role of temporary pandemic-related factors and the indirect effects of higher energy prices. Market-based indicators suggested that energy prices would stay high for longer than previously expected but would moderate over the course of the projection horizon. Price pressures stemming from global supply bottlenecks should eventually subside. Wage growth had remained muted overall, but, over time, the return of the economy to full capacity should support faster growth in wages. Various measures of longer-term inflation expectations derived from financial markets and from surveys stood at around 2%. These factors would help headline inflation to settle durably at the 2% target.

In their discussion of the March 2022 staff projections, members noted the substantial upward revision to the short-term inflation outlook since the December 2021 projections. February’s inflation data release was the latest in a string of consecutive upside surprises. This had led to the largest revisions to inflation projections in many years, both in December and again in March. The high levels of inflation had thus turned out to be less transitory than previously expected, while the latest ECB staff projections nonetheless still foresaw a rapid decline in inflation, nearly to target, over the projection horizon. Sizeable and persistent projection errors for core inflation were also seen as a reminder that the models were underestimating the impact of the recovery and the pass-through of input prices to final consumer prices.

In particular, doubts were expressed about the convergence of inflation to 1.9% as expected in the baseline staff projection for 2024, the last year of the projection horizon. The question was raised as to how one could expect such a fast mean reversion in inflation, faster than in the previous projection round, after the current huge shocks to inflation. It appeared puzzling that inflation projections would still fall somewhat short of the 2% target in 2024 despite consecutive upside surprises in inflation outcomes, a persistently positive output gap for most of the projection horizon and the latest increases in longer-term inflation expectations. In this context, it was acknowledged that models estimated on historical data naturally had their limits in the face of unusual shocks and possible turning points or regime shifts.

It was again stressed that the medium-term projection for headline inflation was based on the assumption of a declining path of energy futures prices. Such a path was seen as open to challenge in the light of various factors in energy markets pointing to more lasting upward pressures. These included the sanctions on Russia, Europe's plan to reduce Russian gas imports and climate change initiatives. Sensitivity analyses using alternative technical assumptions for energy commodity prices could imply inflation projections of well above 2% for 2023 and 2024. At the same time, it was cautioned that all mechanical assumptions for oil prices had their caveats and that for interpreting the projections it was more important to understand whether oil prices were driven by demand or supply shocks.

With respect to the medium-term outlook, it was considered that the projection for food price inflation might be on the low side towards the end of the horizon and the question was raised whether it could be higher for longer. Reference was also made to the likely upward impact on medium-term inflation projections of developments in the costs of owner-occupied housing, which were not yet part of the official HICP index. In view of these different considerations, it was argued that there should be no pretence of knowing what the exact number for inflation would be in 2024, while more attention could be given to uncertainty and risk distributions around point estimates for inflation.

Members highlighted that core inflation and various other measures of underlying inflation had also moved well above 2%. This included a strong upward movement in those prices that were changed less frequently, which were a good indicator of medium-term inflation developments. This was seen to argue against attributing inflation only to the energy component and supported the assessment that inflation was becoming more broad-based and more persistent. With such a trend becoming more entrenched, it was increasingly doubtful whether measures of underlying inflation could be expected to decline again significantly in the short term. Over the medium term, long and variable lags in the pass-through of producer prices meant that considerable upside pressure was still in the pipeline. By contrast, in the staff projections recent increases in core inflation were foreseen to partly reverse over the projection horizon.

However, it was stressed that core inflation was currently being driven by external factors, including energy prices and bottlenecks, rather than domestic factors such as wages. Moreover, these factors were argued to constitute price level effects that would fade from inflation rates over time. Reference was also made to an analysis of the historical pattern of producer price inflation in the energy sector, which showed that energy inflation had typically been oscillating between positive and negative rates of change. Notwithstanding the recent upward spike, it should thus not be ruled out that energy inflation might again turn negative at some point in the future.

