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The European Central Bank's new monetary policy strategy

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Pablo Hernández de Cos
Governor of the Banco de España

Ladies and gentlemen, good morning:

It is a pleasure for me to be able to participate in this meeting organised by IESE Business School in Barcelona.

I would like to take this opportunity to share with you the main pillars of the new monetary policy strategy of the European Central Bank (ECB), unanimously approved by the Governing Council of the ECB and announced on 8 July.

The current review has drawn on an immense collective effort by staff at the ECB and the Eurosytem national central banks over the past 18 months, organised across thirteen work streams.[1] During this process we have listened to opinions from citizens, academics, members of the European Parliament and civil society organisations from across the euro area. The new monetary policy strategy will enable us to improve our capacity to fulfil our price stability mandate in the coming years.

Today, I will first put into context the previous strategic framework and explain the profound structural changes that the euro area has experienced in recent decades, leading the ECB to update its monetary policy strategy. Specifically, I will address two particularly significant issues for the implementation of the current monetary policy: the fall in the equilibrium real interest rates and, as a result, the challenge posed by the lower bound on interest rates for the room for manoeuvre for monetary policy.

In the second part of my address I will describe the main aspects of the new strategy and explain how they can help us face the challenges which have given rise to it.

Lastly, I will analyse in particular the recent change in our forward guidance on interest rates, to adapt it to the new strategy, and I will discuss the monetary policy decisions adopted at the ECB Governing Council's latest meeting.

The previous strategic framework and its results

The monetary policy strategy of the ECB is guided and bound by the mandate conferred by the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU). Article 127 of the latter confers on the ECB the primary mandate of maintaining price stability in the euro area as a whole.[2] Therefore, the ECB's primary

[1] See https://www.ecb.europa.eu/home/search/review/html/workstreams.en.html.

[2] Without prejudice to this objective, Article 127 of the TFEU also establishes that the Eurosystem shall support the general economic policies in the European Union (EU) with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the TEU. These objectives include balanced economic growth, a highly competitive social market economy aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment.

objective is to maintain price stability, which is key to ensuring macroeconomic stability and, consequently, social well-being for the people of Europe.[3]

However, the TFEU leaves to the discretion of the ECB the exact definition of "price stability" and the manner in which it is to be achieved, which is what is known as "monetary policy strategy". Therefore, the ECB must establish the definition of price stability in its monetary policy strategy.

In 1998, the ECB defined price stability as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. In 2003, the Governing Council of the ECB clarified that, in the pursuit of price stability, an aim was set to maintain inflation rates below, but close to, 2% over the medium term.

Why did the ECB set a positive inflation target, rather than zero, if its mandate is price stability? Mainly, for three reasons. First, because maintaining a positive inflation rate reduces the probability that nominal interest rates will move closer to their lower bound as a result of a disinflationary shock. This is an important issue that I will deal with extensively in my address, but for the moment, suffice it to say that in 2003 it was considered that inflation rates below, but close to, 2% provided a safety margin for interest rates not to reach said lower bound.

A second reason for having a positive inflation target is that HICP inflation may be subject to a positive bias when measuring the real increase in the cost of the consumption basket (for example, owing to improvements in product quality). This implies that zero inflation in the HICP would entail a de facto fall in prices.

Third, a positive inflation rate in the euro area as a whole leaves room for possible differences between the inflation rates of the different countries. If the euro area's inflation target were zero, this would imply that, in order to offset positive inflation in certain countries, the rest would face negative inflation rates, i.e. deflation. Since, in environments with downward price and wage rigidities, deflation tends to have negative effects on economic activity and employment, maintaining positive inflation in the euro area reduces the risk of deflation in a part of it.

To achieve this goal, the ECB uses as its main instrument the three types of key interest rates it sets for lending to banks and taking deposits: the rates on the deposit facility, the main refinancing operations and the marginal lending facility. Changes in these key interest rates affect money market yields, and these, in turn, are ultimately passed through to the interest rates on the financing received by agents in the real economy (firms, households and governments), whether through debt markets or bank lending.

During the first decade of the euro, against a backdrop of mainly inflationary shocks, inflation remained close to target levels. This helped maintain economic agents' inflation

[3] The provisions of Article 127 of the TFEU also imply that, in order to maintain price stability, the Eurosystem shall also contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

expectations well anchored and, therefore, established the ECB's credibility for fulfilling its price stability mandate.

