MONETARY POLICY STATEMENT

PRESS CONFERENCE

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

The euro area economy is continuing to recover and the labour market is improving further, helped by ample policy support. But growth is likely to remain subdued in the first quarter, as the current pandemic wave is still weighing on economic activity. Shortages of materials, equipment and labour continue to hold back output in some industries. High energy costs are hurting incomes and are likely to dampen spending. However, the economy is affected less and less by each wave of the pandemic and the factors restraining production and consumption should gradually ease, allowing the economy to pick up again strongly in the course of the year.

Inflation has risen sharply in recent months and it has further surprised to the upside in January. This is primarily driven by higher energy costs that are pushing up prices across many sectors, as well as higher food prices. Inflation is likely to remain elevated for longer than previously expected, but to decline in the course of this year.

The Governing Council therefore confirmed the decisions taken at its monetary policy meeting last December, as detailed in the press release published at 13:45 today. Accordingly, we will continue reducing the pace of our asset purchases step by step over the coming quarters, and will end net purchases under the pandemic emergency purchase programme (PEPP) at the end of March. In view of the current uncertainty, we need more than ever to maintain flexibility and optionality in the conduct of monetary policy. The Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation stabilises at its two per cent target over the medium term.
I will now outline in more detail how we see the economy and inflation developing, and will then talk about our assessment of financial and monetary conditions.

Economic activity

Economic growth weakened to 0.3 per cent in the final quarter of last year. Nevertheless, output reached its pre-pandemic level at the end of 2021. Economic activity and demand will likely remain muted in the early part of this year for several reasons. First, containment measures are affecting consumer services, especially travel, tourism, hospitality and entertainment. Although infection rates are still very high, the impact of the pandemic on economic life is now proving less damaging. Second, high energy costs are reducing the purchasing power of households and the earnings of businesses, which constrains consumption and investment. And third, shortages of equipment, materials and labour in some sectors continue to hamper the production of manufactured goods, delay construction and hold back the recovery in parts of the services sector. There are signs that these bottlenecks may be starting to ease, but they will still persist for some time.

Looking beyond the near term, growth should rebound strongly over the course of 2022, driven by robust domestic demand. As the labour market is improving further, with more people having jobs and fewer in job retention schemes, households should enjoy higher income and spend more. The global recovery and the ongoing fiscal and monetary policy support also contribute to this positive outlook. Targeted and productivity-enhancing fiscal measures and structural reforms, attuned to the conditions in different euro area countries, remain key to complement our monetary policy effectively.

Inflation

Inflation increased to 5.1 per cent in January, from 5.0 per cent in December 2021. It is likely to remain high in the near term. Energy prices continue to be the main reason for the elevated rate of inflation. Their direct impact accounted for over half of headline inflation in January and energy costs are also pushing up prices across many sectors. Food prices have also increased, owing to seasonal factors, elevated transportation costs and the higher price of fertilisers. In addition, price rises have become more widespread, with the prices of a large number of goods and services having increased markedly. Most measures of underlying inflation have risen over recent months, although the role of temporary pandemic factors means that the persistence of these increases remains uncertain. Market-based indicators suggest a moderation in energy price dynamics in the course of 2022 and price pressures stemming from global supply bottlenecks should also subside.

Labour market conditions are improving further, although wage growth remains muted overall. Over time, the return of the economy to full capacity should support faster growth in wages. Market-based measures of longer-term inflation expectations have remained broadly stable at rates just below two per cent since our last monetary policy meeting. The latest survey-based measures stand at around two per cent. These factors will also contribute further to underlying inflation and will help headline inflation to settle durably at our two per cent target.

Risk assessment

We continue to see the risks to the economic outlook as broadly balanced over the medium term. The economy could perform more strongly than expected if households become more confident and save less than expected. By contrast, although uncertainties related to the pandemic have abated somewhat, geopolitical tensions have increased. Furthermore, persistently high costs of energy could exert a stronger than expected drag on consumption and investment. The pace at which supply bottlenecks are resolved is a further risk to the outlook for growth and inflation. Compared with our expectations in December, risks to the inflation outlook are tilted to the upside, particularly in the near term. If price pressures feed through into higher than anticipated wage rises or the economy returns more quickly to full capacity, inflation could turn out to be higher.

