



**BANKA
SLOVENIJE**

EVROSISTEM

Eurosistem monetary policy – *deliberations behind our recent decisions*

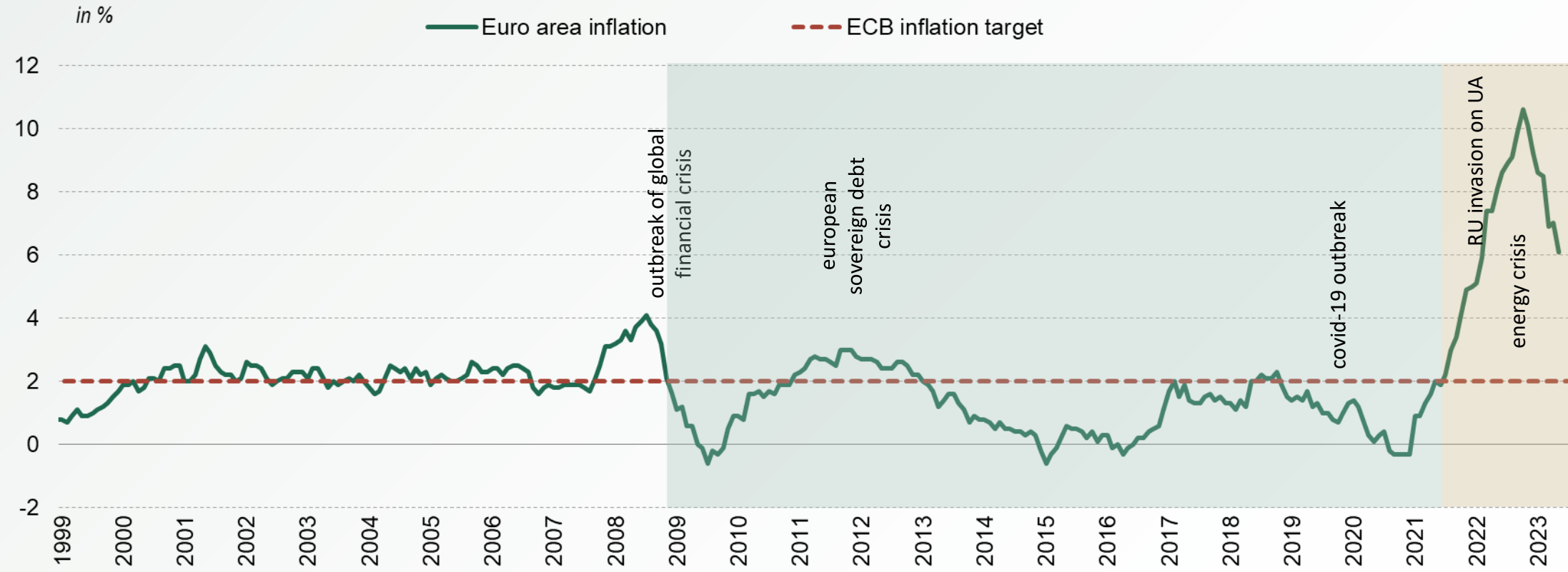
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Ljubljana

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Monetary policy operates in a changing environment

Inflation development the EA: a period of stability, post-GFC undershooting & a regime-shift in 2021



Source: Eurostat.