The onset of the global financial crisis in 2008 led to a second phase dominated by disinflationary pressures which, over time, generated a downward trend in inflation. During this phase, the ECB maintained a low interest rate policy in an attempt to boost the economy and inflation. However, the existence of a lower bound on interest rates, which I will speak about shortly, has restricted the ECB's capacity to continue reducing its key interest rates. This limitation, together with the persistent fall in inflation and incipient signs of deanchoring of long-term inflation expectations, led the ECB to implement, from 2014, non-standard monetary policy measures such as large-scale asset purchases or longer- term refinancing operations. Despite the decisive implementation of all these measures, inflation remained persistently below target.[4]

The decline in natural interest rates and the problem of the lower bound

Why have the historically low interest rates of the last decade not been sufficient to keep inflation around its target? To answer this question, we need to understand the concepts of "natural interest rate" and "lower bound".

First, it is important to remember that, in order to achieve price stability, the central bank influences the level of interest rates on the financing received by the various economic agents. Although the central bank controls the nominal interest rate, it is the "real" interest rate – that is, the nominal rate less expected inflation – that is relevant for households' and firms' spending decisions. For instance, a nominal interest rate of 2% when expected inflation is 4% is much more expansionary than a nominal interest rate of 1% in a non-inflationary setting.

Given that goods and services prices are partly rigid, the central bank may influence the real interest rate by adjusting nominal rates. The central bankers' handbook prescribes that if the economy is overheating and prices and wages are under upward pressure, the central bank should raise nominal interest rates above inflation expectations, thus tightening real rates and cooling down the economy. And vice versa, in a downturn, with falling prices and rising unemployment, the central bank should cut nominal interest rates, thus reducing real rates and stimulating aggregate demand.

The basic monetary policy model establishes that, to achieve the inflation target, the central bank must maintain real interest rates at a level known as the "natural interest rate", defined as the real interest rate that maintains GDP at its potential level and inflation stable at its target level.[5] Therefore, a central bank with a price stability mandate will tend to adjust its nominal interest rate, over time, in line with the changes in the natural interest rate.

[4] For further details, see Rostagno et al. (2019).

[5] The concept, determinants and implications for monetary policy of the natural interest rate are discussed in Galesi, Nuño and Thomas (2017). The natural rate of interest is sometimes also called the "equilibrium interest rate".

In practice, the natural rate of interest cannot be observed directly and can only be estimated, with some degree of uncertainty, using econometric techniques.[6] Despite this caveat, there is a general consensus that in advanced economies the natural rate of interest has been in progressive decline over recent decades. This drop is mainly attributable to structural factors that have shifted the balance between the supply of savings and investment demand, which has driven down equilibrium real interest rates. These factors include demographic developments (such as increased life expectancy, which incentivises workers to save for retirement), the decline in trend productivity growth (reducing demand for credit to finance investment projects) and growing inequality (higher income groups usually have a greater propensity to save). Given that these are, in principle, long-term trends, there seems little chance of them reversing in the short and medium term. Accordingly, the natural rate of interest can be expected to hold at low levels in the years ahead.

As a result, in order to stabilise inflation, real interest rates and, therefore, nominal interest rates need to be lower now than two or three decades ago. Indeed, in economies such as the euro area several estimates place the natural rate of interest at negative levels.[7]

The decline in natural rates of interest would not be problematic if nominal rates could fall as far as necessary; for example, with expected inflation of 1%, to achieve a real interest rate of, for example, -2%, the nominal rate would have to be lowered to -1%. The problem is that nominal interest rates cannot drop as far into negative territory as would be necessary. As the central bank lowers rates into negative territory, commercial banks endure negative returns on a growing portion of their assets. Each individual bank would then face the dilemma of either passing on these negative returns to deposits, with the attendant risk of depositors transferring their savings to other banks or withdrawing them as cash, or see their profitability undermined by the negative spread between the return on the bulk of their assets and liabilities. In either case, very negative interest rates would adversely affect the financial sector's intermediation capacity, with the ensuing detrimental impact on the supply of credit, economic activity and inflation.

There is therefore a lower bound to nominal interest rates. Should central banks lower interest rates below this bound, the effect on the economy may even be contractionary rather than expansionary, owing to the adverse effects on the financial system as a whole.[8] The level of this lower bound is not directly observable and varies over time according to the financial sector's situation. In any event, it represents a floor for central bank interest rate cuts.[9]

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[6] For example, Holston et al. (2017) estimate that in 2016 the natural rate in the United States was positive but very close to zero.