It was recalled that one-off energy price rises would not result in lastingly higher inflation, which ultimately required higher inflation expectations and higher wage growth to become self-sustaining. In this context, it was noted that growth in negotiated wages at the end of 2021 was lower than the average for 2020 and did not point to evident wage pressures. It was also noted that growth in unit labour costs, which combined wage growth with productivity developments, was expected to increase over the projection horizon but to stay below 2%. A comparison of wage growth with inflation suggested a cumulative decline in real wages over the projection horizon. The question was raised whether this implied that the terms-of-trade shock associated with energy price increases was being absorbed by workers alone, and how likely that would be in a situation of tight labour markets. At the same time, the point was made that lower real wages did not necessarily imply a lower labour share in income if there was also positive employment growth.

In any case, inflation, which was stubbornly high and higher than expected, was widely seen as increasing the likelihood that there would be second-round effects, which in turn would make higher inflation more persistent. It was argued that, if second-round effects in wages were to emerge, these could last longer than a year, as wage contracts tended to be concluded for longer periods. Concerns were expressed that second-round effects might well be of a non-linear nature, taking some time to emerge but then becoming very strong and difficult to stop. Labour market dynamics and indications of increasing labour market tightness were seen to point clearly to rising wage pressures in the period ahead. It was argued that in the past the impact of energy price increases had been short-lived and had therefore been more naturally absorbed by wages or profit margins. This time the situation appeared to be different, however, given the large energy shock in conjunction with far-reaching structural changes, post-pandemic pent-up demand and supply shortages. This called into question the seemingly very muted reaction of wages to inflation in the staff projections.

At the same time, it was recalled that in the staff projections second-round effects had been assumed to play out in line with historical regularities. There was also a risk that the projected effects might turn out to be too strong given that so far wage growth, at least in some countries, had come in lower than previously expected. Moreover, it was cautioned that the current strength in labour markets could quickly vanish. Reference was made to the 1980s, when second-round effects had induced "third-round" effects in terms of lower output and weaker labour markets. It was also possible that unions and firms might again prioritise job security over wage gains in the light of the heightened uncertainty owing to the war. Moreover, wage-price spirals were unlikely as long as – by contrast with the 1970s and 1980s – the central bank's commitment to price stability was seen as credible.

Against this background, factors that constituted risks to the economic outlook also affected the risks to the outlook for inflation, which were seen to be on the upside in the near term. The war in Ukraine was a substantial upside risk, especially to energy prices. If price pressures fed through into higher than anticipated wage rises or if there were persistent adverse supply-side implications, inflation could also turn out to be higher over the medium term. However, if demand were to weaken over the medium term, this could also lower pressures on prices. It was observed that risks to the projections had already materialised, as oil prices had risen further between the cut-off date for the assumptions in the projections and the Governing Council meeting. In addition, the point was made that the fiscal spending on defence and energy that was likely to take place over the coming years would imply additional inflationary pressures.

As regards longer-term inflation expectations, members took note of the assessments by Ms Schnabel and Mr Lane of the latest developments in market-based measures of inflation compensation and survey-based indicators. Most indicators were at around 2%, which was seen as good news. It was pointed out that some market-based measures were significantly above 2%. On the one hand, it was suggested that this could be seen as the first sign that long-term inflation expectations were becoming unanchored and needed to be closely monitored, as this could give rise to a wage-price spiral. On the other hand, it was recalled that these measures included risk premia and that correcting for these would still leave genuinely expected inflation at around 2%. In this respect, attention was drawn to the correlation between movements in oil prices and market-based measures of inflation compensation. For instance, a rise in the five-year implied forward inflation-linked swap rate five years ahead might inter alia reflect that investors were looking for hedges in the face of an oil price-driven inflation surge. Longer-term inflation expectations at around 2% could be interpreted as reflecting perceptions that the current supply shock was having direct upward effects on inflation in the near term but would have downward effects through disposable income over longer horizons. At the same time, reference was made to national surveys, which showed that the medium-term inflation expectations of businesses and households had moved to well above 2%.