Response to low inflation environment and the pandemic shock

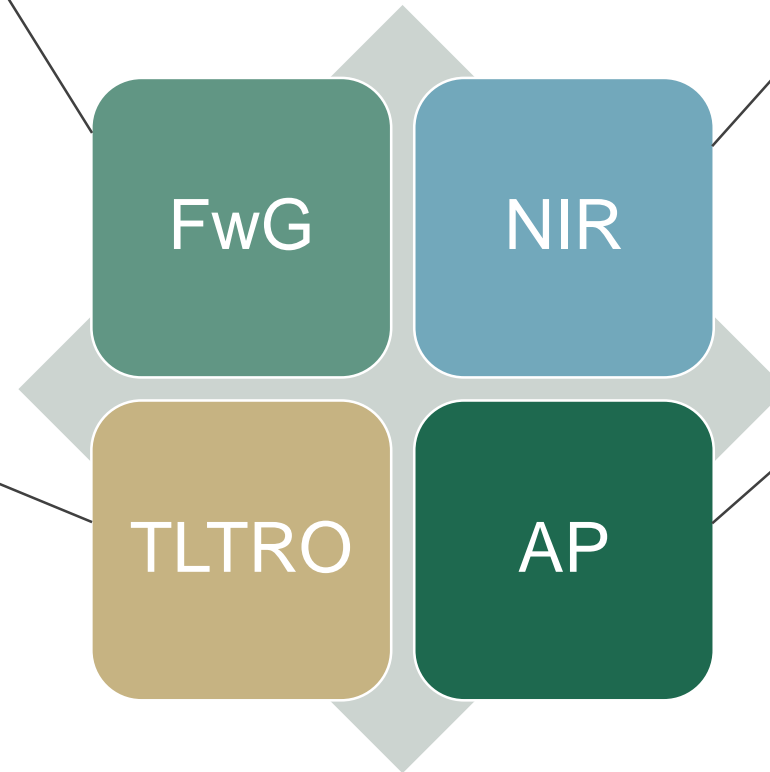
Non-standard policy measures

1. Forward Guidance

Providing guidance about the future monetary policy intentions, based on the assessment of the outlook for price stability. (more formally *July 2013–July 2022*)

4. Targeted Longer-Term Refinancing Operations III

Loan products used by the ECB to lend money at very low interest rates to euro area banks for longer periods of time, up to three-year maturity, with an aim to stimulate bank lending (*TLTRO III auctions: Sept. 2019–Dec. 2021*).



2. Negative Interest Rates

Extension of the interest-rate space into the negative territory (*June 2014–July 2022*)

3. Asset Purchases (APP+PEPP)

The Eurosystem can buy a range of assets, including government bonds, corporate bonds, ABS and covered bonds, to bring inflation back to the target of 2% over the medium term. (net purchases: *January 2015–July 2022*)

Response to price shocks and rising inflation

Milestone 1: Evaluating the nature of the shock (H2 2021) - 1

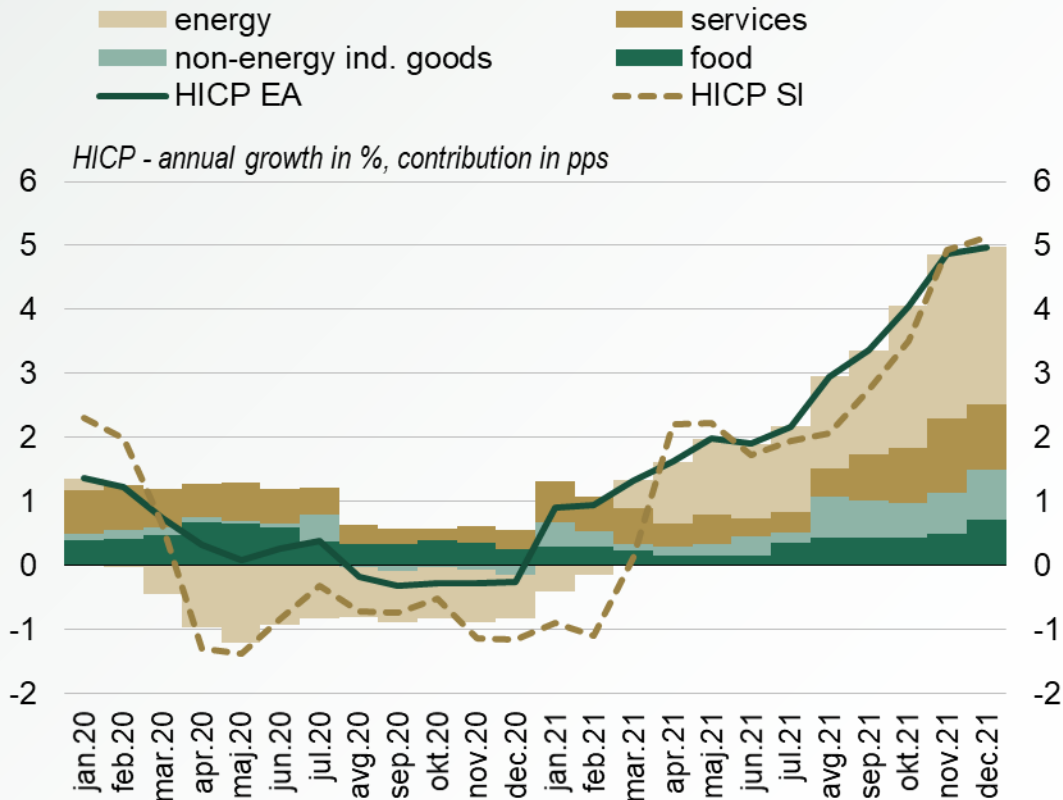
- **Rate forward guidance as of Dec. 2021**

"In support of its symmetric 2% inflation target and in line with its monetary policy strategy, the Governing Council expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term. This may also imply a transitory period in which inflation is moderately above target."

