

The ECB's monetary policy strategy statement (2021)

1. Since the previous strategy review in 2003, the euro area economy and the global economy have been undergoing profound structural changes. Declining trend growth, which can be linked to slower productivity growth and demographic factors, and the legacy of the global financial crisis have driven down equilibrium real interest rates. This has reduced the scope for the European Central Bank (ECB) and other central banks to achieve their objectives by exclusively relying on changes in policy interest rates. In addition, globalisation, digitalisation, the threat to environmental sustainability and changes in the financial system pose challenges for the conduct of monetary policy.
2. The monetary policy strategy of the ECB is both guided and bound by its mandate conferred by the Treaty on European Union and the Treaty on the Functioning of the European Union. The primary objective of the ECB is to maintain price stability in the euro area. Without prejudice to the price stability objective, the Eurosystem shall support the general economic policies in the EU with a view to contributing to the achievement of the Union's objectives as laid down in Article 3 of the Treaty on European Union. These objectives include balanced economic growth, a highly competitive social market economy aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. The Eurosystem shall also contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.
3. The Governing Council confirms that the Harmonised Index of Consumer Prices (HICP) remains the appropriate price measure for assessing the achievement of the price stability objective. However, the Governing Council recognises that the inclusion of the costs related to owner-occupied housing in the HICP would better represent the inflation rate that is relevant for households. Recognising that the full inclusion of owner-occupied housing in the HICP is a multi-year project, the Governing Council in its monetary policy assessments will, in the meantime, take into account inflation measures that include initial estimates of the cost of owner-occupied housing in its wider set of supplementary inflation indicators.
4. An inflation buffer above zero per cent provides monetary policy with space for interest rate cuts in the event of adverse developments and a safety margin against the risk of deflation through its positive impact on the trend level of nominal interest rates. The experience gained since 2003 has reinforced the macroeconomic importance of an inflation buffer. In particular, the pronounced trend decline in the equilibrium real interest rate, if persistent, implies that the effective lower bound on nominal interest rates will more frequently constrain the conduct of monetary policy. The facilitation of cross-country macroeconomic adjustment within the euro area, downward nominal wage rigidities and measurement bias also warrant an inflation buffer.
5. The Governing Council considers that price stability is best maintained by aiming for two per cent inflation over the medium term. The Governing Council's commitment to this target is symmetric. Symmetry means that the Governing Council considers negative and positive deviations from this target as equally undesirable. The two per cent inflation target provides a clear anchor for inflation expectations, which is essential for maintaining price stability.
6. To maintain the symmetry of its inflation target, the Governing Council recognises the importance of taking into account the implications of the effective lower bound. In particular, when the economy is close to the lower bound, this requires especially forceful or persistent monetary policy measures to avoid negative deviations from the inflation target becoming entrenched. This may also imply a transitory period in which inflation is moderately above target.

7. The Governing Council confirms the medium-term orientation of its monetary policy strategy. This allows for inevitable short-term deviations of inflation from the target, as well as lags and uncertainty in the transmission of monetary policy to the economy and to inflation. The flexibility of the medium-term orientation takes into account that the appropriate monetary policy response to a deviation of inflation from the target is context-specific and depends on the origin, magnitude and persistence of the deviation. It also allows the Governing Council in its monetary policy decisions to cater for other considerations relevant to the pursuit of price stability.
8. The ECB is committed to setting its monetary policy to ensure that inflation stabilises at its two per cent target in the medium term. The primary monetary policy instrument is the set of ECB policy rates. In recognition of the effective lower bound on policy rates, the Governing Council will also employ in particular forward guidance, asset purchases and longer-term refinancing operations, as appropriate. The Governing Council will continue to respond flexibly to new challenges as they arise and consider, as needed, new policy instruments in the pursuit of its price stability objective.
9. The Governing Council bases its monetary policy decisions, including the evaluation of the proportionality of its decisions and potential side effects, on an integrated assessment of all relevant factors. This assessment builds on two interdependent analyses: the economic analysis and the monetary and financial analysis. Within this framework, the economic analysis focuses on real and nominal economic developments, whereas the monetary and financial analysis examines monetary and financial indicators, with a focus on the operation of the monetary transmission mechanism and the possible risks to medium-term price stability from financial imbalances and monetary factors. The pervasive role of macro-financial linkages in economic, monetary and financial developments requires that the interdependencies across the two analyses are fully incorporated. This framework reflects the changes that the ECB's economic analysis and monetary analysis have undergone since 2003, the importance of monitoring the transmission mechanism in calibrating monetary policy instruments and the recognition that financial stability is a precondition for price stability.
10. Climate change has profound implications for price stability through its impact on the structure and cyclical dynamics of the economy and the financial system. Addressing climate change is a global challenge and a policy priority for the EU. Within its mandate, the Governing Council is committed to ensuring that the Eurosystem fully takes into account, in line with the EU's climate goals and objectives, the implications of climate change and the carbon transition for monetary policy and central banking. Accordingly, the Governing Council has committed to an ambitious climate-related action plan. In addition to the comprehensive incorporation of climate factors in its monetary policy assessments, the Governing Council will adapt the design of its monetary policy operational framework in relation to disclosures, risk assessment, corporate sector asset purchases and the collateral framework.
11. The communication of monetary policy decisions through the Monetary Policy Statement, the press conference, the Economic Bulletin and the monetary policy accounts will be adapted to reflect the revised monetary policy strategy. These products will be complemented by layered and visualised versions of monetary policy communication geared towards the wider public, which is essential for ensuring public understanding of and trust in the actions of the ECB. Drawing on the successful experience with the listening events held during the strategy review, the Governing Council intends to make outreach events a structural feature of the Eurosystem's interaction with the public.
12. The Governing Council intends to assess periodically the appropriateness of its monetary policy strategy, with the next assessment expected in 2025.