MONETARY POLICY STATEMENT

PRESS CONFERENCE

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Good afternoon, the Vice-President and I welcome you to our press conference. I would like to thank President Knot for his kind hospitality and express our special gratitude to his staff for the excellent organisation of today's meeting of the Governing Council.

High inflation is a major challenge for all of us. The Governing Council will make sure that inflation returns to our two per cent target over the medium term.

In May inflation again rose significantly, mainly because of surging energy and food prices, including due to the impact of the war. But inflation pressures have broadened and intensified, with prices for many goods and services increasing strongly. Eurosystem staff have revised their baseline inflation projections up significantly. These projections indicate that inflation will remain undesirably elevated for some time. However, moderating energy costs, the easing of supply disruptions related to the pandemic and the normalisation of monetary policy are expected to lead to a decline in inflation. The new staff projections foresee annual inflation at 6.8 per cent in 2022, before it is projected to decline to 3.5 per cent in 2023 and 2.1 per cent in 2024 – higher than in the March projections. This means that headline inflation at the end of the projection horizon is projected to be slightly above our target. Inflation excluding energy and food is projected to average 3.3 per cent in 2022, 2.8 per cent in 2023 and 2.3 per cent in 2024 – also above the March projections.

Russia's unjustified aggression towards Ukraine continues to weigh on the economy in Europe and beyond. It is disrupting trade, is leading to shortages of materials and is contributing to high energy and commodity prices. These factors will continue to weigh on confidence and dampen growth, especially in the near term. However, the conditions are in place for the economy to continue to grow on account of the ongoing reopening of the economy, a strong labour market, fiscal support and savings built up during the pandemic. Once current headwinds abate, economic activity is expected to pick up again. This outlook is broadly reflected in the Eurosystem staff projections, which foresee annual real GDP growth at 2.8 per cent in 2022, 2.1 per cent in 2023 and 2.1 per cent in 2024. Compared with the March projections, the outlook has been revised down significantly for 2022 and 2023, while for 2024 it has been revised up.

On the basis of our updated assessment, we decided to take further steps in normalising our monetary policy. Throughout this process, the Governing Council will maintain optionality, data-dependence, gradualism and flexibility in the conduct of monetary policy.

First, we decided to end net asset purchases under our asset purchase programme (APP) as of 1 July 2022. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates and, in any case, for as long as necessary to maintain ample liquidity conditions and an appropriate monetary policy stance.

Second, we undertook a careful review of the conditions which, according to our forward guidance, should be satisfied before we start raising the key ECB interest rates. As a result of this assessment, the Governing Council concluded that those conditions have been satisfied. Accordingly, and in line with our policy sequencing, we intend to raise the key ECB interest rates by 25 basis points at our July monetary policy meeting.

Looking further ahead, we expect to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at our September meeting.

Third, beyond September, based on our current assessment, we anticipate that a gradual but sustained path of further increases in interest rates will be appropriate. In line with our commitment to our two per cent medium-term target, the pace at which we adjust our monetary policy will depend on the incoming data and how we assess inflation to develop in the medium term.

Within the Governing Council's mandate, under stressed conditions, flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability.

The decisions taken today are set out in full in a press release available on our website.

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

In the near term, we expect activity to be dampened by high energy costs, the deterioration in the terms of trade, greater uncertainty and the adverse impact of high inflation on disposable income. The war in Ukraine and renewed pandemic restrictions in China have made supply bottlenecks worse again. As a result, firms face higher costs and disruptions in their supply chains, and their outlook for future output has deteriorated.

However, there are also factors supporting economic activity and these are expected to strengthen over the months to come. 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 consumption. In addition, savings accumulated during the pandemic are a buffer.

Fiscal policy is helping to cushion the impact of the war. Targeted and temporary budgetary measures protect those people bearing the brunt of higher energy prices while limiting the risk of adding to inflationary pressures. The swift implementation of the investment and structural reform plans under the Next Generation EU programme, the "Fit for 55" package and the REPowerEU plan would also help the euro area economy to grow faster in a sustainable manner and become more resilient to global shocks.

Inflation

Inflation rose further to 8.1 per cent in May. Although governments have intervened and have helped slow energy inflation, energy prices stand 39.2 per cent above their levels one year ago. Market-based indicators suggest that global energy prices will stay high in the near term but will then moderate to some extent. Food prices rose 7.5 per cent in May, in part reflecting the importance of Ukraine and Russia among the main global producers of agricultural goods.