Financial and monetary conditions

Market interest rates have increased since our December meeting. However, bank funding costs have so far remained contained. Bank lending rates for firms and households continue to stand at historically low levels and financing conditions for the economy remain favourable. Lending to firms has picked up, supported by both short and longer-term loans. Robust demand for mortgages is sustaining lending to households. Banks are now as profitable as they were before the pandemic and their balance sheets remain solid.

According to our latest Bank Lending Survey, loan demand by firms increased strongly in the last quarter of 2021. This was driven by both higher working capital needs, stemming from supply bottlenecks, and increased financing of longer-term investment. In addition, banks continue to hold an overall benign view of credit risks, mainly because of their positive assessment of the economic outlook.

Conclusion

Summing up, the euro area economy continues to recover, but growth is expected to remain subdued in the first quarter. While the outlook for inflation is uncertain, inflation is likely to remain elevated for longer than previously expected, but to decline in the course of this year. We will remain attentive to the incoming data and carefully assess the implications for the medium-term inflation outlook. We stand ready to adjust all of our instruments, as appropriate, to ensure that inflation stabilises at its two per cent target over the medium term.

We are now ready to take your questions.

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My first one would be: In light of that record inflation reading seen in January for the eurozone, how did the discussion go in the Governing Council? Are there more frictions now, and is the camp of those who are calling for action getting louder?
The second one is on the market pricing and two rate hikes for 2022. You have been saying that a rate hike this year is highly unlikely. What are you saying now? Are you sticking to "highly unlikely," or have you moved on?
Thank you very much for these two very pertinent questions. Concerning inflation: with the upside surprise that we have seen first in December, second in January, I can tell you that there was unanimous concern around the table of the Governing Council about inflation numbers and obviously the impact this has on the near term and the impact this has on our compatriots in Europe. We know that the burden is first and foremost borne by those who are most vulnerable, most exposed and who face the day-to-day hardship of having to put up with higher prices. I can assure you that that concern was across the board and around the table in equal numbers.

We had a very thorough and in-depth discussion about inflation precisely and were focussing on the latest information we have, but also the impact that it will have on our medium-term outlook. That is clearly something that will be examined in more depth at the time of our March Governing Council meeting, when we produce more projections – which we have not on this occasion – when we can harness all the latest data that we have, where we can also have more information about the job markets, about wages and where we can really analyse in depth what the impact is on our medium-term projections. We are all driven by the same mandate, which is price stability. We are all concerned to take the right steps at the right time, and I think there was also a concern and a determination around the table not to rush into a decision unless we had a proper and thorough assessment based on data and the analytical work that will take place in the next few weeks. That's on your first point concerning the inflation numbers.

On the other question of the rate hikes: you know, I never make pledges without conditionalities and it is even more important at the moment to be very attentive to that. As I said, we will assess very carefully, we will be data dependent, we will do that work in March. I think it will take us into the analysis of what are the drivers behind inflation in the short term, what are the drivers behind inflation in the medium term, and how the whole outlook and medium-term projections look like. Let's not forget that we will continue doing so on the basis of our forward guidance, that we will continue to observe the sequence that we have agreed, and that we will be gradual in any determination that we make at the right time on the basis of data.

