EUROPEAN CENTRAL BANK
EUROSYSTEM

Meeting of 13-14 September 2023

Account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 13-14 September 2023

12 October 2023

1. Review of financial, economic and monetary developments and policy options

Financial market developments

Ms Schnabel noted that, since the Governing Council's previous monetary policy meeting on 26-27 July 2023, investors' growth outlook for the euro area and for the United States had continued to diverge, widening the gap in both nominal and real yields between the two economies and driving the euro lower against the dollar. Despite the expected deceleration in the euro area's growth momentum, market expectations for inflation in the medium and longer term had edged up further. Torn between the perception of a weakening euro area economy and stubborn inflation, expectations for the peak deposit facility rate and the shape of the forward rate curve had remained broadly unchanged.

Long-term sovereign yields had risen across major advanced economies, but the increase had been more muted in economies where there had been negative macroeconomic surprises, such as in the euro area. Regarding the impact of these developments on exchange rate markets, the euro had depreciated markedly against the US dollar but only slightly in nominal effective terms, on account of the widespread weakness of other currencies.

A decomposition of nominal one-year yields in the euro area and the United States into real rates and the inflation component showed that the difference in the macroeconomic outlook had been reflected in a stark divergence of real rates across the two economies. Investors priced future one-year euro area real rates lower over the next four years, while the strength of the US economy had pushed investor expectations of future one-year US real rates significantly higher. At the same time, despite

the weakening cyclical outlook, euro investors had increased the inflation compensation they demanded over the near and medium-term horizons.

Rising inflation-linked swap (ILS) rates partly reflected an upward revision of investors' core inflation expectations. Market-implied pricing of euro area genuine synthetic core inflation expectations – that is synthetic core expectations adjusted for risk premia – suggested that market participants had revised up their core inflation expectations from May 2023. Market-based measures of longer-term headline inflation compensation in the euro area had also continued to edge higher. While the continued rise in inflation risk premia accounted for most of the increase in inflation compensation, genuine long-term inflation expectations had also shown a small uptick.

With weakening domestic economic activity and sticky inflation, monetary policy rate expectations in the euro area had remained by and large unchanged since the Governing Council's previous monetary policy meeting. Respondents to the ECB Survey of Monetary Analysts continued to expect a peak deposit facility rate of 4%, to be reached only in October 2023. For September 2023, respondents were almost evenly split, with a slight majority of 53% expecting a pause and 47% expecting another interest rate hike.

The overall amount of rate-cutting priced in from the peak over the course of 2024 was only slightly higher than that expected at the Governing Council's previous monetary policy meeting. The weakening economic developments had hence not prompted investors to expect a quicker reversal of monetary policy. Instead, investors remained positioned for policy rates to stay at peak levels for an extended period of time. In other words, the shape of the forward curve suggested market participants did not seem to expect a severe recession, which was consistent with the resilience of most risk assets during the current tightening cycle. Sovereign bond spreads had largely withstood the downward revision of the near-term growth momentum and had widened only slightly since the previous meeting. Greek sovereign bonds had outperformed on the back of expected and materialising rating upgrades. Corporate bond spreads had also ticked up but remained below 2022 levels.

In contrast, euro area equity prices had generally declined since the Governing Council's July meeting, driven, to a significant degree, by a decompression of risk premia over recent weeks. Still, stock prices had been very resilient since the beginning of the tightening cycle, with diverging drivers for non-financial and financial firms. While the shares of non-financial corporations had benefited mostly from a compression of risk premia consistent with improving investor risk sentiment, as well as from dividend pay-outs and share buybacks, their longer-term earnings expectations and higher interest rates had had a dampening effect. For financial firms, stock prices had benefited from higher earnings expectations, as well as from strong dividend pay-outs and share buybacks.