Response to price shocks and rising inflation

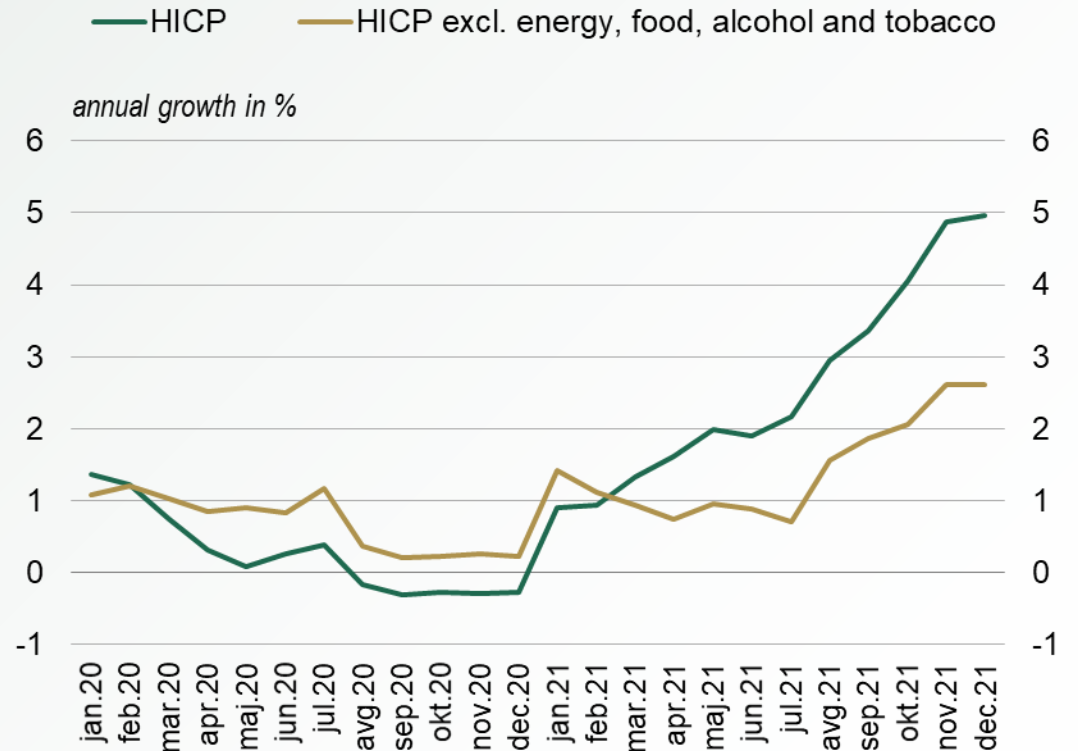
Milestone 1: Evaluating the nature of the shock (H2 2021) - 2

Inflation developments



Source: ECB, Eurostat.

Core inflation (HICP excl. energy, food, alcohol and tobacco)