Turning to the monetary and financial analysis, members widely concurred with the assessments, provided by Ms Schnabel and Mr Lane in their introductions, that the Russian invasion of Ukraine had caused substantial volatility in financial markets owing to heightened uncertainty. Stock markets in the euro area had been affected much more than in the United States, reflecting the fact that the euro area was more exposed than other regions of the world to the fallout from the war. In this regard, the extent of the fall in equity prices since the invasion of Ukraine, including for banks with minor exposures to the Russian or Ukrainian economies, suggested that the transmission of the economic shock in the euro area economy could be much more adverse than was implied by the – relatively small – direct financial and trade exposures. At the same time, it was underlined that so far financial market tensions appeared significantly less severe than at the start of the pandemic. There had not been a similar "dash for cash" and liquidity was holding up well in most market segments, even though there had been an interruption of primary market issuance in corporate bond markets for a few days

From a financial stability perspective, the main channel of transmission from higher energy and commodity prices related to the macroeconomic impact through inflation and growth. Following the outbreak of the war, risk-free market rates had partially reversed the increase observed in the wake of the 2-3 February meeting, the euro had depreciated against the US dollar and euro area equity prices had recorded hefty declines, especially for banks. The financial sanctions against Russia had so far not caused persistent strains in money markets or liquidity shortages in the euro area banking system.

Bank balance sheets remained healthy overall, owing to robust capital positions and a reduction in non-performing loans, in turn reflecting sound household finances and corporate balance sheets. The growth of lending to firms had declined after increasing strongly in the last quarter of 2021, whereas lending to households was holding up, especially loans for house purchase.

Monetary policy stance and policy considerations

With regard to the monetary policy stance, financing and financial conditions in the euro area were assessed to remain favourable overall, notwithstanding the increase in market interest rates observed since the monetary policy meeting in February. While nominal euro area government bond yields had increased significantly since the 15-16 December 2021 meeting, this had been driven largely by an increase in market-based inflation compensation. The significant further fall in real interest rates to record low levels and the depreciation of the euro suggested that the monetary policy stance remained very accommodative. This raised the question of whether the configuration of monetary policy instruments, including the negative interest rate policy, was still consistent with inflation returning to target over the medium term. However, it was noted that the recent fall in risk-free interest rates had been driven by deteriorating risk sentiment in the wake of the Russian invasion of Ukraine and a clouding of the macroeconomic outlook. Bank lending rates for firms had increased somewhat but remained favourable overall, while the cost of market-based debt had risen more markedly. Rates on loans to households for house purchase had remained steady at historically low levels.

A large number of members held the view that the current high level of inflation and its persistence called for immediate further steps towards monetary policy normalisation. Inflation was projected to be far above target in 2022, with unprecedented upward revisions over the latest two projection rounds. It was projected to remain above target in 2023, with significant upside risks, as also evidenced by the alternative scenarios. Moreover, it was argued that the baseline inflation projection for 2024 could be assessed to be already effectively on target, when the heightened uncertainty surrounding the outlook and the fragility of the assumptions underlying the projections were taken into account. In addition, available measures of underlying inflation had moved above 2%, suggesting that the staff projections may be underestimating the persistence of above-target inflation.

On this basis it was argued that, for all practical purposes, the three forward guidance conditions for an upward adjustment of the key ECB interest rates had either already been met or were very close to being met. At the same time, it was argued that it remained uncertain how persistent the rise in the indicators of underlying inflation would be, given the role of temporary, pandemic-related factors and the indirect effects of higher energy prices. It was also remarked that, even if the forward guidance criteria could be assessed as being met, uncertainty was high at the current juncture and fulfilment of the criteria was a necessary but not sufficient condition for a first hike in policy rates. The most appropriate timing of a first upward adjustment of the ECB’s key interest rates should be determined by the Governing Council in the light of all available data and other considerations such as prevailing financial market conditions.