Prices have also gone up more strongly because of renewed supply bottlenecks and because of recovering domestic demand, especially in the services sector, as our economy reopens. Price rises are becoming more widespread across sectors. Accordingly, measures of underlying inflation have been rising further.

The labour market continues to improve, with unemployment remaining at its historical low of 6.8 per cent in April. Job vacancies across many sectors show that there is robust demand for labour. Wage growth, including in forward-looking indicators, has started to pick up. Over time, the strengthening of the economy and some catch-up effects should support faster growth in wages. While most measures of longer-term inflation expectations derived from financial markets and from expert surveys stand at around two per cent, initial signs of above-target revisions in those measures warrant close monitoring.

Risk assessment

Risks relating to the pandemic have declined but the war continues to be a significant downside risk to growth. In particular, a major risk would be a further disruption in the energy supply to the euro area, as reflected in the downside scenario included in the staff projections. Furthermore, if the war were to escalate, economic sentiment could worsen, supply-side constraints could increase, and energy and food costs could remain persistently higher than expected.

The risks surrounding inflation are primarily on the upside. The risks to the medium-term inflation outlook include a durable worsening of the production capacity of our economy, persistently high energy and food prices, inflation expectations rising above our target and higher than anticipated wage rises. However, if demand were to weaken over the medium term, it would lower pressures on prices.

Financial and monetary conditions

Market interest rates have increased in response to the changing outlook for inflation and monetary policy. With benchmark interest rates rising, bank funding costs have increased, and this has fed into higher bank lending rates in particular for households. Nevertheless, lending to firms picked up in March. This was because of the continued need to finance investment and working capital, against the backdrop of increasing production costs, persisting supply bottlenecks and lower reliance on market funding. Lending to households also increased, reflecting continued robust demand for mortgages.

In line with our monetary policy strategy, the Governing Council has undertaken its biannual in-depth assessment of the interrelation between monetary policy and financial stability. The environment for financial stability has worsened since our last review in December 2021, especially over the short term. In particular, lower growth and increasing cost pressures, as well as rising risk-free rates and sovereign bond yields, could lead to a further deterioration in the financing conditions faced by borrowers. At the same time, tighter financing conditions could reduce some existing financial stability vulnerabilities over the medium term. Banks, which started the year with solid capital positions and improving asset quality, are now facing greater credit risk. We will watch these factors closely. In any case, macroprudential policy remains the first line of defence in preserving financial stability and addressing medium-term vulnerabilities.

Conclusion

Summing up, Russia’s unjustified aggression towards Ukraine is severely affecting the euro area economy and the outlook is still surrounded by high uncertainty. But the conditions are in place for the economy to continue to grow and to recover further over the medium term.

Inflation is undesirably high and is expected to remain above our target for some time. We will make sure that inflation returns to our two per cent target over the medium term. Accordingly, we decided to take further steps in normalising our monetary policy. 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. Firstly, one argument that you've made rather frequently over the last few months is that the euro area economy is in a very different place than other advanced economies. Even so, three months after the Fed started raising interest rates, you are now looking to start doing the same. So, is this still about a difference, or are we talking more about a delay at this point?

Second of all: could you tell us a little bit about whether this week's discussion focussed at all on fragmentation risks, and whether there were any new proposals made to address them?

The Governing Council, on the occasion of this meeting organised outside of Frankfurt, in beautiful Amsterdam – thanks to the National Central Bank of the Netherlands – focussed primarily on the challenge of high inflation facing the euro area, and on taking further steps in our normalisation path that we started back in December. So it's not a question of catching up; it's a question of using all the tools that we have in order to deliver on our mandate of price stability and in order to bring inflation down to target over the medium term. Our analysis was obviously that inflation was undesirably high and that we had to take the steps that I have identified in the monetary policy statement.

I would like to add that it's not just a step; it's a journey. We started back in December. We gradually over the course of time put ourselves in a position to move away from unconventional monetary policy, which will actually be taking place as of 1 July, in order to use more conventional tools which are the interest rates. On the issue of the interest rates: we also identified a path, which is not only limited to a particular move, but a series of moves over the course of the next few months depending on the medium-term outlook of inflation.