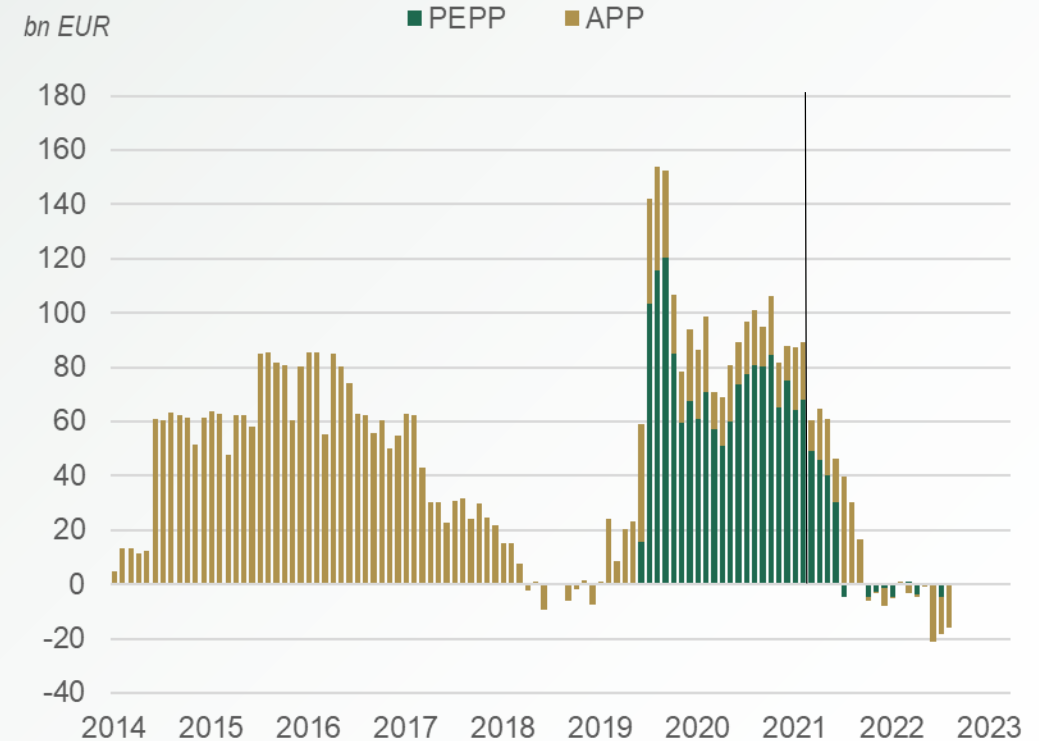


Response to price shocks and rising inflation

Milestone 2: The decision to start withdrawing asset purchases (Dec. 2021 to July 2022)

- Step-by-step reduction in **asset purchases** from Dec. 2021
- End of **PEPP** net purchases in March 2022
- End of **APP** net purchases as of 1 July 2022.

Net purchases of securities under APP and PEPP

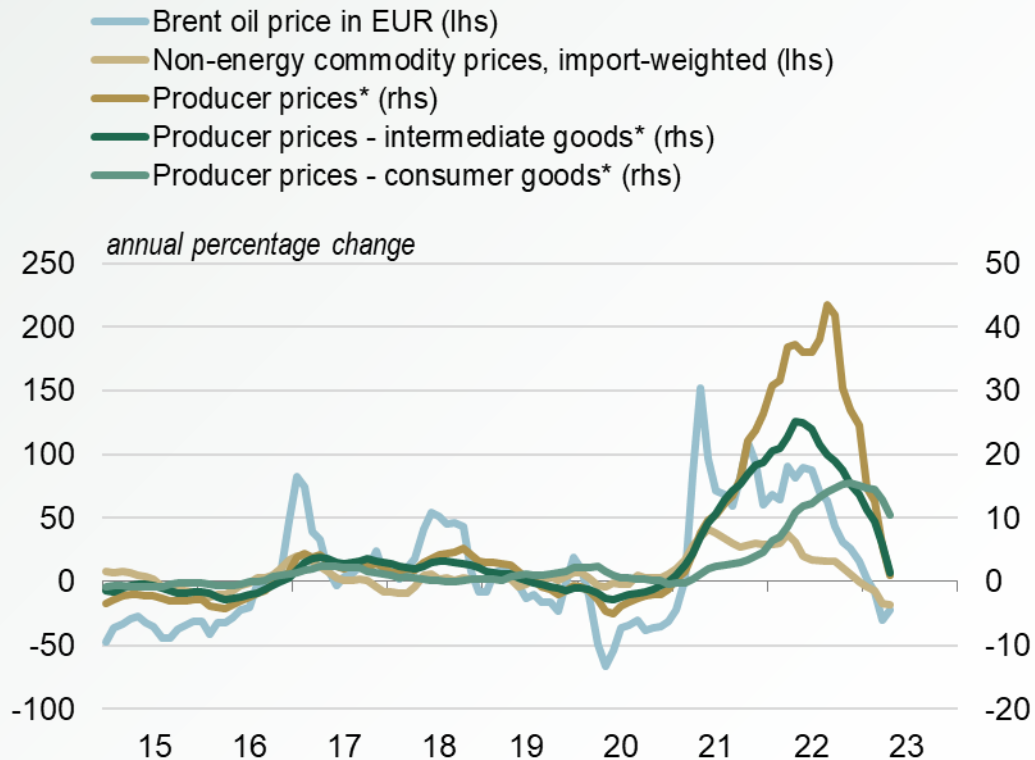


Source: Bloomberg.