The general resilience of risk assets had been supported by the gradual decline in volatility, on the back of perceptions that the global tightening cycle might be nearing its end. A second explanation for the resilience of risk assets could be that markets were pricing in an increasing probability that the pass-through from tighter financial conditions to growth could be nearing its peak. Financial conditions had tightened sharply in 2022 but had since tightened only moderately. Considering standard lags in the transmission of financial conditions to economic activity, this would suggest that the drag on growth from the tighter conditions was currently likely to be large but could start receding relatively soon. A third explanation of the resilience in risk assets was related to the less pronounced tightening of long-term rates. Nominal longer-term yields had hovered around 3% since October 2022, suggesting that there had been hardly any tightening impulse from the longer end of the curve for almost a year, with term premia remaining compressed. Euro area real rates had also remained by and large unchanged since December 2022 and stood visibly below the peak reached in October 2022.

Developments in commodity markets since the Governing Council's previous monetary policy meeting illustrated the upside risks to inflation. Oil prices, at USD 91 per barrel, had reached their highest level in ten months after OPEC+ producers agreed to extend their supply cuts for the rest of the year. European gas prices had also increased markedly since the July meeting and had shown increased sensitivity to supply outages. Finally, upside risks to inflation could also emanate from food prices, which could react with a lag to this year's extreme weather events caused by climate change and amplified by El Niño.

In money markets, non-monetary policy deposits had continued to decline since the 26-27 July meeting. Secured money market rates had been broadly unchanged amid limited volatility, suggesting that there was no downward pressure in repo markets from scarcity concerns. Three-month asset swap spreads had narrowed notably since May 2023, as collateral scarcity concerns had receded amid increasing sovereign debt issuance and more balanced positioning. The unsecured money market had also been broadly stable after the change to the remuneration of minimum reserves.

The global environment and economic and monetary developments in the euro area

Mr Lane then went through the latest economic, monetary and financial developments in the global economy and the euro area. The present meeting offered the opportunity to take stock of what had been learnt over the summer. Starting with the international environment, global growth had been supported by services during spring 2023. Its momentum had then started to soften in the second quarter, owing to a growth slowdown in both China, which had slipped back after its post-pandemic reopening, and Japan. Global economic activity had slowed further in the third quarter, but this did not result in a huge slump. It had rather fallen back towards its long-term average. However, the

importance of global activity for the euro area was primarily through trade, and global trade in goods had seen a protracted period of decline owing to the ongoing rotation from goods to services, which were less trade-intensive.

Turning to the euro area economic outlook, Mr Lane recalled that in August the flash estimate for annual Harmonised Index of Consumer Prices (HICP) inflation had remained unchanged at its July level of 5.3%. The decline in inflation had been interrupted owing to the recent jump in energy prices, as the annual inflation rate for energy had risen to -3.3% in August from -6.1% in July. The upward shift in energy price expectations would affect the dynamics of headline inflation in the coming months. Food price inflation had come down from its peak of 15.5% in March but had still been almost 10% in August.

Annual inflation excluding energy and food had fallen to 5.3% in August from 5.5% in July. The non-energy industrial goods inflation rate had declined to 4.8%, since past energy price surges were receding and supply bottlenecks were being resolved. Services inflation had edged down to 5.5% but remained elevated in August, owing to still strong dynamics in tourist-related services and wage pressures.

Overall, the moderation in core inflation was in line with a continued softening in underlying inflation, which reflected the fading impact of previous supply side shocks, a fall in demand-supply mismatches and the gradual pass-through of energy price disinflation. In the coming months, the sharp price increases recorded in the autumn of 2022 would drop out of the yearly rates, thus pulling inflation down.

The momentum of HICP inflation, measured as the annualised rate of the three-month-over-three-month change in the HICP, had been around 3% in August 2023. In other words, the 5.3% outcome was largely the legacy of carry-over effects. This 3% momentum had been helped by still negative momentum for energy inflation. For food inflation, the momentum had been 4%, significantly lower than the annual rate of inflation of around 10%. For the core components, it was possible to observe a significant drop in the momentum of goods inflation during 2023 but a much smaller decline in the momentum of services inflation.