On the second issue: we have to have the right monetary policy stance; that is critically important and that is what we are doing with that identification of the journey that I just mentioned. But we also have to make sure that our monetary policy is transmitted throughout the entire euro area. To that end, obviously, we need to make sure that there is no fragmentation that would prevent the adequate monetary policy transmission throughout the entire region. We have existing instruments. I think that we have described them in the past. It is obviously the reinvestment capacity that we have under the PEPP, which is a complete reinvestment package that totals €1.7 trillion, that will be reinvested with total flexibility if warranted across time, across jurisdictions, across products.

If it is necessary, as we have amply demonstrated in the past, we will deploy either existing adjusted instruments or new instruments that will be made available. But we are committed to proper transmission of our monetary policy, and as a result fragmentation will indeed be avoided to the extent that it would impair that transmission.

My first question is whether today's decision was unanimous; could you give us a flavour of the discussion?

Secondly: the ECB is now communicating that in September it could raise rates by more than a quarter of a percentage point. Did you consider already giving that message for the July meeting?

We had very productive discussions in Amsterdam and these discussions concluded with an unanimously approved decision. We are on a journey, but this is clearly an important step in that journey given that we are actually deciding to end net asset purchases under the APP as of 1 July, which effectively means that we stop before – for all sorts of market operation conditions. But we are also setting a path in which July and then September are the next first steps along the way of hiking interest rates. While we intend to raise interest rates by 25 basis points in July on the basis of the assessment that we conducted today, we also indicate that – and I will read very carefully for you because it was obviously a sentence that we drafted carefully in order to capture our commitment – I'll read you the whole paragraph, actually, because it's a really important one: "We undertook a careful review of the conditions which, according to our forward guidance" – you all remember the forward guidance with the three conditions – "should be satisfied before we start raising the key ECB interest rates." Well, we concluded that these three conditions were satisfied. Accordingly, in line with our policy sequencing, for those of you who wonder why we didn't do it today, well, we have a sequencing in place that dictates – and we want to be predictable on that front – that we first of all stop net asset purchases and then we look at interest rate hikes. So, in accordance with our policy sequencing, "we intend to raise the key ECB interest rates by 25 basis points at our July monetary policy meeting." And – that's the September that you were asking me about – "looking further ahead, we expect to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at our September meeting."

That is pretty precise as a commitment, but it is also a factor of how the situation evolves. So, if the medium-term outlook persists as we see it now, or even deteriorates – which of course we don't wish, but it could happen – then obviously the increment will be higher than 25 [basis points]. And then we go further because we take a third step along that journey to indicate what we will do beyond September, which is also the anticipation that further rate hikes will be necessary on the basis of the data that we collect.

Just to make that perfectly clear, following up on your last answer: does that mean that if the inflation outlook is not cut back down to 2% that we will see a 50 basis points increase in September?

You said that you wanted to increase the rates by September; does that mean all three rates?

I don't want to give a reading exercise because some of you occasionally comment on the fact that I read too much, but this one, I really want to read it a bit because it matters - and every word matters, including plural versus singular – to your point. What we say is: “looking further ahead” – so today we say that – “we expect to raise the key ECB interest rates” – the three of them – “again in September” most likely. “The calibration of this rate increase will depend on the updated medium-term inflation outlook.” And here is the important one: “if the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at our September meeting.” So I think that you took the example of, if you are at 2.1% in 2024 or beyond, then the increment adjustment will be higher. The answer is yes.

I have one on: what are you expecting in terms of time lag? If you raise rates in July, when will you see an effect on inflation and inflation expectations?

Will that ultimately also mean that you have to lift rates to a new neutral rate – and that would be my second question, because I think there's a lot of guessing around what you think the neutral rate actually is. Is it 1.5%? Is it 2% for the euro area? Perhaps you could give us a bit more of an insight.

Do we expect that our July interest rate hikes will have an immediate effect on inflation? The answer to that is no and I would like to develop that a little bit. First of all, because of the anticipation of our monetary policy, because of the inflation and growth outlook, financing costs have already moderately but significantly increased, whether you look at corporate bonds, whether you look at sovereign bonds, whether you look at bank costs. Those financing costs have increased and with the signal that we are giving here, particularly concerning the short-term rates, this signal will continue to have an impact on financing costs. Now, typically monetary policy decisions have a longer-term impact in relation to inflation itself, so we have to stay the course, be determined, committed to delivering the 2%, but we cannot expect that to happen on the 22 July for a decision that we would have made in July.