A couple of hours ago, President Lagarde, the Bank of England increased its rate by 0.25%. Four of the nine members of the Committee actually wanted more than that,

they wanted 0.5%. You're going to tell me of course that different economies mean different decisions. Could you tell me: what is the difference between the 5.4% inflation in the UK compared to the 5.1% in the eurozone? Why is it not the same course of action in the ECB?
The other question is about wage growth. What can you tell us about wage growth in the eurozone? Do you see any sign of that? Are you worried about that side of things?
It's interesting because your second question is almost the answer to your first question, but I'll go back a little bit into history. The United Kingdom has had a history of much higher inflation than what we have had in the euro area; that's point number one. The critical difference now between our respective economies, the critical one – there are many other ones – but the critical one has to do with the labour market, where clearly there is a lot of pressure on wages, where there is scarcity of workers for jobs that are available, and where - I don't want to take a political stance, but I think that there was a lot of non-UK labour force that eventually had to leave the United Kingdom which has not been totally replaced, and where the shortage of workers is actually having a bearing on the forces of the labour market in the UK. So that's really in essence what is causing the significant difference between the two.

On the wage front: what we are seeing and that we can really celebrate is that the euro area is at the lowest unemployment number it has ever been. 7% unemployment is a record number. The second aspect of that labour market is that our participation of employees in the labour market is back to the level where it was pre-COVID. So on those two accounts we have good news to celebrate. What we are not yet seeing is a significant movement in terms of wage increases. We are not seeing a lot either in relation to wage negotiations. That normally should be the next step that we see, with lower unemployment, more people leaving the furlough schemes under which they were operating, and the output gap closing gradually and the economy returning to full capacity. We should see movement, and we are not seeing a lot of it yet. Now, of course a lot of the information that we are getting statistically is backward-looking, but we are also very attentive to what is happening and what is likely to happen.

That is actually taken into account to a certain extent in our projection numbers, but clearly what will happen in the next few weeks and what we can see, both for our March meeting and then later on our June meeting, will be critically important to determine whether the three criteria of our forward guidance are fully satisfied.

The first one is that from your guidance about standing ready to act you removed “in either direction” and I'm curious about the significance of that, if there is a significance. But in the interest rate guidance you left “or lower”. The two seem to be incoherent to me because that would mean if lower is an option and you are not ready to act in both directions, then you're only going down. Surely you didn't mean to say that?
The second question is about the quality of your projections: do you maintain your full confidence in the ECB's projections? The track record of ECB projections has been quite

mixed in recent quarters. It's clear to me that the models are not equipped to be modelling a once-in-a-lifetime event. What do you think about the projections going forward?

On your first point: you've done a good compare reading of the various paragraphs that are included in our monetary policy statement. It is a fact that we have removed the portion that says in both directions. We now say the Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation stabilises at its 2% target over the medium term. I think "as appropriate" – which we debated within the Governing Council – captures the vast array of optionalities that we have available depending on the data that we receive, and as, hopefully, some of the uncertainty we have around clears off. So we thought that "as appropriate" was perfectly adequate to cover all the moves that we could take and all the optionalities that are available for us.

I think based on recollection - because we debated that a little bit – the "in either direction" was inserted once to really indicate that there was a change of tack and that we were no longer in that low inflation environment for such a long period of time. That was inserted in the December monetary policy statement. We are clearly receiving data that inform us about the high level of inflation, certainly the upside risk to our projection, particularly for the short term, and that is the reason why we thought that "as appropriate" would cover all the optionalities that we have.

Now, I'm glad you're asking me about the quality of the projection by staff. It's actually interesting because as managing director of the IMF I did have exactly the same questions in due course in my previous life. What it means is that providing forecasts, elaborating projections is a difficult exercise that is based on the assumptions that you make and on the models that you use. I have full confidence that staff do their best to include all the sensible, reasonable, rational assumptions that they can. I can assure you that they go through a whole array of scenarios: what if, what if, what if. They use the models that they use – that many of you listening to me are also using. It is hardly surprising that most projectionists, most forecasters have also been surprised by the inflation numbers in particular in December and January. Very few of them could've anticipated the energy shock, the massive shock that is hitting our economies around the world, but particularly so in Europe, where we are so vastly export[1]-dependent when it comes to our energy. That clearly has an impact that was not anticipated because it was not in the assumptions.