Most indicators of underlying inflation continued to fall, reflecting the fading impact of previous shocks and supply bottlenecks. “Decontaminated” measures, i.e. measures of underlying inflation corrected for past supply shocks, also showed a further, small decline in recent months. While, overall, not all the measures of underlying inflation showed a further, substantial downward adjustment, those that were the best predictors of future inflation were at the lower range of all the measures and continued to decline considerably, with the exception of domestic inflation.

The analysis of pipeline pressures showed a continued downward adjustment upstream in the production chain for both food and goods inflation. It remained the case that the reduction in consumer

food inflation had been minor compared with the evolution of the producer price index. The downward pressures from producer prices were expected to start kicking in more substantially as of autumn. However, climate change events and the succession of natural disasters were increasing the risks of price increases in food commodities, feeding into risks of higher food inflation.

For goods, the significant downward correction in pipeline pressures, in particular in import prices for intermediate and non-food consumer goods, was also expected to exert further downward pressure on HICP goods inflation in the coming months.

Services inflation had remained persistently high, largely reflecting the effects of past energy shocks and the post-pandemic reopening. Inflation in the contact-intensive and energy-sensitive categories was still making the largest contribution to total services inflation and had not yet shown signs of a turnaround, with annual price changes remaining around 8%. By contrast, inflation in the non-contact-intensive services categories was significantly lower.

In line with projections from previous rounds, wage pressures had remained elevated in the second quarter of the year. With some decline in the accumulated real wage loss and lower inflation, wage growth should decelerate over time. Mr Lane noted that there was a seasonal pattern in wages, as most contracts were renewed at the start of the year. In other words, the compensation per employee data for the first quarter of 2024 would give an important signal as to whether or not the euro area was on a disinflationary wage path. Until then, it was likely that any additional data would provide little information on the expected path of wages, with uncertainty expected to remain large for some time.

The contribution of unit profits to annual inflation, as defined by the GDP deflator, in the first half of 2023, had moderated relative to its contribution in 2022, suggesting that the rising wage pressures were starting to be absorbed by firms. Most measures of longer-term inflation expectations currently stood at around 2%, although some indicators had increased and needed to be monitored closely.

The September ECB staff macroeconomic projections for the euro area saw headline inflation higher than previously expected for 2023 and 2024, driven by higher energy prices, but lower for 2025 owing to the appreciation of the euro, tighter financing conditions and greater economic slack. Headline inflation was expected to decrease from 8.4% in 2022 to an average of 5.6% for 2023, 3.2% for 2024 and 2.1% for 2025. At the same time, staff had revised down their projections for inflation excluding energy and food for 2024 and 2025, in line with the weaker growth prospects and the appreciation of the euro over the last year. They now saw it reaching 5.1% in 2023, before falling to 2.9% in 2024 and 2.2% in 2025. After the cut-off date, part of the appreciation of the euro embedded in the September projections had reversed. However, the past appreciation was still feeding through into the euro area economy owing to its lagged impact.

Focusing on the fourth-quarter-over-fourth-quarter percentage changes, which allowed the impact of carry-over effects to be cleaned from the data, it was possible to see that the HICP was only revised

upwards in the fourth quarter of 2023. HICP inflation was projected to be 0.4 percentage points higher in the fourth quarter of 2023 than in the fourth quarter of 2024, and no extra inflation momentum was expected in 2024.

Upside risks to inflation included potential renewed upward pressures on the costs of energy and food. Adverse weather conditions, and the unfolding climate crisis more broadly, could push food prices up by more than expected. A lasting rise in inflation expectations above the 2% target, or higher than anticipated increases in wages or profit margins, could also drive inflation higher, including over the medium term. By contrast, weaker demand – for example owing to a stronger transmission of monetary policy or a worsening of the economic environment outside the euro area – would lead to lower price pressures, especially over the medium term.