On the other hand, because you mentioned inflation expectations, we observed that inflation expectations are well anchored and we certainly want to indicate to those who form expectations – whether they are markets, whether they are experts, whether they are consumers – that we are determined to delivering on our target of 2% in the medium term. Therefore expectations should absolutely remain anchored because we will deliver.

The neutral rate: this is a topic that we have deliberately decided not to have on the occasion of this Governing Council meeting. I am sure that we will ad nauseum argue as to whether it is 0.96 or 1.97 or beyond, or below or whatever. Suffice to say that the neutral rate over the course of time for multiple reasons, having to do with productivity, with demographics and all the rest of it, has gone down. But where it stands exactly, we have decided not to discuss it on this Governing Council meeting. Believe me, we had plenty to discuss so we saved a little bit for later. To be fair as well, it's not something that we can observe and determine with precision today. It's as you get closer, we will understand better where exactly it stands – and we will debate it. I have no illusion on that.

Is the end of the Asset Purchase Programme a good time for you maybe to adjust the forward guidance policy, because when it was introduced in 2013, it was meant to manage market expectations? Now it seems like the ECB would've stopped purchases earlier if not for the promises made, even though there was an extraordinary inflation-inducing event like the war in

Ukraine. Is the tail of financial markets not wagging the dog, the ECB, instead of the other way around?

My second question is related to this one: the ECB believes inflation will fall down back to target by 2024. But for most of the past decade, the ECB also consistently thought that the inflation rate – which was then too low, of course – would converge to its target. That also didn't happen, so how firm are your beliefs that you are going to succeed now as historical experiences do not imply great credibility?

First of all, on the issue of forward guidance: I'm assuming that you're referring to the forward guidance relating to asset purchases. So if you look at that forward guidance, we have actually changed it. If you recall, the forward guidance that we had referred to favourable financing conditions and to the accommodative aspect of our monetary policy. We have changed that and if you look at the third paragraph on the second page, we do refer to the fact that we will do so for as long as necessary to maintain ample – not favourable – liquidity conditions and an appropriate monetary policy stance. So we take account of the change that has indeed taken place. You're right; we are in a different universe. A lot of the tools, the forward guidance, the considerations over the last 11 years had to do with exactly the opposite movement; trying to bring inflation up because it was too low, and often at risk of deflation. Now we are in the opposite situation, where inflation is too high and we need to bring it back to our target of 2% over the medium term.

Now, how confident are we about our projections? First of all, I'd like to say that our staff do the best work they can do and apply their whole consciousness and professionalism to producing those projections.

Second, those projections are not just the ECB; the projections that you have in front of you are the projections of the entire Eurosystem. So it's the ECB and 19 national central banks including the great Bank of the Netherlands, which has actively and always actively participated in this exercise. So, it's a cohesive work that is done, that is tedious, that is iterative and that really checks everything.

Third, it is clear that the massive energy prices hike and the war in Ukraine and the fast pace of the recovery have taken all forecasters by surprise. I actually thought you would ask me a question like that: so what did I do? I looked at other – I hope I can find it now. Anyway, it doesn't really matter if I don't find it. The point being that all international institutions, all forecasters of repute have actually made the same mistake of underestimating or not anticipating some of the developments such as the war, such as the energy crisis.

Fourth point: I think we, the Eurosystem and the ECB in particular, are the only central bank which has gone back to the work that was done, which has looked under every stone to understand where the errors came from. I use the word errors with some trepidation because it's mis-forecasting caused by very unpredictable events. Three quarters of the forecasting errors are actually attributable to energy prices and the rest is largely attributable to bottlenecks that have lasted longer than had been anticipated. So again they do everything they can, as well as they can. They make the same kind of forecasts as other international institutions. Events that have developed are not captured in either models or sometimes just the sheer imagination of us all, when we talk about the war at the doorstep of Europe. Fourth, we do the introspective exercise of trying to find out where it went wrong and we will continue doing so in the future because we have to improve, no question.

The first one is on reinvestments: in the past you have stressed several times the importance of the stock of assets compared to the flow. Now you have reaffirmed to reinvest, especially the PEPP principal payments, at least until the end of 2024. That means a huge monetary stimulus for years. Is that appropriate if you, at the same time, are talking about normalising monetary policy?

The second one, just for clarification: why do you today already exclude a 50 basis points hike in July?