Acceleration and broadening of inflation in 2022

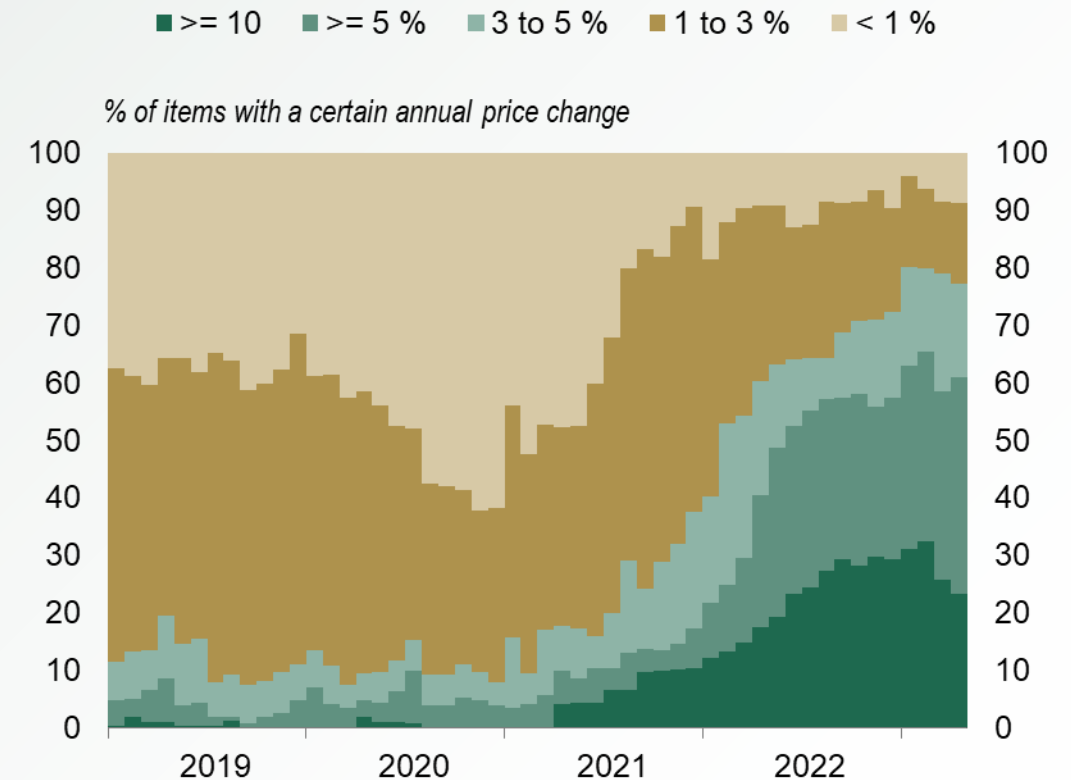
Disruptions in commodity markets (RU aggression), remaining supply bottlenecks and strong demand

Cost pressures along the price chain linked to the pandemic and the RU-UA war



Source: Eurostat, ECB.

Inflation distribution among HICP items, euro area



Source: ECB.

Response to price shocks and rising inflation

Milestone 3: Broadening of monetary policy toolkit ... (since mid 2022)

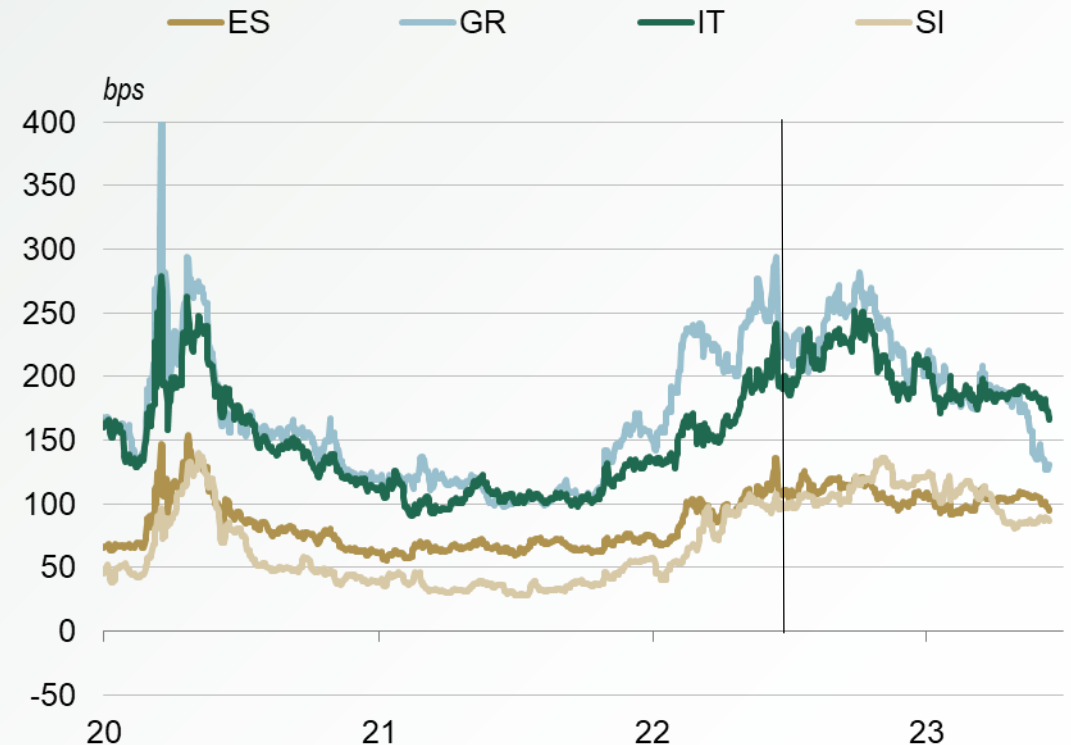
- July 2022: establishment of the **Transmission Protection Instrument (TPI)** to address unwarranted, disorderly market dynamics (market fragmentation) that pose a serious threat to the transmission of monetary policy.