Euro area economic growth had broadly stagnated over the first half of 2023, while the composite output Purchasing Managers' Index (PMI) had fallen in August – at the fastest rate in nearly three years – to a level of 46.7. Manufacturing output was set to remain weak in view of the further moderation in export demand and tight financing conditions, while the past support from order backlogs was declining. Services had so far contributed positively to growth owing to higher demand in contact-intensive categories, but there had been clear signs of a slowdown since June. The worsening of survey indicators had led to a reassessment of the GDP outlook for the second half of 2023. According to the September staff projections, real GDP was expected to stagnate in the third quarter of 2023 and to increase by 0.1% in the fourth quarter.

As regards domestic demand, private consumption had stagnated, while housing investment had contracted in the second quarter, having been on a declining path for most of the past year. Residential building permits, a leading indicator of housing investment, had also fallen in the second quarter and firms' assessment of their order books had become more downbeat for the third quarter, pointing to a further contraction in housing investment in the period ahead. Higher interest rates had already had a visible impact on this demand component. Business investment growth excluding volatile Irish intellectual property products had moderated significantly in the second quarter, and survey indicators from the European Commission and the PMI for capital goods output were indicating a decline in the second half of the year.

In the near term, private consumption was expected to remain weak, while housing investment and business investment were expected to decline, driven in part by the monetary policy tightening. Over time, economic momentum was expected to pick up, as real incomes were expected to rise, supported by falling inflation, rising wages and a strong labour market, and this would underpin consumer spending. However, activity levels would be dampened as the monetary policy tightening and adverse credit supply conditions increasingly fed through to the real economy. The expected gradual withdrawal of fiscal support was also likely to weigh on economic growth in the coming quarters.

The labour market had so far remained resilient in the face of the slowing economy but showed signs of losing momentum. The unemployment rate had stayed at its historical low of 6.4% in July. While employment had grown by 0.2% in the second quarter, the latest survey data suggested that it had come close to stalling. The strong demand for labour had also started to moderate, with indicators of job vacancy rates edging down over recent months. The growth of the labour force, which had been the main source of employment growth, had slowed in the past few months. Owing to the weaker economic activity, the September projections embedded a lower increase in employment and an increase in unemployment over the projection horizon, which had still been expected to decline further in the June projections. Recent PMI indicators confirmed the slowing of momentum in employment growth, which was particularly notable in the services sectors.

Turning to the fiscal outlook, the September projections incorporated relatively limited changes, with fiscal projections highly uncertain as governments had yet to decide on budgets for next year. Still, on the basis of governments' intentions, the fiscal projections implied a significant improvement from 2023 to 2024 in the cyclically adjusted primary balance.

In the September staff projections annual average real GDP growth was projected at 0.7% for 2023 (down from 3.4% in 2022), 1.0% for 2024 and 1.5% for 2025. In particular, the September staff projections embedded a significant downward revision in both housing and business investment for 2024 and 2025, in view of the tighter financing conditions and credit supply effects.

Economic growth could be slower if the effects of monetary policy were more forceful than expected, or if the world economy weakened, for instance owing to a further slowdown in China. Conversely, growth could be higher than projected if the strong labour market, rising real incomes and receding uncertainty meant that people and businesses became more confident and spent more.

Turning to the monetary and financial analysis, euro area banks had remained well capitalised over the second quarter of 2023 and had recorded good net interest income and moderate provisioning costs. The improvement in capital/asset ratios was on account of lower total assets, the latter driven by weakening loan dynamics and shrinking liquidity.

Bank funding costs continued to increase, mainly on account of higher deposit and money market rates. The gradual shift of funds away from overnight deposits and towards time deposits was exerting further upward pressure on funding costs. The ECB's interest rate hikes had increased the attractiveness of longer-term deposits relative to overnight deposits. At the same time, the reduction in central bank funding was leading banks to increasingly rely on debt security issuance.

The monetary policy tightening continued to be transmitted strongly to financing conditions and was increasingly affecting the broader economy. For new business, lending rates had increased and credit volumes had contracted further. For firms, the cost of bank borrowing had continued to increase steeply, reaching 4.9% in July, the highest level since 2008. For households, the composite mortgage

rate remained on an upward trajectory and had exceeded 3.7% in July, the highest level since early 2012.