On the reinvestment policy that we decided for PEPP and for the APP, both of them, will now be operative as of 1 July for APP and has already begun for PEPP. It is a matter that we will be discussing within the Governing Council, which we have decided not to debate today. We had, as I said, plenty to do already in the last couple of days. But we will be looking at it and I have to tell you something: there are some of us on the Governing Council who will be interested not only to deploy flexibility, if warranted, on clusters of assets, by jurisdictions, over temporality, but some of us are also interested in looking at how we can support the financing of the measures needed against climate change. I've said already before that a green LTRO was interesting to consider. I think the reinvestment decisions that we will make in the coming months and years might also be inspired by this concern that we have. That's point number one.

Your point number two is: why not 50 [basis points] in July? Well, we are coming out of 11 years of no interest rate move. We are on our path to exit negative interest rates soon. It is good practice, and it is actually often done by most central banks around the world, to start with an incremental increase that is sizeable, not excessive and that indicates a path. As I said, the decisions that we have made today are not just one intention of one single month of July. It's a whole journey that will take us back to the 2% target in the medium term. We also want to observe how markets are going to operate. As I have mentioned, we couple our July determination with our September indication.

Could I ask first of all: is this announcement today a signal that you are dropping gradual normalisation in preference for a whatever-it-takes approach to tackling undesirably elevated inflation?

Secondly: could I ask on tackling fragmentation that you mentioned earlier. The new instruments that could be designed and launched, would those only be designed and launched once the existing instruments i.e. PEPP reinvestments, have been fully utilised?

I want to take you back to the monetary policy statement because I think that the key principles that we will be inspired by in order to be predictable by you, but also to set the rules according to which we will proceed, are captured on the top of page 2, and say the following: "throughout this process the Governing Council will maintain optionality, data-dependence, gradualism and flexibility in the conduct of monetary policy". So all four will matter and there will be circumstances when one might be more important than another. There might be other circumstances where the pecking order will change. So I think by doing that we are trying to have as much optionality as we can, be able to use flexibility if and when warranted and necessary, be as data-dependent as we have demonstrated and we will continue to demonstrate, and also deploy the gradualism that will be appropriate given the circumstances. I think in times of great uncertainty, gradualism is probably appropriate, more so than if the path is clear, well identified and we all understand where we are heading.

On the second issue I just want to yet again come back to this issue of fragmentation, because I know that this is dear to some. I just want to reiterate that within our mandate, we are committed to preventing fragmentation risks in the euro area. Fragmented financial markets would obstruct the monetary policy transmission and undermine the possibility for the ECB to achieve its price stability mandate. That's the reason we monitor constantly, and that is the reason we have available at hand all the dimensions of flexibility that can be applied to our reinvestment policies under the PEPP, because flexibility conditions are clearly associated with PEPP to the extent that it relates to consequences of the pandemic. But we know how to design and we know how to deploy new instruments if and when necessary. We've demonstrated that in the past; we will do so again.

Given the scale of the inflation, it's no surprise that the ECB is acting, but still could you explain: it's an inflation that is imported, that's mostly on tax on consumption really; what can interest rates do against this kind of inflation?

Also, could you come back a little bit on why do you not expect too much of a risk for recession? You did explain a little bit but could you expand on that, please?

It is a case that a large portion of the inflation that we have analysed is attributable either directly or indirectly to terms of trade; what you call imported inflation. Whether it is energy, exogenous bottlenecks, that is clearly a so-called imported inflation; but it's not it. We are clearly seeing an unprecedented 75% of the items considered to measure inflation being above 2%. That applies to non-energy industrial goods, it applies to services and it is partly a factor of the energy passthrough – but not only. Number two, we are also very attentive to wages, wage negotiations and to the risk of second-round effects and potential spiralling. We are not seeing the risk of spiralling at all, but we are seeing wage increases that have picked up particularly since March and that, as we indicated in the monetary policy statement, would not be entirely surprising whether it is by way of catch-up effects or by way of general wage increase. We are also aware that Germany, for instance, will implement the [higher] minimum wage as of 1 October.

So it is largely and certainly much more so than in the US for instance – to come back to your questions about the difference between the EU and the US – it is more so imported inflation than it would be attributed to overheating demand, as is probably more so the case in the US. But it's spreading more broadly than strictly speaking in energy-related sectors.