While the Russian invasion of Ukraine had increased uncertainty surrounding the macroeconomic outlook, related risks to the inflation outlook were seen as largely one-sided, with experience suggesting that wars tended to be inflationary, often fuelled by increased fiscal spending in conjunction with a loose monetary policy stance. While the war would likely dent economic growth in the short term, annual growth was projected to remain positive even in the severe scenario, pointing to “slowflation” rather than stagflation. The greater persistence of inflation increased the probability of second-round effects via strengthening wage dynamics. While wage growth had remained moderate so far, it usually reacted with a lag and possibly in a non-linear way, with the heightened risk of a wage-price spiral if monetary policy did not act in a timely manner. Moreover, a longer period of above-target inflation would lead to an increased risk of an upward unanchoring of longer-term inflation expectations. The latest measures of market-based inflation compensation had moved above 2% along the entire maturity structure for the first time in many years. In such circumstances, the Governing Council could no longer afford to look through higher inflation, even if it was driven by an adverse supply shock.

The evolution in the inflation landscape since December, as outlined by Mr Lane, thus called for acting with confidence and without undue hesitation. This was viewed as essential to underline the primacy of the price stability objective but also to provide guidance to markets and thereby avoid adding to uncertainty in a volatile environment. In particular, it was considered essential to take action at the present meeting on scaling back the scheduled APP purchases over the following quarters to “unlock” optionality for future decisions on policy rates.

The view was taken that APP purchases had by now fulfilled the stated objective of reinforcing the monetary policy accommodation provided by the ECB’s negative interest rates. Given the development of the inflation outlook since the Governing Council’s December 2021 meeting, and the favourable financing conditions, it was no longer evident that the pace of net purchases previously agreed continued to be proportionate, i.e. suitable, necessary and with no less onerous alternatives available to achieve the declared objective. Continuing to provide monetary policy accommodation through net asset purchases to the extent that had been envisaged in December was no longer seen as consistent with the primary objective at a time when inflation was moving further away from the Governing Council’s target. Maintaining net asset purchases under the APP in spite of impending risks to price stability could call into question the Governing Council’s determination to pursue its primary objective, particularly when inflation risks were skewed to the upside. The present assessment thus called for a prudent and conditional phasing-out of the use of this non-standard instrument, which would in any case remain available for future use, in a proportionate manner, as part of the ECB's toolbox.

Taking action at the present meeting was also seen as consistent with the principles of gradualism, prudence and caution. A delayed response could increase the risk that a more abrupt adjustment in the monetary policy stance would prove necessary further down the road, which could prove more costly for growth and financial stability. In this respect, it was more important than ever for the Governing Council to follow a data-dependent and step-by-step approach, with emphasis on optionality and flexibility. The war had reinforced this need for optionality, owing to the increased upside risks for inflation. In the light of heightened uncertainty, it was nonetheless seen as wise to keep some two-sided optionality and a data-dependent approach, as it was too early to tell how events would unfold in the following months. Against this background, cautious action at the present meeting was seen as warranted, in particular scaling back the schedule for net asset purchases under the APP while de-linking the date of an initial rate rise from the duration of asset purchases. This would increase the Governing Council's optionality and flexibility without implying that lift-off would automatically follow shortly after the end of net purchases.

Among those calling for action at the present meeting, some members preferred to set a firm end date for APP net purchases during the summer and not to make that date conditional on unfolding events. This could clear the way for a possible rate rise in the third quarter of this year in the light of the deterioration in the inflation outlook. Preserving optionality on asset purchases was not without cost, especially considering the risk of "falling behind the curve".

Other members expressed a preference for adopting a wait-and-see approach at the present meeting in view of the exceptionally high uncertainty created by the Russia-Ukraine war. While the pre-war situation might have called for some removal of monetary policy support to accompany the recovery, in the form of a cautious adjustment in addition to the normalisation decisions taken in December 2021, it did not call for a tightening cycle to be initiated. In the new environment resulting from the war, bold steps were even less justified and could further dent confidence. The war implied a considerable change in the macroeconomic picture since the February meeting, and the alternative scenarios suggested that the euro area could fall into technical recession in the summer quarters. The point was made that, in the absence of the currently high level of inflation, the appropriate monetary policy response would likely have been a loosening of the stance. While the war and the associated amplified energy supply shock created an acute dilemma for monetary policy, there was value in keeping a steady hand and waiting before deciding on further adjustments to the monetary policy stance. This would allow a better understanding of the planned fiscal policy response and of the implications of the war for the economic and inflation outlook. Acting at the present meeting raised the question of whether the Governing Council was focused more on short-term inflation developments than on the medium-term inflation outlook.

