MONETARY POLICY STATEMENT

PRESS CONFERENCE

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Good afternoon, the Vice-President and I welcome you to our press conference.

Russia's aggression towards Ukraine is causing enormous suffering. It is also affecting the economy, in Europe and beyond. The conflict and the associated uncertainty are weighing heavily on the confidence of businesses and consumers. Trade disruptions are leading to new shortages of materials and inputs. Surging energy and commodity prices are reducing demand and holding back production. How the economy develops will crucially depend on how the conflict evolves, on the impact of current sanctions and on possible further measures. At the same time, economic activity is still being supported by the reopening of the economy after the crisis phase of the pandemic. Inflation has increased significantly and will remain high over the coming months, mainly because of the sharp rise in energy costs. Inflation pressures have intensified across many sectors.

At today's meeting we judged that the incoming data since our last meeting reinforce our expectation that net asset purchases under our asset purchase programme (APP) should be concluded in the third quarter. Looking ahead, our monetary policy will depend on the incoming data and our evolving assessment of the outlook. In the current conditions of high uncertainty, we will maintain optionality, gradualism and flexibility in the conduct of monetary policy. The Governing Council will take whatever action is needed to fulfil the ECB's mandate to pursue price stability and to contribute to safeguarding financial stability.

I will now outline in more detail how we see the economy and inflation developing, and will then explain our assessment of financial and monetary conditions.

Economic activity

The euro area economy grew by 0.3 per cent in the final quarter of 2021. It is estimated that growth remained weak during the first quarter of 2022, largely owing to pandemic-related restrictions.

Several factors point to slow growth also in the period ahead. The war is already weighing on the confidence of businesses and consumers, including through the uncertainty it brings. With energy and commodity prices rising sharply, households are facing a higher cost of living and firms are confronted with higher production costs. The war has created new bottlenecks, while a new set of pandemic measures in Asia is contributing to supply chain difficulties. Some sectors face growing difficulties in sourcing their inputs, which is disrupting production. However, there are also offsetting factors underpinning the ongoing recovery, such as compensatory fiscal measures and the possibility for households to draw on savings they accumulated during the pandemic. Moreover, the reopening of those sectors most affected by the pandemic and a strong labour market with more people in jobs will continue to support incomes and spending.

Fiscal and monetary policy support remains critical, especially in this difficult geopolitical situation. In addition, the successful implementation of the investment and reform plans under the Next Generation EU programme will accelerate the energy and green transitions. This should help enhance long-term growth and resilience in the euro area.

Inflation

Inflation increased to 7.5 per cent in March, from 5.9 per cent in February. Energy prices were driven higher after the outbreak of the war and now stand 45 per cent above their level one year ago. They continue to be the main reason for the high rate of inflation. Market-based indicators suggest that energy prices will stay high in the near term but will then moderate to some extent. Food prices have also increased sharply. This is due to elevated transportation and production costs, notably the higher price of fertilisers, which are in part related to the war in Ukraine.

Price rises have become more widespread. Energy costs are pushing up prices across many sectors. Supply bottlenecks and the normalisation of demand as the economy reopens also continue to put upward pressure on prices. Measures of underlying inflation have risen to levels above two per cent in recent months. It is uncertain how persistent the rise in these indicators will be, given the role of temporary pandemic-related factors and the indirect effects of higher energy prices.

The labour market continues to improve, with unemployment having fallen to a historical low of 6.8 per cent in February. Job postings across many sectors still signal robust demand for labour, yet wage growth remains muted overall. Over time the return of the economy to full capacity should support faster growth in wages. While various measures of longer-term inflation expectations derived from financial markets and from expert surveys largely stand at around two per cent, initial signs of above-target revisions in those measures warrant close monitoring.

Risk assessment

The downside risks to the growth outlook have increased substantially as a result of the war in Ukraine. While risks relating to the pandemic have declined, the war may have an even stronger effect on economic sentiment and could further worsen supply-side constraints. Persistently high energy costs, together with a loss of confidence, could drag down demand and restrain consumption and investment more than expected.

The upside risks surrounding the inflation outlook have also intensified, especially in the near term. The risks to the medium-term inflation outlook include above-target moves in inflation expectations, higher than anticipated wage rises and a durable worsening of supply-side conditions. However, if demand were to weaken over the medium term, it would lower pressure on prices.