Now, all the work that is done by staff to elaborate on those projections, all that work is also assessed by the Governing Council and each and every Governor of each and every national central bank is consulting with their staff as well. Their staff are also feeding data into the aggregate projections that we produce at least in one case out of two every year – sorry, two out of four. But the determination is made by the Governing Council. Indeed, there is an element of discretionary judgement. We don't take projections just at face value and this is particularly relevant in the current

circumstances given the level of uncertainty, given the geopolitical risks around. There has to be an element of judgement that actually belongs to the table of the Governing Council.

I just wanted to draw on your response to Annette's question on rate hikes earlier, and wanted to confirm: are you not willing to repeat today, as you said recently in December, that it's "very unlikely" that you will raise interest rates this year? Secondly, you were talking about how inflation risks are tilted to the upside, particularly in the short term. Could you give us some more thoughts on the medium-term and specifically the assumption that inflation will fall below 2% and stay there in 2023 and 2024?

On your first question about interest rate hikes: as I said, I don't make pledges without conditionalities and I did make those statements at our last press conference on the basis of the assessment, on the basis of the data that we had. It was, as all pledges of that nature, conditional. So what I am saying here now is that come March, when we have additional data, when we've been able to integrate in our analytical work the numbers that we have received in the last few days, we will be in a position to make a thorough assessment again on the basis of data. I cannot prejudge what that will be, but we are only a few weeks away from the closing time at which we provide the analytical work, prepare the projections for the Governing Council, and then come with some recommendations and make our decisions.

I think it all goes back to: how do we make our decisions? We make them on the basis of data, we make them on the basis of the forward guidance when it comes to interest rates. We make them gradually because we are not here to rock the boat, if I may say. We are going to use all instruments, all optionalities in order to respond to the situation – but the situation has indeed changed. You will have noticed that in the monetary policy statement that I just read, we do refer to the upside risk to inflation in our projection. So the situation having changed, we need to continue to monitor it very carefully. We need to assess the situation on the basis of the data, and then we will have to take a judgement.

You had a second question, which had to do with: what's my prediction about the medium-term inflation? Well, again I'm very sorry to say, but we do assess risk to the upside for the near term, particularly for the near term. We're not excluding, but we say particularly for the near term. We will know better what impact it will have on the medium-term inflation. Let me just say one thing: we are getting much closer to target and this is so because in the medium term there are factors, drivers of inflation that are helping us finally reach - hopefully - that target. That has to do with the labour market that I was discussing earlier. That has to do with the broad-based inflation that we have, which concerns more than 60% of the items. It has to do with the inflation expectations which, whether based on surveys or market-based, are now heading very close to or at target.

So this is all a good development and I'm saying that with a concern because I know how much hardship it imposes on all of us Europeans, and particularly those who have to fill up the tank and who have to put food on the table, because it is hard. Prices are going up very much at the moment. We see them continuing to stay high for a few more months, but then declining over the course of '22 and then our medium-term numbers, we will have more certainty at our March meeting.

Could you clarify what is the best way for the ECB to act when there is an increase in inflation driven mostly by supply rather than demand? In the eurozone of course there are significant increases in energy prices, but inflation can be a burden on demand, as you have said before.
Secondly, I have a question on fiscal rules because in the last days, the advisers of the Italian and French Governments have published some proposals on the Stability and Growth Pact. Have you seen them? What do you think of them and in particular, what do you think of the proposal to transfer part of the ECB – of the government bonds in the ECB balance sheet - to a European agency in order to give ECB more space for monetary policy?
I opened this press conference by saying how all Governing Council members were concerned about the inflation numbers which were at a very surprising level, by all accounts, and whoever are the projectionists and the forecasters. Of course, we went into the analysis of: is it more supply, is it more demand? We all know that monetary policy can have a stronger impact on demand and that the impact on supply particularly if it is imported supply as is the case with energy price increase, is going to be more limited. I would have a little caveat on that one because clearly, the longer it lasts, the higher the likelihood of second-round effects there will be. In that case, obviously monetary policy has a role to play. I think that we are all concerned that we have a mandate which is to deliver price stability, which is to make sure that inflation is at target in the medium term, which is the strategy that we have adopted, all of us. We know the limits of what can be done and when it can be done, but we know that action has to be taken when the conditions are ready for that.

