

EUROPE ECONOMY

ECB will do 'whatever is necessary' to get inflation to 2%, vice president says

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KEY POINTS

ECB Vice President Luis de Guindos told CNBC the central bank needed to keep inflation expectations anchored.

In a report published Wednesday, the ECB said households and businesses were under pressure from high rates, a poor economic outlook and monetary tightening; but government support needed to be “targeted.”

De Guindos said there needed to be “cautious” quantitative tightening and downplayed the risks of a new European debt crisis.

**VIDEO** 13:30

ECB will do 'whatever is necessary' to get inflation to 2%, says Luis de Guindos

It is crucial for the European Central Bank to convey its commitment to bringing prices down in order to keep inflation expectations anchored, according to its vice president.

Luis de Guindos told CNBC's Annette Weisbach on Wednesday that the main risk of a wage-price spiral was the perception that the central bank's credibility was not strong enough.

"That's why we are making such a commitment with price stability ... and that we will do whatever is necessary in order to reduce inflation to the level that we consider as price stability, which is 2%," he said.

Wages have been [rising in the euro zone](#), but were not yet doing so at a rate that was "excessive," de Guindos said.

But, he added, the lesson from the stagflation seen in the 1970s was that monetary policy needed to be focused on avoiding second-round effects.

Euro zone inflation is [running at 10.7%](#), the highest level in the bloc's history, and the ECB has [hiked its benchmark rate to 1.5%](#), a level not seen since 2009, before the sovereign debt crisis.

De Guindos said he could not specify what the ECB's terminal rate would be, even though markets were "demanding guidance," but the central bank had to "say very clearly that we are going to do our job, that we will reduce inflation, and that we will raise rates to the level that is compatible with the convergence of inflation to our price stability definition."



VIDEO 03:16**Belgium central bank chief would 'not be surprised' if ECB raises rates above 3%**

The ECB on Wednesday published a [Financial Stability Review](#) which outlined challenges facing businesses and households from the poor economic outlook, high inflation and monetary tightening.

It argues governments need to provide vulnerable sectors with targeted support without interfering with the normalization of monetary policy.

Economists [predict the euro zone](#) is heading for a deep recession amid plunging consumer confidence.

De Guindos said banks needed to be “cautious and prudent,” avoid being blinded by a short-term increase in profitability due to higher interest rates, and prepare for the potential coming rise in insolvencies and the reduced repayment capacity of households.

The tight labor market, with [unemployment at an all-time low](#), was a “positive factor” — but not guaranteed to continue in the future, he continued.

However, he downplayed risks of the kind of fragmentation in the euro area that could be an early indicator of another debt crisis, noting spreads between sovereign bonds had not been widening significantly in recent months and that the ECB had [new anti-fragmentation instruments](#) ready to deploy.

He also said euro zone countries had not seen the “kind of accidents we saw in the U.K. with the mini-budget,” and he hoped they would not.

A swath of unfunded tax cuts and growth-supportive measures announced by the U.K.'s [short-serving prime minister Liz Truss](#), which came as the Bank of England was raising interest rates and set to begin bond selling, caused [havoc in the gilt market](#) and nearly caused pension funds to collapse.



**VIDEO** 09:32**How 'trickle-down economics' backfired on Britain's shortest-serving prime minister**

On quantitative tightening, de Guindos told CNBC, "My personal view is that we have to be careful. It has to take place, it has to be part of the normalization process of monetary policy, but simultaneously, given the level of unknowns with respect to the potential consequences of QT, I think that we have to do it very carefully.

"It should be a sort of passive QT, and trying to reinvest only a percentage of the maturities of the bonds that we have in our portfolio in different time horizons."