Financial and monetary conditions

Financial markets have been highly volatile since the war began and financial sanctions were imposed. Market interest rates have increased in response to the changing outlook for monetary policy, the macroeconomic environment and inflation dynamics. Bank funding costs have continued to increase. At the same time, so far there have been no severe strains in money markets, nor liquidity shortages in the euro area banking system.

Although remaining at low levels, bank lending rates for firms and households have started to reflect the increase in market interest rates. Lending to households is holding up, especially for house purchases. Lending flows to firms have stabilised.

Our most recent bank lending survey reports that credit standards for loans to firms and for housing loans tightened overall in the first quarter of the year, as lenders are becoming more concerned about the risks facing their customers in an uncertain environment. Credit standards are expected to tighten further in the coming months, as banks factor in the adverse economic impact of Russia’s aggression towards Ukraine and higher energy prices.

Conclusion

Summing up, the war in Ukraine is severely affecting the euro area economy and has significantly increased uncertainty. The impact of the war on the economy will depend on how the conflict evolves, on the effect of current sanctions and on possible further measures. Inflation has increased

significantly and will remain high over the coming months, mainly because of the sharp rise in energy costs. We are very attentive to the current uncertainties and are closely monitoring the incoming data in relation to their implications for the medium-term inflation outlook. The calibration of our policies will remain data-dependent and reflect our evolving assessment of the outlook. We stand ready to adjust all of our instruments within our mandate, incorporating flexibility if warranted, to ensure that inflation stabilises at our two per cent target over the medium term.

We are now ready to take your questions.

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I have two questions. The first one: could you give us a bit of a flavour for the discussion? Did some of your colleagues call for a more definite end date for the APP, and what was the clincher argument for keeping your formulation despite sharply higher inflation?

The second question is about interest rates and markets now pricing two rate hikes this year, and maybe as much as eight hikes by the end of 2023. Are you comfortable with these expectations? Are these expectations consistent with your definition of gradual?

On your first question I would call your attention to a particular sentence in the monetary policy statement (MPS), which reflects the evolution of the Governing Council assessment of the current situation five weeks after the last monetary policy Governing Council meeting that we had, which is a very short interval as opposed to other periods. It is the sentence that begins the second paragraph of the MPS, where we say: “At today's meeting we judged that the incoming data since our last meeting reinforce our expectation that net asset purchases under our Asset Purchase Programme (APP) should be concluded in the third quarter”. So there is a much stronger affirmation of our assessment of the data, which, as you rightly pointed out, had indeed changed since five weeks ago. Now, obviously, this meeting was not a projection exercise. It was an interim Governing Council monetary policy meeting, and we affirmed the net asset purchases' very likely conclusion in the third quarter, without being more specific, but being open-minded as to when in the quarter that is. It could be early; it could be late. The third quarter has three months, and I think the determination around the Governing Council table was to take stock of the projection exercise at the next monetary policy meeting to determine exactly the timing of such conclusion of the net asset purchases under the APP.

On your second question about how many interest rate hikes are projected by markets, let me tell you that we are sticking to our sequence, and this is very much what we did on the occasion of this Governing Council meeting. The sequence that we have adhered to, that we have agreed, is to complete net asset purchases first, and some time after that decide interest rate hike and subsequent hikes. I remember last time around on the occasion of the last monetary policy press conference, I was asked specifically what was meant by the “some time after”. I repeat what I said at the time. “Some time after” is intended to serve our determination to have both optionality, gradualism and flexibility, which means that this “some time after” can be anywhere between a week to several months. That stands and remains true. So we will deal with interest rates when we get there.

Let me ask you about the potential effect of an oil and gas embargo on inflation and the economic outlook. Have you been discussing that? Is that something which you think is a realistic scenario?

My second question would be on how concerned you are about the tightening of financial conditions, so the lending channel. We have also seen yields on the rise for the corporate space and for sovereigns. Is that something you are concerned about?

On your first question concerning the potential boycott of oil and gas – and I'm assuming that you are referring to oil and gas out of Russia, and the initiative of the boycott being either one party or the other, the supplier or the purchaser. Let me just, first of all, state that this Russian war against Ukraine is not just causing economic problems; it is causing a huge humanitarian crisis, massive economic damages, and cost and risks way beyond Europe. I've noted the joint statement by the presidents of international institutions [President Biden and President von der Leyen] to support that we all focus also on the food crisis that is going to be hitting low-income countries and other people than the Europeans. So let's put things in perspective first.