[7] See, for example, Fiorentini et al. (2018).

[8] See, for example, Brunnermeier and Koby (2018) for a discussion of the effect of interest rates on banks' profitability and their ability to lend.

[9] Arce et al. (2018) estimate that the current level of negative rates does not necessarily restrict the supply of credit by European banks, in particular by Spanish ones.

The lower bound introduces asymmetry in the implementation of monetary policy by central banks. As I have noted, if inflation rises above its target, central banks can raise interest rates as far as necessary to cool down the economy. However, should deflationary shocks drive inflation below the target and prompt the central bank to cut its interest rates, these may ultimately "collide" with their lower bound. This asymmetry means monetary policy is potentially highly effective in combating inflation, but less so in combating deflation or even persistently low inflation.[10]

A dangerous vicious circle may develop as a result. Against a backdrop where central banks' hands may frequently be tied by the lower bound, economic agents will expect any inflation overshooting to be corrected swiftly, but not undershooting. Therefore, expected inflation will tend to run below target. Given that in the long run the nominal interest rate is the real equilibrium interest rate plus expected inflation, a fall in the latter entails lower average nominal rates, causing them to collide with their lower bound more often. This means less headroom to provide stimulus in downturns with low inflation, driving inflation expectations lower still. This vicious circle must be avoided, since the economy could ultimately get stuck in a trap of low interest rates, low inflation and low growth.

To stave off such a vicious circle, and in view of the scant headroom to cut interest rates further, in 2014 the ECB decided to introduce its "non-standard measures".[11] These measures included the asset purchase programme (APP), targeted longer-term refinancing operations (TLTROs) and forward guidance on the path of interest rates.[12] These programmes aim to minimise the lower bound problem by acting on the medium and long tranches of the yield curve or, in the case of TLTROs, by incentivising the supply of bank lending to the real economy.

Asset purchase programmes drive up demand for public and private-sector bonds, raising their price and, therefore, lowering their yield.[13] Thus, although short-term interest rates are restricted by the lower bound, the ECB can reduce longer-term interest rates, which are often more relevant when it comes to determining the financing conditions of economic agents and, consequently, their spending decisions.[14]

In TLTRO operations, the Eurosystem extends long-term financing to euro area banks at an especially low cost, on the condition that they increase or maintain their supply of credit to

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[10] See Banco de España (2019) for a detailed discussion.

[11] One of the measures was the adoption of (moderately) negative interest rates, specifically for the deposit facility. Thus far the negative rate policy is thought to have been effective in stimulating the economy. It has demonstrated that the central bank's lower bound on interest rates is not zero, as was traditionally thought, but negative.

[12] For an analysis of the macroeconomic effectiveness of forward guidance on interest rates and on future developments in the central bank's asset portfolio, see Arce et al. (2019).

[13] For an analysis of how the corporate sector purchase programme affects the financing of non-financial corporations, see Arce et al. (2017).

[14] For governments and corporate issuers, this is a direct channel since they mainly raise financing on bond markets in medium and long terms. For households and firms relying on bank lending, the channel is less direct, given that medium and long-term market rates are used as a benchmark for setting the cost of most loans.

the real economy. This lowers the cost of bank loans to firms and households, thus stimulating aggregate demand and inflation.[15]

Lastly, the central bank uses forward guidance to signal to investors and other economic agents the expected path of interest rates and the factors determining that trajectory. For example, for a number of years the ECB has linked interest rates remaining at their present levels or lower to the course of euro area inflation. The ECB thus establishes the conditions that must be in place to begin raising interest rates. This allows it to steer market expectations on the future path of its policy interest rates, which affects the yield curve and, again, financing conditions for economic agents.

There is a broad consensus that these non-standard measures have been effective in supporting euro area inflation. However, as I have said, they have not sufficed to prevent inflation from holding persistently below the ECB's target in recent years.

It should be emphasised that the inflation target as defined under the previous strategy amplified the problems associated with the lower bound. The previous inflation target ("below, but close, to 2%") risked being interpreted as asymmetric, i.e. that the monetary policy response would be more forceful to an inflation overshoot than to an undershoot. This possible perception of asymmetry, together with ambiguity over the exact target number, did not help anchor inflation expectations at levels genuinely close to 2% once rates ran close to the lower bound. There was therefore a case for establishing a clearer and more symmetric inflation target, one that would not be interpreted mechanically as an inflation ceiling.