The credit supply channel remained active. The latest bank lending survey pointed to differences in transmission across corporate sectors, with real estate and construction firms experiencing a more substantial tightening of credit standards and weakening of demand than manufacturing and services firms.

Lending to firms and households had remained weak in June and July amid a further tightening of credit standards and higher bank funding costs. July had seen a negative flow of €7 billion in loans to households, which was the lowest on record. Substantial monetary policy tightening was still expected to be passed through to bank rates in the coming months, as more fixed rate loans would expire and banks would face rising funding costs as more savers migrated to term deposits and higher-yielding bank bonds. In line with the decrease in credit creation, the annual growth rate of M3 had turned negative in July (-0.4%) for the first time since 2010 and was expected to decline further in the coming months.

Monetary policy considerations and policy options

On the basis of the assessment of the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission, Mr Lane proposed that the Governing Council raise the three key ECB interest rates by 25 basis points, in order to reinforce progress towards the 2% medium-term inflation target.

The incoming data had largely validated the Governing Council's previous assessment of the inflation outlook, while most measures of underlying inflation had started to ease. Furthermore, the evidence indicated that the transmission of monetary policy to broader financing conditions and the real economy was firmly taking hold. The economic slowdown since mid-2022 was set to continue in the near term, and the level of GDP at the end of the projection horizon would be considerably lower than previously expected. The resulting additional economic slack would further contribute to the disinflation process, while a significant portion of the tightening from past rate hikes was still in the pipeline.

A range of model-based simulations suggested that a deposit facility rate in the region of 3.75% to 4.00%, so long as it was understood as being maintained for a sufficiently long duration, should be consistent with a return of inflation to target within the projection horizon. The views of external experts were also clustered in this interval, which also matched market pricing.

In view of the uncertainty surrounding model-based simulations, expert surveys and market indicators, the choice between holding the deposit facility rate at 3.75% and moving to 4.00% was finely

balanced. However, at the margin, it was safer to decide on an additional hike, given the highly uncertain environment and the significant disinflation that was still required to return to the inflation target in a timely manner.

An additional hike would reinforce progress towards the target for two basic reasons. First, if the economy evolved in line with the staff baseline case, the decision to hike would bolster confidence that inflation would return to target within the projection horizon. Second, a higher interest rate would more strongly limit the amplification of any upside shocks to the inflation path. In consequence, a more secure pace of disinflation and greater insurance against upside risks would also reinforce the anchoring of inflation expectations, which remained a precondition for the disinflation process to keep up its pace.

With this decision, the key policy rates would have been raised by a cumulative 450 basis points over the last ten meetings. On the basis of the current assessment, the Governing Council should consider that the key policy rates were in a range of levels that, maintained for a sufficiently long duration, would make a substantial contribution to the timely return of inflation to the target. The Governing Council's future decisions would ensure that the key ECB interest rates would be set at sufficiently restrictive levels for as long as necessary. At the same time, the high level of two-sided uncertainty around the baseline meant that the Governing Council should remain data-dependent in determining the appropriate level and duration of restrictiveness in its monetary stance.

Finally, preserving the option to apply flexibility to pandemic emergency purchase programme (PEPP) reinvestments as a first line of defence against fragmentation risks continued to be warranted.

2. Governing Council's discussion and monetary policy decisions

Economic, monetary and financial analyses

As regards the external environment, members took note of the downward revision of the ECB staff projection for euro area foreign demand, with negative economic surprises for China partly offset by positive surprises in the United States. In this context, it was recalled that the growth performance of the Chinese economy would likely have repercussions for global commodity prices and was thus a risk factor for the euro area inflation outlook. Attention was also drawn to continued high geopolitical risks, which implied an exceptional degree of uncertainty around the outlook for global economic activity and inflation, notably with respect to energy and food.

Turning to commodity markets, oil prices had increased significantly following Saudi Arabia's and Russia's extension of their production cuts for the rest of the year. At the same time, different views were expressed as to how persistent the impact of these shocks would be.