Of course, on the oil and gas front, an abrupt boycott would have significant impact. Staff monitors that very carefully. Any such risk, obviously, reinforces the determination of the Europeans to move towards cleaner energy, to move to non-fossil fuel in general, and to reduce dependency vis-à-vis Russia. But have we actually factored in exactly the net amount, the trade-off resulting from any such boycott? No. We simply know that, obviously, some countries within the euro area will be more affected than others, and we also note that the Europeans together under the leadership of the Commission are looking at ways to adopt joint approaches, joint policies, joint purchases. This certainly is, together with moving to a different energy mix, the right approach to take.

The second part of your question dealt with the tightening of rates. I have commented on the bank lending survey, which indicates that there is and there was during the first quarter a certain tightening by a larger number of banks answering the surveys. All that being said, the volume of loans to households in particular still stands quite strongly. Lending to consumers – consumption loans – have increased. Corporate lending has stabilised for the moment. So even if there is tightening, particularly concerning the terms and conditions of those lending arrangements, in terms of both rate and volume we are not seeing yet the outcome of this tightening that you referred to. Equally true that in the bank lending survey respondents are indicating that they expect further tightening in the coming months, and clearly that is associated with the war in Ukraine, with the additional supply bottleneck issues that will affect corporates in particular, and the general confidence impact that the war has on both corporates and consumers.

President Lagarde, I have two questions. The first question is on fragmentation and flexibility. At the moment in the event of renewed market fragmentation related to the pandemic, PEPP reinvestments can be adjusted flexibly. In case of renewed market fragmentation, but this time not related to the pandemic but to war and sanctions or recession, is the ECB ready to apply the PEPP flexibility to APP reinvestments? I have seen you have mentioned incorporating flexibility. Does it mean you incorporate it in existing tools, or are you starting new tools for fragmentation?

My second question is on wage price spiral. How far is the Governing Council worried about a wage price spiral with inflation getting out of control? You have mentioned wages, and wage growth is muted but it is coming. We are in Germany, and I think we may be in for a hot autumn.

Let me, first of all – again, this seems like a re-reading exercise, but I think it matters, because those are parts of the sections of our monetary policy statement that were clear changes from the past and indicate the direction that we are taking. This is actually something that you will find in the conclusion of the monetary policy statement, which is in the penultimate line, and it says: “We stand ready to adjust all of our instruments within our mandate, incorporating flexibility if warranted, to ensure that inflation stabilises at our two per cent target over the medium term”. This is language that you know quite well, but the overall sentence is something that is worth taking notice of. Optionality, gradualism, flexibility are concepts that we have outlined before, so we are really very much in a normalisation process, and we are continuing along the path of that normalisation process. It has been the case in the last couple of years, and particularly two years ago, if you remember, that flexibility served us well.

I think it's on the basis of that recognition of the value of flexibility, in particular in order to make sure that the monetary policy stance is properly transmitted and that unwarranted fragmentation is avoided, that we are recognising this and we are mentioning flexibility as one of the principles that we want to apply. Two years ago you would remember it was necessary, and we moved promptly. We can do exactly the same thing. If necessary, we move promptly, and as I have said in my ECB Watchers speech a few weeks back, we will design whatever additional instrument is appropriate in order to deliver the flexibility that we believe is useful. I would add as a footnote to that, that the reinvestment policy that we have decided for PEPP back in December, is actually coined with this flexibility possibility. So we have not only indicated that reinvestment would be extended until 2024, but we also said that, if necessary, we would apply flexibility in the reinvestment policy. So I think that really captures the philosophy that we have in relation to flexibility and the need to properly transmit the monetary policy stance throughout the whole of the euro area.

You had a second question, on wages and the possible second-round effect. I think I have told you at the last press conference we had that we were particularly attentive to wages, and we continue being so, because that is a critically important component to assess inflation outlook in the medium term, and to help us determine our monetary policy stance and the need to move at a certain pace. We also look at inflation expectations very carefully. On the wages, we are looking at it very carefully, and what we are seeing are relatively muted, generally, wage increases. If you look at the latest numbers that are available it is January, and it points to a 1.6% increase. Now, this is looking backward, obviously, and we have to be particularly attentive to movements as they develop, and we know that the longer inflation numbers are at the high level where they are, the more likely it is that wages negotiations, salary entry levels, renegotiations of existing agreements will actually take place.