You referred to the editorial that had been jointly prepared and published in one of your colleagues' newspapers. Of course I have read it and we also have taken a view within the Governing Council of the European Central Bank concerning fiscal – the Stability and Growth Pact, because we have an interest in how fiscal rules will be applied. We have an interest in the governance of the euro area and we are very keen to see as much of a fiscal union as is possible given that we have a monetary union and that the current crisis has demonstrated amply that when monetary and fiscal policy work in intelligent synchronization, it can be very efficient. But I am not going to pass judgement on one proposal or the other, however respectable the authors are. We, the Governing Council of the ECB, have said that we would like to see rules that are simpler, that are more user-friendly, that provide for a counter-cyclical response. We have also said that we believe that a fiscal capacity would be appropriate in order to respond collectively to shocks.

There are other proposals that are being floated but the decision will ultimately depend on what the leaders are prepared to compromise and are prepared to accept. From our perspective, the more fiscal union there is, obviously the better for our monetary policy.

I asked this question in December; I'm going to ask it again, and forgive me, but do you think the market, in pricing several rate increases this year by the ECB, has got ahead of itself?
Secondly, can you tell us what your view is on the impact of tensions between Russia and Ukraine on the economic outlook and particularly the outlook for inflation?
I don't know what answer I gave you to the December question, and I might be giving you a similar answer – although it will be in the light of a different indication from the economic situation and certainly different inflation numbers and different labour market numbers. When it comes to interest rate hikes, we have a forward guidance which has been approved by the Governing Council which identifies three pillars or three criteria, if you will, that need to be satisfied in order for rates to be hiked. I don't want to insult you by repeating those three criteria, but I will actually! We have the inflation at target, which is 2%, well ahead of the projection horizon; we have, second, the durability so that we see it staying at target until the end of the horizon; and third, we need to see underlying inflation that is sufficiently strong to determine progress towards target.

We will apply these three criteria at each and every step of the way, and we will determine if and when they are satisfied in order to possibly hike rates. But don't forget that we also have a sequence, and the sequence is that we will not hike rates until we have completed net asset purchases. So I think what comes first comes first; we have to look at net asset purchases. We are conducting a step-by-step guide of those net asset purchases. We will determine in March what is the assessment, on the basis of the data that is then available and we will see what pace, what speed, what amounts we will apply to this net asset purchase programme for the rest of '22.

You asked me a more political question on which I am not going to take a political stance, but I will simply say that the geopolitical clouds that we have over Europe, if they were to materialise, would certainly have an impact on energy prices and, through energy prices, an increased cost throughout the whole structure of prices. It would also impact growth as a result of reduced income and possibly as a result of reduced consumption and deferred investment. The pure economic impact would certainly be more significant than what we are seeing at the moment in terms of prices. We are very attentive to that and by the way, we include that in our scenario when we prepare the projection and the work that is submitted to Governing Council members at the time of the next Governing Council meeting. I will say separately that peace is a lot better than any kind of war from an economic point of view, and I have seen that in other parts of the world in previous lives.

The first one is on inflation. You mentioned several times now the upside surprises of inflation in December and January. Does that mean that the December projections from the ECB staff, that they are already outdated, especially the projections that inflation will fall below 2% in 2023, in 2024?
My second question is on the degree of monetary policy accommodation: if inflation is significantly higher than expected, this means that real interest rates are lower than thought. So monetary policy is more expansionary than thought. Isn't that in itself a reason to recalibrate monetary policy and to tighten monetary policy?
On the latter one: it's obvious that monetary policy has to continue to support the economy and you mentioned it yourself: the whole panoply of instruments that we use, that are currently working, is also explaining some of the good results that the economies are showing at the moment.