Country eligibility criteria: compliance with the EU fiscal framework.

Also available:

- **PEPP reinvestments** (until 2024)
- **Outright Monetary Transactions (OMT, 2012)**

10-year government bond yield spread against Germany



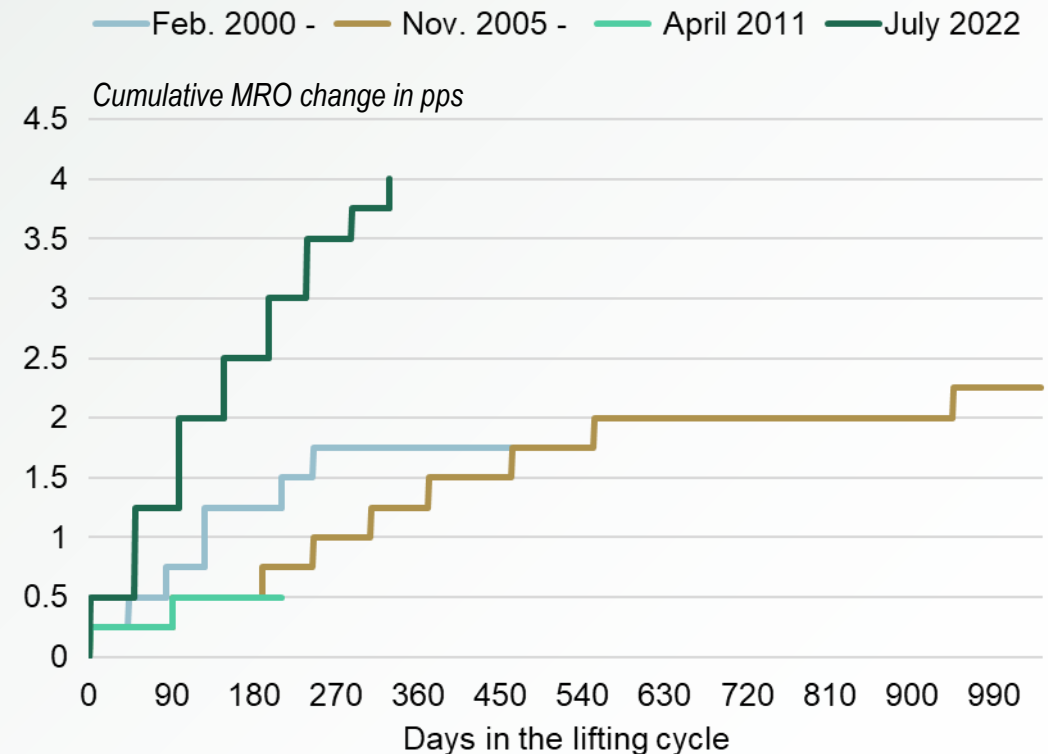
Vir: Bloomberg.

Response to price shocks and rising inflation

Milestone 3: ... and start of the rate hike cycle (since mid 2022)

- July 2022: **by 50 bps** (1st increase since 2011, *exit from negative IR territory*).
- Sept. and Oct. 2022: **by 75 bps**
- Dec. 2022, Feb & March 2023: **by 50 bps**
- May & June 2023: **by 25 bps**