In the view of these members, the forward guidance conditions had not yet been met and it was also not obvious whether they would be met soon. The baseline staff projections and the two alternative scenarios all suggested that inflation would fall below 2% in 2024, as the impact of high energy prices on the level of headline inflation would have faded by then. It was argued that the war constituted a supply and not a demand shock, and it was thus appropriate for monetary policy to look through this shock rather than overreact to current inflation readings. It was argued that the Governing Council could afford to be patient, with measures of longer-term inflation expectations standing at around 2% and no sign of second-round effects, as wage growth had remained moderate so far and had lately even been slower than expected in recent projection exercises.

Monetary policy decisions and communication

All in all, members agreed that the recalibration of the monetary policy instruments proposed by Mr Lane in his introduction was a balanced compromise and a proportionate course of action in the pursuit of the Governing Council's price stability mandate. On the one hand, by taking this course of action, the Governing Council continued a step-by-step normalisation of monetary policy, consistent with its assessment that it was increasingly likely that inflation would stabilise around its 2% target over the medium term. On the other hand, the proposed recalibration maintained the Governing Council's flexibility in terms of the schedule for net asset purchases under the APP by emphasising conditionality linked to the medium-term inflation outlook and by increasing optionality with respect to the key policy interest rates by de-linking lift-off from the expected end date of net asset purchases.

On the basis of the Governing Council's updated assessment and taking into account the uncertain environment, there was agreement to revise the net asset purchases under the APP for the second quarter as proposed by Mr Lane in his introduction, namely for monthly net purchases under the APP to amount to €40 billion in April, €30 billion in May and €20 billion in June. There was also agreement that the calibration of net purchases for the third quarter would be data-dependent and reflect the Governing Council's evolving assessment of the outlook. There was wide support for the conditional expectation that the Governing Council would conclude net asset purchases under the APP in the third quarter if the incoming data supported the expectation that the medium-term inflation outlook would not weaken after the end of net purchases. This gave the Governing Council the necessary flexibility and optionality, as well as the time needed, to reassess the situation in coming meetings.

Regarding the formulation of the Governing Council's forward guidance on interest rates, members agreed to remove the "easing bias", i.e. the Governing Council had previously expressed an expectation that the key policy rates would remain at their present "or lower" levels until the three forward guidance conditions were judged to have been fulfilled, which was viewed as no longer warranted. Members also agreed to separate the timing of a rate hike from the end date for net asset purchases, replacing the previous formulation that net asset purchases would end “shortly before” the Governing Council started raising the key policy rates. While net asset purchases under the APP could be viewed as having fulfilled their purpose of reinforcing the accommodative impact of policy rates, further evidence was needed before it could be concluded that the conditions for a rate hike had been met. Therefore, there should be no automaticity in decisions on rate hikes, and it was prudent to retain flexibility and optionality in this respect until there was more clarity on the impact of the Russia-Ukraine war on the medium-term inflation outlook. Against this background, it was judged as neither necessary nor advisable to reach a firm conclusion at the present stage on whether the three forward guidance conditions had already been met.

Members generally supported the proposed formulation that any adjustments to the key ECB interest rates would take place “some time after” the end of net asset purchases under the APP. While it was viewed as appropriate to convey the notion that the Governing Council intended to gain extra space to assess the conditions for a rate hike after net purchases had ended, it was also stressed that maximum optionality and flexibility needed to be maintained. In particular, it was important to avoid any misinterpretation of the new formulation as necessarily suggesting a long gap between the end of net purchases and an initial rate rise.

Members broadly agreed that the path for the key ECB interest rates would continue to be determined by the forward guidance in a data-dependent manner and by the strategic commitment to stabilise inflation at 2% over the medium term. There was broad support for the notion of gradualism, which was regarded as a well-established principle of sound monetary policy and consistent with prudence in an environment of heightened uncertainty.