So we had a good discussion on those issues at the Governing Council meeting. There are differences between countries. In some countries it seems that unions or employees and employers are managing to reach agreement which take into account the risk of redundancy and threat to the economy. In other countries there are much higher demands for wage increases and wage renegotiations. So we will continue to look at that extremely carefully and be attentive to potential second-round effects as a result of that.

Firstly, I wanted to ask how confident are you about the ECB's forecasting models and how accurately they can capture the current situation created by the war?

Then on the new crisis tool that you just talked about and that the ECB is studying, how exactly would it complement the flexibility of PEPP reinvestments and other measures like OMT that already exist?

Do we have trust in the work that we do? Yes, we do. Do we get our forecasts and our projections perfectly right all the time? No, we don't. You know, I spent a few years of my life operating with other forecasters and top-notch projectionists who didn't always get it right either. But do we trust that we monitor all the data that we need to monitor, that we apply all the economic wisdom that we can, that we use as many possible models as are available, that we try to improve on the economic results that we produce? Yes, we do. Did we make a mistake, did we get it wrong in the past? Will we get it wrong in the future? Very likely. So we have to be a little bit humble in that respect. We have to be cognisant of the fact that when there is a war, when there are major developments that are not predicted, that are not part of past patterns, it is incredibly difficult to actually integrate that into the models that help us offer projections to European colleagues. The same is true for national central banks, by the way, and the same is true for many, many projectionists and for many forecasters. So we have that humility, and we recognise that we have to not only look at forecasting models, but also look outside the window and try to figure out what is happening and what is the likely impact. Looking at past history is not in and of itself sufficient. As I said, who knows what impact and development the war is going to have on our economies?

On this issue of flexibility and the fragmentation issue, and the need to make sure that monetary policy is transmitted in an unimpaired fashion, we constantly try to improve on the toolbox. We constantly look at what works, what will help us provide the flexible, efficient and proportionate response to the situation, and this is what is going to continue to happen in the future. I am happy to repeat again the value that we give to flexibility, and the need to embed flexibility in order to make sure that we transmit monetary policy throughout the euro area, but this is what our work is cut out for.

A follow-up question now to your answer on the validity of the forecast and that we must remain humble in this exercise. What should we draw, and what should we conclude about the way you are going to decide in the next future the monetary policy regarding this high level of uncertainty we have?

My second question – I hope not to make you lose your voice – in France we have this Presidential election which is in the final round, and your name is less associated with the next announcement on monetary policy and so on than with this rumour which designates you as possible head of a future government, if they are founded or not. What do you respond to that?

I lose my voice. Let me deal with the real and the good question that you asked. This is not me withdrawing the need to be humble in the face of what our projections can offer, but obviously, in deciding in particular next June - because that is going to be our next projection monetary policy meeting - in June we are going to look at our projections. As you will remember, back in March we had projections that included a baseline and a couple of scenario analyses as well. One was severe, one was adverse. I don't know exactly whether we are going to come up with a similar exercise with one baseline and two scenarios, or whether we are going to have one baseline, one scenario, or some sensitivity analysis in particular areas where we believe that we need to pay special attention. Wages is clearly one that comes to mind. Inflation expectation is another one. So we will use that, of course, because it is there, it has to be used, it is informative, but I think when I refer to humility I meant we cannot be exclusively and only rivetted to the projections produced by our models.

We also have to look at actual data. We have to look at historical developments of similar situations, and have an element of judgement in our assessment of the situation. But what we see at the moment is certainly reinforcing our determination that in the medium-term our outlook for inflation is at around 2% and there is one other section that I would like to refer you to in the monetary policy statement. It's one that is just before the risk assessment which deals with inflation, where we say: “While various measures of longer-term inflation expectations derived from financial markets and from expert surveys largely stand at around two per cent, initial signs of above-target revisions in those measures warrant close monitoring”. So we will be looking, of course, at our projection. We will be looking at actual data. We will be looking at historical experience. But we will also be looking very carefully at market and expert surveys, in particular in relation to inflation expectations, because the last thing that we want is to see inflation expectations at the risk of de-anchoring.

I have two questions. This new instrument which you allude to in the introductory statement, could that be described as a spread-control measure?

The second question is: given that you have said the upside risks on inflation are intensifying, why has the Governing Council not accelerated its plans for ending net asset purchases and opening the door to the first interest rate rise?