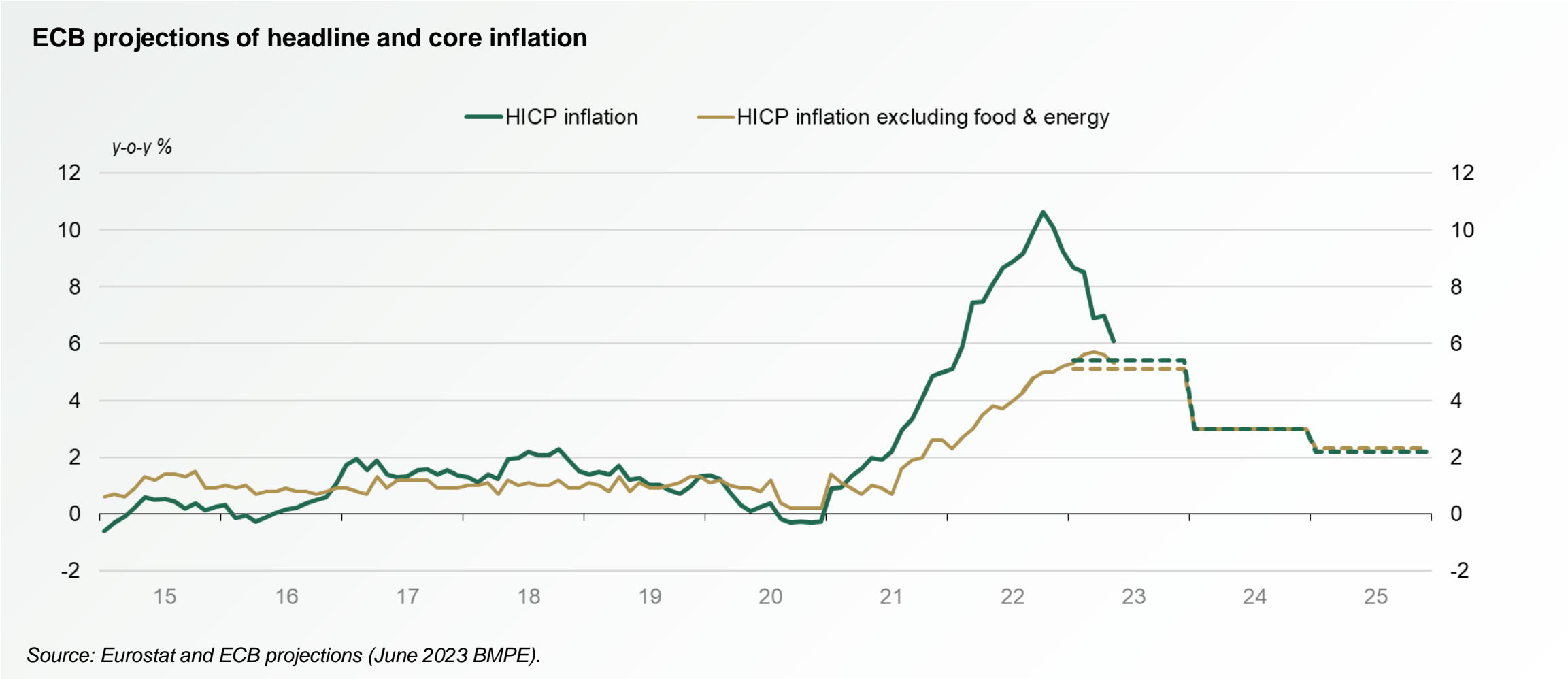
ECB interest rate on the main refinancing operations



Vir: ECB, Banka Slovenije.

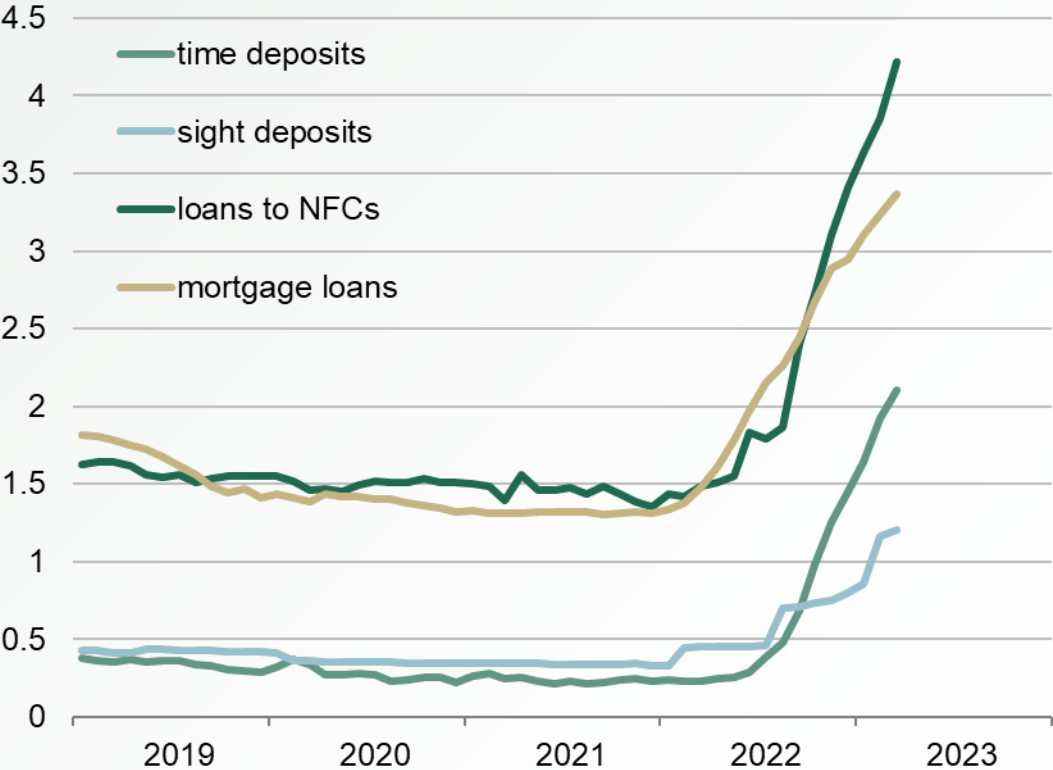
Response to price shocks and rising inflation