On the upside surprise: we did not only use the word upside in relation to surprises; we used it in relation to risk. Risk is to the upside in our projection. We hardly ever – I'd have to double-check in the last 20 years, we may have in the past – but in the recent past we have not actually mentioned, we have not included in our monetary policy statement the characterisation of risks in relation to inflation. I think that is a very explicit indication that it might very well be significantly higher than what we had expected over the course of the year, and possibly higher than we had anticipated at the end of the year. Risk is to the upside, in particular in the near term.

I have got a quick question on your March projections that you've highlighted now repeatedly: if those updated forecasts show inflation exceeding your 2% target in 2023 and 2024, would that, in your present view, be a reason to start slowing bond purchases earlier than currently suggested?
Thank you for your pointed question, but I am not going to speculate on what the Governing Council will decide. I think you have the answer, but I am not going to speculate here on what the decision will be.

I was wondering in light of these events if you had measured any kind of what degree of monetary contraction could cause the decision of ending the special rate period of the TLTROs.
Actually we have not discussed TLTROs at all in this particular Governing Council meeting, and it's one of the items that I'm sure we will debate at our March meeting, or later actually. I think they end in June '23[2] if I recall, yes.
In the beginning of the press conference you said that there was a unanimous concern within the Governing Council about inflation. Just to be sure: does it mean that the monetary policy decision taken today was also taken unanimously?
My second question, if I may: to what degree does the scenario or the risk of rising bond spreads determine the pace of normalisation of monetary policy of the ECB, especially given the fact that sovereign debt has exploded so much during the pandemic?
I think I said that there was general concern around the table about inflation and the impact it has on our fellow Europeans. Equally, there was general consensus about the outcome of our decision. I wouldn't call it a monetary policy decision, so to speak,

because what we are doing is we are continuing the normalisation of monetary policy and we are considering what will possibly happen and what options we offer ourselves, what optionalities will be around in response to the uncertainty at future monetary policy meetings. That's what we did in depth and very thoroughly today. There was general consensus on these issues around the table, I can assure you.

Now, you asked me a question about the spreads: I would like to just observe that we are not seeing any such development. While yields have moved up, spreads have not widened in any significant manner. So we very much look into these matters very carefully and we have no reason to believe that it is going to be different. If it was, we are obviously going to respond and we have all the tools, all the instruments and the adequate flexibility if it is justified.

I would like to focus on the energy prices: if I listen to you and your colleagues one always has the impression that energy prices are something a central bank can't do much about. It has to be taken and this is partly taken as justification for the current monetary policy. On the other hand, one could argue that the current policy is leading to the fact that the dollar is rising quite significantly against the euro. Since most energy – or maybe all energy – is being calculated in US dollars, it basically is another factor why energy prices are rising. So there is a criticism that one could argue that the current monetary policy stance of the ECB actually is fuelling inflation rather than combatting it. I hope you won't just say we don't focus on the exchange rate, but what would you say to this criticism?

It is the case that the very high inflation numbers that we observe are at least 50% caused by energy prices. Oil, gas, electricity and they all interrelate, gas having a stronger bearing than in previous years because of the price mechanisms depending on the length of contract and all the rest of it. I will spare you the details, but 50% of the current inflation is caused by energy prices. If the ECB was to first of all reduce and finish its asset purchases, and then raise interest rates in short order, do you think it would have any impact on energy prices? No, it is not in the ambit of monetary policy to decide the price of the barrel that is organised predominantly outside of Europe.

Now, true that most of those contracts are in the US dollar currency but if I look at the significant appreciation/depreciation, it varies a little bit. The euro has depreciated a little bit. I don't want to be in the wrong numbers, but it's no more than 3% over the course of the last 12 months[3]. I don't think that we can attribute to the European Central Bank the high cost of energy which impacts 50% of the inflation and the price paid by the consumers. Having said that, the European Central Bank and its Governing Council at large are focussed on its mandate, which is price stability. We are going to stick to the objectives that are set by the Treaty; that is price stability at 2% in the medium term. Believe me, as soon as it is required and the conditions are satisfied, we will act because it is our duty and we shall do so.