I did not announce any kind of new instrument. I did refer very specifically to the last sentence of our conclusion, which says “incorporating flexibility if warranted”. Flexibility is a principle that we believe has served us well. That we need to continue to integrate in our monetary policy determination, if warranted, if required, and as I said, if necessary we can move very promptly, but I did not say that we were building a new instrument. We can certainly do that, and we can do it in short order, and are capable of being operational, as we have demonstrated between 12 and 18 March 2020, for instance.

You asked me about the – essentially, what you said is, given the numbers that we are facing, given the situation, why did you not accelerate more? It gives me a chance to remind all of us that we are in a process, and that process started back in December. In December we announced that we were putting an end to PEPP, that we had a policy of reinvestment of PEPP that would extend to 2024, that we would apply flexibility. In February I communicated that we were going to accelerate a bit, and March certainly was a strong signal of what we were considering in terms of terminating our net asset purchases under the APP, and I think that we are being a little bit more specific now in terms of what we see and the likelihood of this happening in Q3 at any point in time. So we are normalising. We have a sequence that we have identified. We have numbers that have been flagged for purchases in those next few months, and we have now an ending point which is a quarter at possibly a point in time during the quarter when we put an end to net asset purchases.

As to your question on spread, clearly, we need to make sure that our monetary policy stance is transmitted throughout the entire euro area, and this was the tool that we built with PEPP back in March 2020. The first part of the birth certificate of PEPP was antifragmentation; the second part was monetary policy stance, and we were delivering that product in short order. It has proven very efficient, and I think it is learning from this and recognising that flexibility is important that we will continue to deliver our monetary policy going forward.

Two questions, if I may. In Lithuania and Estonia inflation is around 15% and has been in double-digits since December. At this level purchasing power halves in less than six years. What do you say to the people in these countries?

Secondly, as we all know, inflation in the eurozone as a whole is 7.5%, but the ECB interest rate level is likely below neutral, so a growing number of observers now consider a restrictive policy to be appropriate. Is the ECB too late, or much too late?

We are on a journey, and clearly, as I said, we started the monetary policy normalisation journey back in December, reconfirmed in February, clearly indicated in March, and we are restating this determination on the occasion of this monetary policy meeting. We have, as I said, added a few particular attributes to the decision that will be made in June when we have the next projection round, which is when we can take stock and actually assess exactly the timing of the conclusion of our net asset purchases, which will then trigger, some time after the end of the net asset purchases, interest rate hikes. So the journey has begun. It is moving along as predicted. We want to have both flexibility and move gradually and keep all the options open. We have to be mindful of the fact that not only do we see very high inflation rates, clearly, in some countries much higher than in others, but on average 7.5% is a very high number. We are also seeing a medium-term outlook for inflation gradually moving back to closer to our target, to 2%, and possibly from above, rather than from under. These will be better advanced and better documented at our June monetary policy meeting, but we are on that journey.

I had a question about quantitative tightening. The Federal Reserve in the US is starting to talk about reducing its bond holdings, not just stopping bond purchases, but actually reducing the balance sheet. Probably, they could start next month. Is this something the ECB is thinking about, or that you are thinking about?

My second question was on this normalisation process. Just following-up from the previous question. Normalisation suggests that you have an idea of what normal is in terms of the neutral policy rates. What do you think that is, and is normalisation enough, or do you actually think you have to go above it?

First of all, you give me a chance to actually, yet again, clarify that what is happening in the economy of the euro area is very different from what is happening in the economy of the United States. Whether you look at employment, whether you look at wages, whether you look at actually the general attributes and instruments of the monetary policy at the moment in the United States, our economies do not compare, and if anything, I believe that this is likely to be accentuated by the fact that the euro area is probably going to be more exposed and will suffer more consequences as a result of the war by Russia against Ukraine. The United States will not bear as much the brunt of the consequences from an economic point of view, I would suspect. Comparing our respective monetary policies is comparing apples and oranges. We are not applying policies to the same economic situations at all.