Milestone 4: A shift to domestic price pressures (2023)



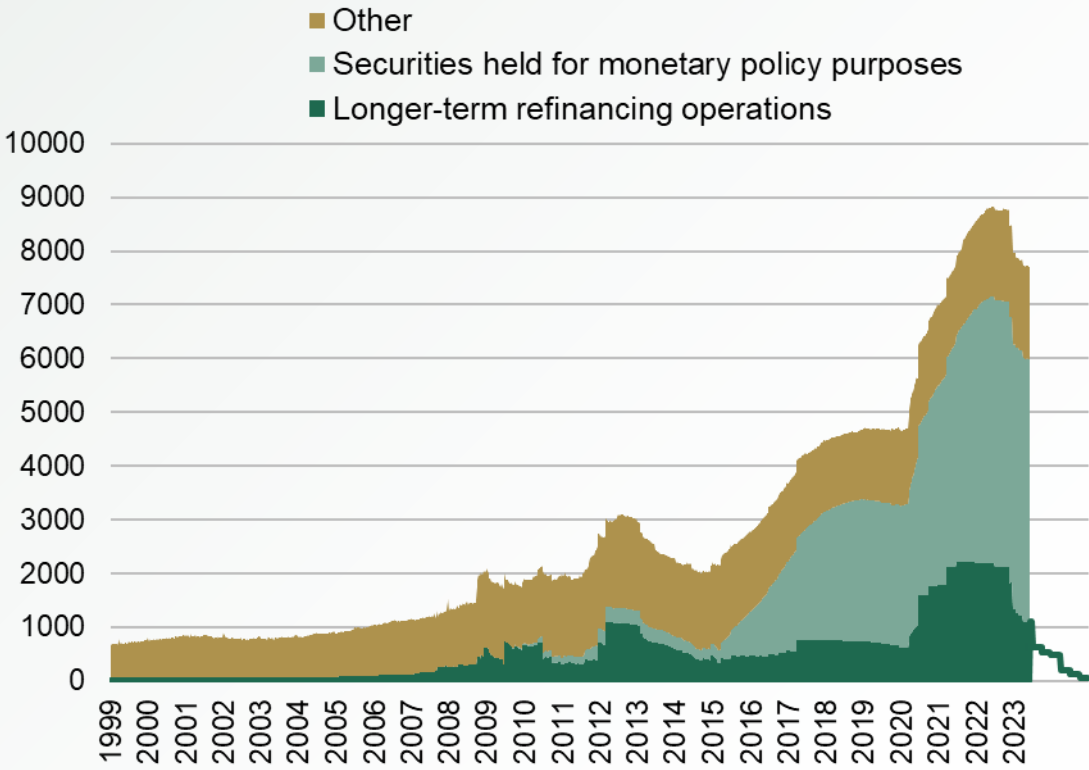
Transmission of monetary policy measures

Bank interest rates in the euro area



Source: ECB.

Eurosystem balance sheet, bn EUR



Source: Bloomberg.

Key issues for next monetary policy meetings

- **July:** Barring significant reversals across the key elements of the reaction function, another 25 bps rate hike is likely.
- **September:**
 - Reassess the inflation (and general macroeconomic) outlook.
 - Assess the incoming underlining inflation data and look for possible reversal.
 - Thorough assessment for possible pockets of uncertainty in the interbank market or a more rapid tightening of credit supply.