I have two questions. The first question is on the lower bound: if inflation were to be too high relative to the 2% target, the ECB would respond. Your response will come from the lower bound and from negative interest rates, which is really exceptional. Can you tell us how the Central Bank, the ECB, can respond to higher inflation coming from the lower bound?
My second question is on your step-by-step approach: the Governing Council expects net purchases to end shortly before it starts raising the key ECB interest rates and end its APP net purchases. What does this "shortly before" mean if inflation was going too high for too long?
Well, how do you hike interest rates? By hiking interest rates. And clearly, we will have a very sophisticated determined approach and analysis to doing that. We will only do that in the sequence that we have fixed for ourselves, and which has been agreed, which is that we will look at net asset purchases first, gradually, on a data-dependent basis. Then we will look at interest rates.

Now, you asked the question about net asset purchases, and I'm not sure exactly what your concern was about the net asset purchases and what is the... What was the question?

It was "shortly before"...
Of course, "shortly before." Shortly before is probably a little shorter than just before, and that again is going to be in the estimation of the Governing Council, data dependent, and based on the assessment that is conducted. I would say this: we are not there yet for the reasons that I have just mentioned, which are that we will be very faithful to our sequence. We are still conducting net asset purchases. We will stop the Pandemic Emergency Programme net asset purchases in March and then we will look at the net asset purchases under the APP. Don't assume too much in terms of the immediacy of hikes; we will not be complacent, but we are not going to be rushed into a process. We will follow the sequence that we have set for ourselves. We will verify the forward guidance criteria and we will be gradual in whatever we do.

It's very crucial to avoid the so-called second-round effects in the setting of wages and prices. In times where we see people are going on the street to defend their purchase power, especially in France, would you go as far as to call the unions to wage moderations in the coming period to avoid these second-round effects – which are not yet there, of course?
The second question is: we had an interview with World Bank Vice President, Carmen Reinhart, today in *Spiegel*, using harsh words towards central banks; telling that they are only independent on paper. For that, she said that the level of public debt is so far so high that the central banks are so hesitant to act. What is your take about this?
Well, on the latter question: I have not seen what Carmen has written so I'm not going to comment on that. She is an expert on sovereign debt and she has held that view for a long, long time that excessive sovereign debt is a great burden and should be addressed by sovereigns. I am not going to challenge or second-guess her analysis. I know this is her field and I am not surprised that she's addressing that in her capacity

as chief economist of the World Bank and clearly, I am sure, focussed on emerging markets and low-income countries.

On the second-round effect, don't get me wrong: what we are saying is that we are not seeing wage increases that would be likely in the conditions of the markets as they are, where we are seeing unemployment as low as it has ever been, where we are seeing participation back to the level where it was pre-COVID, and where gradually the output gap is closing and there is less and less slack in the economy. We are waiting for that movement on wages and our duty of course is to make sure that through a second-round effect, that would not be addressed by monetary policy, inflation would run out of control and would spiral. This is not what we are seeing, and we certainly don't want to see it, but I am not here saying that there should be wage moderation. There is clearly an adjustment to be had which I am hoping we will see in the course of '22. That would be the economic logic of what we are seeing at the moment.

By the way, as I am finishing on that question, I think we should be a little bit cautious about what I am hearing a lot, which is constant comparisons between the US and the euro area, the Fed and the ECB. We are really operating in different environments, with different economic data. Just to give you an example: our demand here in the euro area is pretty much back to where it was pre-COVID. In the US it is 30% up. Ask yourself why; this is because of this massive fiscal stimulus that the US economy has had, unlike the euro area, where it has been more moderate, not excessive and which is producing the sort of measured pace at which some factors are significantly improving.

1. Import dependent
2. The Governing Council expects the special conditions applicable under TLTRO III to end in June 2022
3. The euro depreciated by 4% in 2021