EUROPEAN CENTRAL BANK
EUROSYSTEM

The euro area economic and inflation outlook

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Key features of the December 2022 Eurosystem Staff Macroeconomic Projections

➢ Activity:

- High energy prices and uncertainty, and tighter financing conditions drag activity into mild recession at turn of the year
- Fading headwinds lead to recovery as of 2023H2
- Ongoing resilient labour markets

➢ Inflation:

- Higher and more persistent with yearly average headline inflation above target over the horizon
- Energy inflation shaped by fiscal measures
- Sticky core inflation due to indirect effects and robust wage growth
- Upward revision in 2023-24 due to upward data surprises, reassessed pass-through of pipeline pressures and higher wages; in 2024 also reversal of fiscal (energy-related) measures

➢ Risks and sources of uncertainties:

- Risks on growth are on the downside, esp. in the near term (war in Ukraine, energy and food costs, weaker global growth)
- Risks on inflation are primarily on the upside:

  - ✓ Near term: high pipeline pressures could push retail prices for energy and food further.
  - ✓ Medium term: risks from a persistent rise in inflation expectations and higher wage rises. A decline in energy costs or a further weakening of demand would lower price pressures.

Key features of the December 2022 projections: Key figures and revisions

	December 2022 BMPE (annual % change)				Revisions vs. September 2022 MPE (percentage points)		
	2022	**2023**	**2024**	**2025**	**2022**	**2023**	**2024**
HICP	8.4	6.3	3.4	2.3	0.3	0.8	1.1
HICP excl. energy and food	3.9	4.2	2.8	2.4	0.0	0.8	0.5
Compensation per employee	4.5	5.2	4.5	3.9	0.5	0.4	0.5
Real GDP	3.4	0.5	1.9	1.8	0.3	-0.4	0.0
Private consumption	4.0	0.7	1.5	1.5	0.4	0.0	0.3
Government consumption	1.0	-1.0	1.1	1.3	-0.4	0.3	0.1
Total investment	3.1	0.7	2.2	2.8	0.0	-0.9	-0.8
Unemployment rate (% of labour force)	6.7	6.9	6.8	6.6	0.0	0.0	-0.2

Key messages and policy decisions from 15-Dec ECB GovC meeting

- **Key ECB rates up by 50 bp and GovC expected to raise them further**
- **GovC judges that rates will still have to rise significantly at a steady pace to reach sufficiently restrictive levels to ensure a timely return of inflation to 2%.**
- **Keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations.**
- **Future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.**
- **Principles for normalising the Eurosystem's monetary policy securities holdings:**
    - **From March 2023 onwards, APP portfolio will decline at a measured and predictable pace.**
    - **The decline will amount to €15 billion per month on average until the end of 2023Q2 and its subsequent pace will be determined over time.**
    - **GovC will announce details at its Feb 2023 meeting**