In January 2020, this, together with the challenges associated with declining natural rates of interest and other structural changes in recent decades (such as globalisation, digitalisation and climate change), prompted the ECB to launch an exhaustive review of its monetary policy strategy.[16] On 8 July, the President, Christine Lagarde, presented the outcome of that review, which I will turn to now.

The main elements of the new strategy

The ECB's revised strategy includes two fundamental innovations.

First, a new medium-term inflation target of 2% has been adopted. This target is symmetric, in the sense that positive and negative deviations of inflation from the target are considered to be equally undesirable. Hence, the 2% inflation target seeks to provide a clear anchor for inflation expectations, which is essential for maintaining price stability; this eliminates any ambiguity and the possible perception that the previous target was asymmetric. Also, the replacement of a target that, in spite of the ambiguity, was below 2% by one that is exactly 2% involves a de facto raising of the target, which should help to raise the average level of inflation and nominal interest rates and, therefore, reduce the frequency with which the lower bound constrains ECB action in future.

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[15] Andreeva and García-Posada (2019) estimate the impact of TLTROs on banks' lending policies in the euro area.

[16] See ECB press release "ECB launches review of its monetary policy strategy", of 23 January 2020.

Second, to maintain the symmetry of the inflation target, the ECB recognises in its new strategy the importance of taking into account the implications of the lower bound. In particular, the strategy establishes a requirement for especially forceful or persistent monetary policy action when the economy is close to the effective lower bound, to avoid negative deviations from the inflation target becoming entrenched. This may also imply a transitory period of overshooting, in which inflation is moderately above target. This may be useful to the extent that, in a situation in which nominal interest rates are limited by their lower bound, agents expect relatively high inflation in future, and this reduces real interest rates and thus stimulates economic activity.

The new strategy confirms the medium-term orientation of monetary policy that existed under the previous strategy framework. The medium-term orientation provides room for the inevitable short-term deviations of inflation from target, as well as for lags and uncertainty in the transmission of monetary policy. The flexibility of the medium-term orientation allows an appropriate response to inflation deviations from target in each specific context, according to the origin, magnitude and persistence of the deviation.

As regards monetary policy instruments, the new strategy confirms the set of ECB policy rates as the primary instrument. However, in recognition of the effective lower bound on policy rates, the ECB will also employ forward guidance, asset purchases and longer-term refinancing operations, or any other instrument, as appropriate.

Turning to the measurement of inflation, the new strategy confirms that the HICP is the most appropriate indicator. This index has proved to be reliable, credible and comparable over time and across countries. However, the ECB recognises that the incorporation of owner-occupied housing costs in the HICP would make it more representative of the inflation rate relevant to households. For this reason, the ECB has recommended including such costs in the HICP. This process could take years and must allow the consumption and investment components, both of which are inherent in residential property, to be separated; the former is the relevant one for monetary policy. Meanwhile, the ECB shall take into account, in addition, other measures of inflation that estimate the cost of owner-occupied housing in its monetary policy assessments.

The ECB's strategy update has taken into account other challenges for monetary policy posed by recent structural changes, such as globalisation, digitalisation and climate change. The latter is currently a policy priority for the European Union.

Indeed, climate change may have relevant implications for price stability through its impact on the structure and cyclical dynamics of the economy and financial system. For this reason, as part of its strategy review, the ECB has committed to an ambitious action plan to include climate change considerations in its monetary policy framework.[17] These considerations include the incorporation of climate factors in its monetary policy assessments, as well as the adaptation of its operational framework in relation to disclosures on environmental sustainability as a requirement for the eligibility of collateral and for corporate bond purchases, the adoption of other climate change criteria in these two latter areas and the

[17] See the ECB's press release "ECB presents action plan to include climate change considerations in its monetary policy strategy" of 8 July 2021.

assessment of the climate-related risks in the Eurosystem's balance sheet, the strength of which is indispensable to allow the ECB to achieve its monetary policy objectives.

The new strategy has also involved reformulating the analytical framework on which the ECB's monetary policy decisions are based. Until now, we on the Governing Council have grounded our decisions, including the assessment of the proportionality and possible side effects of our measures, on a comprehensive assessment of all the relevant factors. This assessment was based on two independent pillars: the short and medium-term economic analysis and the longer-term monetary analysis. In particular, the economic analysis in this framework was focused on real and nominal economic developments, while the monetary analysis examined the monetary and financial indicators, placing the focus on the functioning of the monetary policy transmission mechanism and on the possible risks to medium-term price stability arising from financial imbalances and monetary factors.

