



ECB keeps policy unchanged as expected despite record inflation



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FRANKFURT, Feb 3 (Reuters) - The European Central Bank kept policy unchanged as expected on Thursday, curbing stimulus over the coming months but maintaining plenty of support for the economy even after inflation unexpectedly hit a fresh record high.

After the ECB extended support measures only in December, policy change was not expected to be on the agenda. But stubbornly high inflation - which rose to 5.1% last month in the 19-country euro zone - is complicating life for the bank and ECB President Christine Lagarde will be under pressure to address the issue in her 1330 GMT news conference.

Making only the smallest change to its statement, the ECB removed a clause stipulating that its next policy move could be in "either direction".

"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," the ECB said.

"Flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability," it added.

The ECB has long argued that inflation will soon abate without its intervention and actually fall below its 2% target by the end of the year, so that withdrawing support now would be counterproductive.

But a growing number of policymakers question this narrative, especially since the ECB has persistently underestimated the current spike, forcing it to repeatedly revise its forecasts.

Markets already doubt the ECB projections and are pricing in 28 basis points of rate hikes this year, despite the bank's insistence that any move in 2022 is very unlikely.

The issue is that inflation is forecast to dip below its 2% objective in 2023 and 2024, so that even a small increase in the inflation path could put price growth right on target, reducing the need for stimulus.

In her news conference, Lagarde could offer a nod to inflation risks while emphasizing that the base case is still for price growth to slow sharply late in the year, as wage growth in the euro zone remains muted and one-off factors fade.

She is also almost certain to repeat that any rate move this year is very unlikely, even as global peers like the U.S. Federal Reserve <https://www.reuters.com/business/fed-officials-say-march-rate-hike-track-future-increases-data-dependent-2022-01-31> and the Bank of England [https://www.reuters.com/business/bank-england-hikes-rates-clamour-contain-spiralling-inflation-2022-02-03/#:~:text=LONDON%2C%20Feb%20%20\(Reuters\),inflation%20will%20soon%20top%207%25](https://www.reuters.com/business/bank-england-hikes-rates-clamour-contain-spiralling-inflation-2022-02-03/#:~:text=LONDON%2C%20Feb%20%20(Reuters),inflation%20will%20soon%20top%207%25) tighten policy.

ECB watchers are nevertheless moving forward their rate hike predictions, with many now expecting a first move in early 2023 rather than late next year.

With Thursday's decision, the ECB's deposit rate remains at a record low -0.5% and the bank on course to phase out its 1.85 trillion euro pandemic emergency bond buying scheme by the end of March. (Reporting by Balazs Koranyi; Editing by Catherine Evans)