On the one hand, it was argued that a real transformation was taking place in energy markets, as suppliers were trying to maximise their revenues through production cuts, in view of the global energy transition. This could put persistent upward pressure on energy prices for years to come. Moreover, it was pointed out that climate change could bring with it a series of new adverse supply-side shocks, with a much greater frequency of extreme weather events resulting in the destruction of harvests and agricultural land. This would likely affect mostly energy and food prices, which tended to be particularly salient for consumers, implying an outsized effect on households' inflation expectations and, hence, wage negotiations.

On the other hand, the view was expressed that the increase in oil prices, or at least part of the increase, might turn out to be temporary, for three reasons. First, the increase was due to a supply cut by Russia and Saudi Arabia, in an attempt to avoid a fall in revenues due to a possible weakening of global oil demand. Second, global trade in goods was decelerating, and the production of goods was more energy-intensive than the provision of services. Third, demand for oil was likely to weaken significantly in light of the deceleration of the Chinese economy. Moreover, the latest energy shock could also be seen as an aftershock following a larger disruption. It was clearly much smaller than the energy shock in 2021-22, which had very much been a reflection of two main issues: the coronavirus (COVID-19) pandemic and Russia's unjustified war against Ukraine. In this context, caution was expressed about developments in the European gas markets, where volatility had increased and price levels were higher and more vulnerable to upside moves than in other major economies. It was also recalled that in a context in which energy and food supply shocks were dominating, irrespective of their persistence, differentiating between price-level and inflation shocks was important.

With regard to economic activity in the euro area, members concurred with Mr Lane that growth was likely to remain subdued in the coming months. It had broadly stagnated over the first half of the year, and recent indicators suggested it had also been weak or even contracted in the third quarter. Lower demand for the euro area's exports and the impact of tight financing conditions were dampening activity, including through lower investment. The services sector, which had so far been resilient, was now also weakening. Over time, economic momentum should pick up, as real incomes were expected to rise – supported by falling inflation, rising wages and a strong labour market – and this would underpin consumer spending. The labour market had so far remained resilient despite the slowing economy. However, the services sector, which had been a major driver of employment growth since mid-2022, was now creating fewer jobs.

Members widely acknowledged the weaker than expected growth prospects in the short term. Business sentiment indicators, namely the PMIs, were signalling a fragile economic outlook, with the slowdown in China and higher energy prices likely to exert downward pressure on economic activity. The weakening in activity implied that the economy was flirting with a recession. While soft indicators had become less reliable than in the past, the sheer size of their deterioration was such that the information content about the outlook was still significant. Hard data had also clearly been disappointing, even if they were assessed as being more resilient than the early estimates for the third quarter. Since the fourth quarter of 2022 quarterly GDP growth had essentially been flat. The preliminary indications for the third quarter of 2023 were that GDP growth would again be much lower than foreseen. Financial market expectations for growth were also deteriorating, as indicated by the negative slope of the yield curve.

Weak incoming data were also the main reason why the ECB staff projections had been revised downwards. The size of the revision in the growth projections was seen as very significant, with a cumulative downward revision of close to 1% in the level of GDP at the end of the projection horizon. This was nearly as large as the downward revision in June 2022, when the estimated effect of Russia's unjustified war against Ukraine (-1.2%) was first incorporated into the projections. The latest revisions were mainly concentrated in the third and fourth quarters of 2023, as the projections for quarterly growth in 2024 and 2025 were basically the same as in the June Eurosystem staff projections. Taking into account Eurostat's downward revision, to 0.1%, of growth in the second quarter of 2023 – compared with the initial estimate of 0.3% included in the September ECB staff projections – would mechanically lead to lower growth for the current year. In addition, nowcasting models were suggesting a lower growth rate than contained in the baseline for the third quarter of the year, so the risks to growth in 2023 were seen as being on the downside.