However, the pervasive role of macro-financial linkages in current economic, monetary and financial developments requires that the interdependencies across the two analyses are fully incorporated. Hence, in the new strategy monetary policy decisions will be taken on the basis of an integrated framework that brings together the economic analysis and the monetary and financial analysis, thus contributing to a comprehensive and robust assessment of the outlook for and risks to price stability over different time horizons.

The interaction between monetary policy and financial stability will also be analysed, recognising that financial stability is a precondition for price stability. In this respect, the monetary analysis has shifted from detecting risks to medium and long-term price stability to providing the information needed to assess monetary policy transmission mechanisms.

The communication of monetary policy decisions plays an important role in the new strategy, given that the Governing Council's decisions need to be understood not only by experts, but also by the general public. As a result, new versions have begun to be introduced of the monetary policy statements, the press conference, the Economic Bulletin and the monetary policy accounts with different levels of technical detail. In this respect, we on the ECB's Governing Council wish to make communication activities a permanent feature of the Eurosystem's interaction with citizens. Specifically, we will hold regular outreach events for the public to allow citizens to voice their concerns and to understand the ECB's actions, and their implications for society,[18] and to trust them.

Looking ahead, it will not be necessary to wait almost two decades for the next strategy review. We intend to assess the suitability of our monetary policy strategy regularly and plan to conduct the next assessment in 2025.

Adapting forward guidance to the new strategy

In the next part of my address, I would like to focus on the change in forward guidance on interest rates, announced on 22 July, which aims to adapt this important tool to the new strategy.

[18] For further information, see the ECB's website, which has more details on the different events: Overview of listening events across the euro area.

First, the new forward guidance incorporates the symmetric 2% inflation target and indicates that "the Governing Council expects the key ECB interest rates to remain at their present or lower levels until we see inflation reaching 2% well ahead of the end of our projection horizon and durably for the rest of the projection horizon, and we judge that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term". In addition, in accordance with the new strategy, meeting these requirements could involve a transitory period in which inflation is moderately above target.

As the ECB's President explained following the announcement of the new forward guidance, "well ahead" basically refers to the mid-point of our projection horizon, which covers two to three years.[19] In addition, the condition linked to underlying inflation – which excludes the most volatile components of headline inflation – seeks to avoid premature tightening of monetary policy in the face of increases in inflation stemming from factors whose influence is considered transitory. Lastly, the forward guidance on all the other monetary policy instruments remains unchanged for the time being, which means that the horizon for net purchases under the APP remains linked to the first interest rate hike.

The immediate reaction on the financial markets to the new strategy and new forward guidance announcements was moderate in both cases. This appears to suggest that both announcements were in keeping with investors' expectations and that, as has been the case following similar strategy reviews undertaken by other central banks in the past, investors need some time to fully adapt their monetary policy expectations to the new strategy.

In this respect, in the time elapsed since the announcement of the new strategy, investors' expectations as to the future course of interest rates and inflation in the euro area, proxied by their respective forward curves, have moved in line with what could be expected following the change in the ECB's strategy and forward guidance.[20] Thus, the downward shift in the forward interest rate curve would appear to suggest a delay in the expected date of the ECB's first interest rate hike, while the forward inflation curve has shifted slightly upwards. Both these moves are consistent with the fact that the new strategy has introduced an inflation target that is slightly higher than the previous one and has eliminated possible perceptions of asymmetry, and with the fact that the new forward guidance establishes stricter conditions, in terms of adjustment of inflation to the new target, for the ECB to begin to start raising interest rates.

In any event, it is important to note that various macro-financial, geopolitical and epidemiological developments over the last few weeks may also have influenced investors' expectations and, therefore, forward interest rate and inflation curves. This means, ahead of a more detailed and rigorous analysis, that the correlation between the financial moves

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[19] For more details, see the full transcript of the "Interview with the Governor published in Bloomberg" of 27 July 2021.

[20] The forward interest rate (inflation) curve is calculated using the prices negotiated in interest rate (inflation) swap agreements and is the interest (inflation) rate that should exist at each point in the future for the swap agreements not to entail payments between the parties. These forward rates are used to proxy investors' expectations as to the future course of interest rates and inflation. However, this is an imperfect approximation, since forward rates include risk premia. In the case of the ECB's policy rates, the EONIA forward curve is used. This is an indicator of overnight interbank rates and, since 2009, has been very close to the ECB's deposit facility rate.

described above and the announcement of the ECB's new strategy and new forward guidance should be interpreted with due caution.