When I talk about normalisation of monetary policy I think of the kind of instruments that we are using, I think about the rates that we have in place, I think about the use of our balance sheet, and I think it is very much in that order that we will be looking at normalisation of monetary policy. It is a bit premature, because as we did during the Governing Council today, we looked at the short-term, what limited updates and numbers we have, and what qualification of our stance there should be as a result in terms of signalling what we will do next during the third quarter of 2022. Quantitative tightening is something that comes clearly at a later stage in that journey, and we are not there yet. The sequence that we have adopted, which is embedded in our strategy, which is very familiar to you, is net asset purchases have to conclude first, before we decide on whether we hike interest rates and by how much, and then we will look at balance sheets, but for the moment we are more thinking about the reinvestment policies that we have agreed, both in relation to the APP and the PEPP portfolios.

President Lagarde, do you think that the addition of flexibility, or the new tool, should be launched before the end of asset purchases to avoid fragmentation?

Secondly, could you explain how and through which channels ending asset purchases in the third quarter will help to reduce inflation, which is driven by energy and without second-round

effects on wages and expectations until now, and how normalisation will help achieve this mandate in the medium-term, given the ECB's projections show inflation at 1.9% in 2024, but at 1.6% in the adverse scenario? It seems that in some way the ECB's target is still below but close to 2%, and that the ECB has a short-term orientation on inflation more than a medium-term one. Could you clarify that?

In relation to flexibility, I think I have been very clear to indicate that we believe that flexibility is helpful. We have seen it being very operative back two years ago. It is now specifically mentioned as something that will be incorporated if warranted. So it is totally premature at this point in time to indicate when any such flexibility will be deployed. The purpose of the flexibility is to make sure that monetary policy is properly transmitted throughout the whole of the euro area. So if and when it becomes necessary we will know what to do, as I said, if necessary, and promptly, and it will be operational.

On your other question, do we believe that ending net asset purchases will reduce the price of oil? No. Who would, in their right mind, think so? But it is also, obviously, the case that we have to be attentive to the inflation shock, to the impact that it has on wages, to the consequences that it could have on inflation expectations. And for all these reasons we believe that in sequence it is necessary, given the financing conditions by the way as well, that we put an end to net asset purchases. This is a very high probability, let's put it that way, because we have not decided it as specifically as that, but the wording of our second paragraph in our monetary policy statement is sufficiently clear to indicate that at this point in time we believe that there is a very high probability that it will happen and that it could happen any time during the third quarter. It is for those reasons that we believe that it is our duty, in order to ensure that inflation stabilises at 2%. Based on the scenarios of last March, you are right that in 2024, which is not necessarily the medium-term but the end of our projection, it moves between around 2% and a little below 2%, but I think that our forward guidance will be determining and helping us determine at the June projection meeting, if we decide to terminate net asset purchases, what exactly will be the policy going forward in terms of rates.

A couple of quick questions. The first one, again, going back to the fragmentation argument and the fragmentation questions. You again said that the PEPP flexibility is very much tied-in to the pandemic. How can the ECB policymakers split out where the pandemic is the effect or other incidents are the effect? Where is the war the main cause for the inflation concern, perhaps, or where perhaps is the pandemic? So where is the dividing line? How do you strip out the two differences to use the flexibility for the PEPP there?

The second one focuses on the euro, again, sitting not far above five-year lows. Certainly a few Governing Council members have expressed concern over the level of the euro in recent weeks. How great a concern is the level of the euro for the Governing Council, particularly regarding imported inflation, and what are the easiest things to do to address it?

To the risk of repeating myself, the specific role of flexibility will depend on the concrete circumstances that we face. We decided in December that in the event of renewed market fragmentation related to the pandemic, reinvestment under PEPP can be adjusted flexibly over time, over asset classes, over jurisdictions. I think those same principles would apply to the flexibility that we would want to develop and deploy as applied to other sets of circumstances. We can design and we can deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation. We have shown that on many occasions in the past. Staff is extremely good at, not only thinking on their feet, but also providing proposals in short order, and I know that they will be able to do so. This is what flexibility will be about. It is in situations that demonstrate unwarranted and exogenous causes, that impair monetary policy transmission, that will lead us to use those flexibility aspects of instruments or programmes that staff will be working on.

On your second issue concerning FX and exchange rate, this is not a matter that we have discussed, but as you know, we are always attentive. Not on the occasion of this Governing Council, but this is obviously a matter that we are attentive to, because it does have an impact on inflation, and inflation is, obviously, the key of all our concerns, given its magnitude and its potential impact on second-round

effects and inflation expectations, and in view of our mandate, which is to maintain price stability and to deliver inflation at target.