With respect to a possible resurgence of fragmentation in euro area financial conditions, it was recalled that, in December, the Governing Council had included a general reference to flexibility in its communication, which had since been included in the regular monetary policy press releases. Regarding communication, members highlighted the need to convey a data-dependent approach to monetary policy normalisation, and that the Governing Council was very attentive to the prevailing uncertainties and stood ready to adjust all of its instruments to ensure that inflation stabilised at the 2% target over the medium term. It was stressed that, amid the uncertainties created by the Russian invasion of Ukraine, the Governing Council would ensure smooth liquidity conditions and take whatever action needed to fulfil the ECB’s mandate to pursue price stability and to safeguard financial stability. Reference was also made in this context to the Governing Council’s decision to extend the Eurosystem repo facility for central banks (EUREP) until 15 January 2023, which would be communicated via the ECB’s monetary policy press release.

Prevailing uncertainties called for the Governing Council to maintain maximum optionality and flexibility with respect to the future course of monetary policy normalisation. A data-dependent approach was essential for keeping confidence and trust in the ECB’s commitment to deliver on its mandate. It also had to be acknowledged that the ECB was already doing a lot in terms of gradual monetary policy normalisation, with net asset purchases under the PEPP to be discontinued at the end of March in line with the decision taken in December 2021. It was also highlighted that fiscal measures, including at the European level, had an important role to play in shielding the economy from the negative impact of the Russian invasion of Ukraine.

Taking into account the foregoing discussion among the members, the President ascertained that all members accepted the policy package proposed by Mr Lane as set out in the ECB's monetary policy press release. The members of the Governing Council subsequently finalised the monetary policy statement, which the President and the Vice-President would, as usual, deliver at the press conference following the Governing Council meeting.

Monetary policy statement
Monetary policy statement to the press conference of 10 March 2022

Press release
Monetary policy decisions

Meeting of the ECB's Governing Council, 9-10 March 2022

Members

- Ms Lagarde, President
- Mr de Guindos, Vice-President
- Mr Centeno
- Mr Elderson
- Mr Hernández de Cos
- Mr Herodotou*
- Mr Holzmann
- Mr Kazāks*
- Mr Kažimír
- Mr Knot
- Mr Lane
- Mr Makhlouf

- Mr Müller
- Mr Nagel
- Mr Panetta
- Mr Rehn
- Mr Reinesch
- Ms Schnabel
- Mr Scicluna
- Mr Šimkus
- Mr Stournaras*
- Mr Vasle
- Mr Villeroy de Galhau*
- Mr Visco
- Mr Wunsch

* Members not holding a voting right in March 2022 under Article 10.2 of the ESCB Statute.

Other attendees

- Mr Dombrovskis, Commission Executive Vice-President**
- Ms Senkovic, Secretary, Director General Secretariat
- Mr Rostagno, Secretary for monetary policy, Director General Monetary Policy
- Mr Winkler, Deputy Secretary for monetary policy, Senior Adviser, DG Economics

** In accordance with Article 284 of the Treaty on the Functioning of the European Union.

Accompanying persons

- Mr Bitans
- Ms Buch
- Mr Demarco
- Mr Gavilán
- Ms Donnery
- Mr Goulard
- Mr Haber

- Mr Kaasik
- Mr Kuodis
- Mr Kyriacou
- Mr Lünnemann
- Mr Nicoletti Altimari
- Mr Novo
- Mr Ódor
- Mr Rutkaste
- Mr Sleijpen
- Mr Tavlas
- Mr Välimäki
- Mr Vanackere
- Ms Žumer Šujica

Other ECB staff

- Mr Proissl, Director General Communications
- Mr Straub, Counsellor to the President
- Ms Rahmouni-Rousseau, Director General Market Operations
- Mr Arce, Director General Economics
- Mr Sousa, Deputy Director General Economics

Release of the next monetary policy account foreseen on Thursday, 19 May 2022.