In addition, the experience of other central banks that have reviewed their monetary policy strategy, such as the US Federal Reserve System, shows that financial market participants need time to fully process the implications of this type of strategy review for monetary policy. In consequence, looking forward, we need to conduct continuous assessment of the functioning of our forward guidance and verify whether or not the markets are correctly reflecting the Governing Council's view of this key monetary policy instrument.

Recent monetary policy decisions: recalibration of the PEPP

To conclude, I will now touch briefly on our monetary policy decisions taken following last week's meeting of the ECB's Governing Council, focusing particularly on the decision relating to our pandemic emergency purchase programme (PEPP) which, as you know, has been one of the main measures implemented in our response to the pandemic.[21]

I will begin with an overview of the current macro-financial setting in which these decisions have been taken. Economic recovery is now under way in the euro area, following the devastating effects of the pandemic. However, this recovery is not free from uncertainties or downside risks. Although the increase in population immunity to COVID-19 means that the impact of the pandemic is now less severe, the global spread of the Delta variant could still delay the full reopening of the economy. Bearing in mind these reservations, the latest ECB staff macroeconomic projections expect euro area GDP to grow by 5% in 2021, 4.6% in 2022 and 2.1% in 2023. Compared with the June projections, the growth forecast has improved for this year and remains practically unchanged for 2022 and 2023.

Inflation has risen sharply in the last few months and stood at 3% in August. This increase is essentially on account of the sharp rise in oil prices since mid-2020, the end of the temporary reduction in VAT in Germany, the delay in the 2020 summer sales, and the cost pressures stemming from the temporary shortage of materials and equipment. These factors should moderate or should disappear from the calculation of year-on-year inflation during 2022. In consequence, it is expected that the current growth in inflation will be largely transitory and that underlying inflation will increase only gradually. According to the September ECB staff projections, inflation will reach 2.2% in 2021, 1.7% in 2022 and 1.5% in 2023. This last figure is slightly higher than that estimated in the June projections, but it is still below our 2% inflation target over the medium term.

Lastly, financing conditions for euro area households, firms and governments have remained favourable in recent months. Interest rates on bank lending to firms and households stand at all-time lows. Market interest rates have eased in cumulative terms since our June monetary policy meeting, although this easing has reversed in recent weeks. This serves as a reminder that financing conditions continue to be highly volatile in the present uncertain environment and highly dependent on monetary policy support.

[21] For an analysis of the macroeconomic and financial effects of the PEPP, see Aguilar et al. (2020) and Banco de España (2020 and 2021). For an analysis of the transmission mechanisms from the PEPP to the rate curves of the different euro area countries, see Costain, Nuño and Thomas (2021).

Against this backdrop, our joint assessment of financing conditions and the medium-term inflation outlook led us to consider, at our meeting on 9 September, that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the PEPP than in the previous two quarters. This decision is reflected in the PEPP decision framework established in December 2020, when we decided that purchases under this programme would be made flexibly so as to preserve favourable financing conditions and prevent any tightening of these conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation.

Importantly, as noted by the ECB's President at the press conference following the meeting, this decision does not entail the start of tapering, but rather a recalibration of the net purchases under the PEPP. At our December monetary policy meeting we will have the opportunity to reassess financing conditions and the medium-term inflation outlook and, on the basis of that assessment, to readjust, if necessary, the pace of purchases under the PEPP.

Conclusion

By way of conclusion, and returning to the main topic of my address, the ECB's new monetary policy strategy is the result of an in-depth review of all the relevant dimensions. During this arduous process, the ECB's Governing Council members, and the staff of all the Eurosystem central banks (including, naturally, the Banco de España), have participated in numerous seminars, presentations and debates addressing all the aspects of this review, under the general premise, in the words of the ECB's President, that we leave no stone unturned.

Bearing in mind that the ECB's main mandate is to maintain price stability, I add my voice to that of the ECB's President:[22] the monetary policy strategy review has allowed us to challenge our thinking, engage with numerous stakeholders, reflect, discuss and reach common ground on how to adapt our strategy.

I am convinced that the new strategy will constitute a solid basis that will help us to improve our capacity to fulfil the price stability mandate conferred upon the ECB, which is so important for stable economic growth and the well-being of the people of Europe.

Thank you.

[22] See ECB press release ECB's Governing Council approves its new monetary policy strategy of 8 July 2021.

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