Then you had another question: it's a bit of a story of on the one hand, on the other hand, the current situation of the economy. There is probably more of the negative hand than the positive hand, but we have both. On the negative front we clearly have the continued impact of the war in particular, the reactivation of lockdown measures in China which went away, then are maybe slightly coming back. The bottlenecks impact that it induces and the dampening effect it has on growth, not to mention the reduced disposable income that some of the households are suffering. But on the other hand, you have entire sectors of the economy that are recovering, and when you look at the tourism industry, the accommodation industry, hospitality: those sectors are really recovering at a fast pace. We looked on a per-country basis at the prices of hotels, of restaurants; it is clearly on its way up with a strong demand in those sectors in particular. We cannot exclude also – we hope, that remains to be seen – that some of the factors that have a dampening effect on growth will gradually fade a bit.

You talked of raising all three key interest rates. Is the intention to keep the spread between those consistent as they have been so far, or will that change further into the future?

Then my second question is on: can you talk a little bit more about the conditions that would trigger the flexibility within the PEPP, and do they have to be specific to the pandemic being the causes, or could you say that actually consequences of the war in Ukraine or some other shock that we haven't envisioned yet could also encourage that flexibility usage?

In relation to the July rate hikes that we discussed, we certainly considered that the three rates would be impacted by the hike, not just the deposit facility rate (DFR). For future references: as of September, we might also apply the principle of hikes to the three, but we have not discussed that yet. I think the intention will probably be to have a close look at that and to determine whether or not we want to just keep those spreads or return to a better symmetry between those three. That's clearly to be debated at either our next meeting or the September meeting.

On the conditions that would trigger the anti-fragmentation: let's be clear, the critical point is monetary policy transmission and we are very attentive to make sure that it transmits throughout the entire euro area. So there is no specific level of yields increase or lending rates or bond spreads that can unconditionally trigger this or that. The principle is that we will not tolerate fragmentation that would impair monetary policy transmission, and we will determine on the basis of circumstances, of countries, how and when that risk is likely to materialise, and we will prevent it.

I have another question about fragmentation. We are today experiencing a new sell-off in sovereign bonds, and this might point that the PEPP reinvestments, maybe the ECB new commitment, is not enough to prevent fragmentation. Has the ECB any news on what the new or the adjusted tool could even look like?

I can only repeat what I have said, which is that we will not tolerate fragmentation that would impair the proper transmission of monetary policy throughout the entire euro area. We do have existing flexibility that is embedded in the reinvestment of PEPP, in particular. We have demonstrated in the past – we will demonstrate if necessary in the future – that we can design, we can deploy the appropriate instrument to prevent that risk from materialising.

I have two questions. One is on the importance of data dependency: as we're looking beyond September for rate hikes, the Governing Council will adjust the monetary policy and it will depend on incoming data; can we expect then a lift-off to come on a quarterly basis, coupled with the macroeconomic projections?

My second question is on financial stability because you mentioned it; you mentioned that banks will be facing credit risks increased due to tighter financing conditions. How concerned are you about financial stability in a war situation?

I have to tell you that I'm concerned about the war, full stop. But your question goes further than that, of course. The financial stability side of the question, I will defer to my esteemed colleague, friend and Vice President de Guindos. The first one: yes, we are going to pay a lot of attention to data and we are considering data dependency as one of the key four principles according to which we will operate. Obviously the quarterly projections that we produce are very rich, inform our decisions best, but we cannot be un-attentive to developments and to data that we continuously collect, both at the ECB and within the national central banks as well. So, we are not going to put ourselves in a straitjacket of only taking decisions when we have projections.

De Guindos: You know that in our statutory review we included a reference that twice per year, we would include financial stability considerations in our monetary policy making. We did it in December and we have done it now in June. Now, here the message is quite clear: the vulnerabilities of the financial system in Europe have been defined in our financial stability review. Refer to problems in terms of valuations of financial assets, in terms of margins of the banks and in terms as well of high valuations in some spots of residential real estate. So the conclusion that we have reached, that is included in the monetary policy statement, is that in the short term, the normalisation of monetary policy conditions can give rise to additional stress in the short term. But in the medium term the tightening of financial conditions could be positive in order to try to address some of the vulnerabilities. Think about residential real estate. So, this is the main conclusion, and we try to make an assessment that covers not only the short term, but as well the medium term.

Lagarde: I would just like to add something because we are here, standing in Amsterdam, and my colleague Klaas Knot is with us and for those of you interested: we had just a fantastic meeting that was organised under the auspices of De Nederlandsche Bank under the leadership of Klaas. It's been just a really good, fruitful and productive experience. Geography matters, and hospitality can help a great deal, so thank you to the Netherlands and thank you to the National Central Bank of the Netherlands.