

# Monetary policy decisions

4 May 2023

The inflation outlook continues to be too high for too long. In light of the ongoing high inflation pressures, the Governing Council today decided to raise the three key ECB interest rates by 25 basis points. Overall, the incoming information broadly supports the assessment of the medium-term inflation outlook that the Governing Council formed at its previous meeting. Headline inflation has declined over recent months, but underlying price pressures remain strong. At the same time, the past rate increases are being transmitted forcefully to euro area financing and monetary conditions, while the lags and strength of transmission to the real economy remain uncertain.

The Governing Council's future decisions will ensure that the policy rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to the 2% medium-term target and will be kept at those levels for as long as necessary. The Governing Council will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, the Governing Council's policy rate decisions will continue to be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

The key ECB interest rates remain the Governing Council's primary tool for setting the monetary policy stance. In parallel, the Governing Council will keep reducing the Eurosystem's asset purchase programme (APP) portfolio at a measured and predictable pace. In line with these principles, the Governing Council expects to discontinue the reinvestments under the APP as of July 2023.

## Key ECB interest rates

The Governing Council decided to raise the three key ECB interest rates by 25 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 3.75%, 4.00% and 3.25% respectively, with effect from 10 May 2023.

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

The APP portfolio is declining at a measured and predictable pace, as the Eurosystem does 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 June 2023. The Governing Council expects to discontinue the reinvestments under the APP as of July 2023.

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.

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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 and to preserve the smooth functioning of monetary policy transmission. The ECB's policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed. Moreover, 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.

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