It was widely felt that, with hindsight, the June projections had been too optimistic about the strength of the economic recovery in 2023. Notably, it was maintained that the projections for consumption and investment seemed too optimistic at a time when the contribution of net trade to economic growth was close to zero. According to the PMIs, the contraction in manufacturing had spread to the services sector. This was noteworthy, as during the summer the services sector had appeared to be very buoyant as far as tourism was concerned, but it suggested that other parts of the services sector might now experience weaker activity. In addition, it was argued that stronger than expected monetary transmission could explain part of the downward revision to growth, as it seemed that the sectors that could be expected to be more affected by monetary policy were those that were indeed growing less.

Looking ahead, optimism about a rebound in private consumption embodied in the baseline beyond 2023 might be questioned, given a prolonged deceleration in annual credit growth. The credit channel was seen as especially relevant for housing and business investment, where activity had been

decelerating significantly over the past quarters and had indeed been revised down sharply over the projection horizon. The weakening outlook for investment incorporated into the projections was seen as worrying, given the need for public and private investment in Europe related to the green transition and digitalisation. However, it was also argued that the projected weakening in investment was largely explained by staff judgement on the effects of tighter credit supply conditions, the importance of which could be questioned. The adverse effects on investment from ever tighter monetary policy could also weigh on productivity growth and ultimately push up unit labour costs in a vicious circle. In addition, there was evidence that a large share of monetary tightening was still in the pipeline, and it was argued that this could compress demand more than was currently projected. At the same time, the point was made that most of the financial tightening had already happened in 2022, which could imply that the tightening impact could soon reach its peak.

Overall, it was nevertheless felt that it remained reasonable to expect a gradual economic recovery to take hold, thanks to a recovery in people's real incomes from rising wages and a strong labour market, and this would underpin consumer spending. In this context, it was recalled that the projected economic recovery was not inconsistent with a growing impact of monetary tightening next year, as this was still a recovery from essentially five quarters of near-zero growth.

The question was also raised as to what extent the current economic slowdown was purely of a cyclical nature. There were signs that the trend in productivity had shifted downwards, which could, at least in part, be permanent. It was also conceivable that the higher level and volatility of energy prices might be permanently scarring parts of the economy. Distinguishing between energy-intensive and non-energy-intensive industries, the weakening in growth was mostly coming from the energy-intensive parts of the economy, which could point to underlying structural drivers. A structural slowdown of this nature would affect potential output and the assessment of economic slack, and ultimately have an upward impact on inflation. In this context, it was mentioned that, while the latest revisions to the outlook for activity and inflation could be labelled as stagflationary, labour market conditions were much more favourable than in the 1970s, when the term had been coined.

Turning to the labour market, it was noted that the September projections now entailed a limited increase in the unemployment rate, in contrast to the continued decline that had still been embedded in the June projections, with labour markets nonetheless remaining relatively tight throughout the horizon. Looking at the sacrifice ratio, which measures the cost of reducing inflation in terms of output and employment, implicit in the projections, the cost of bringing down a significant inflation surge in the form of an increase in unemployment looked remarkably favourable. Overall, it seemed fair to say that the projections were still in line with a soft landing. At the same time, it was pointed out that current indicators and a benign outlook of a (nearly) "immaculate disinflation" should not lead to complacency about the strength of the labour market. The point was made that, during recessions, the decline in

employment was typically achieved through a reduction in hiring, not through increased firing. The current slowdown in new hires should thus be seen as a negative signal, requiring further attention. Moreover, it was remarked that, while employment had remained strong so far, this was in part due to the continued presence of job retention schemes. These schemes made it convenient for firms to hold on to cheap and less productive labour. However, this would not last if economic activity failed to pick up, in which case firms would shift from labour hoarding to labour shedding. For the time being, the labour market was, overall, still seen as tight from a cyclical perspective. However, it was arguably also being affected by structural changes, such as a reduction in the average number of hours worked.

As for the real estate market, it was highlighted that, following the tightening of monetary policy, the number of transactions had fallen significantly, while the adjustment in real estate prices had so far remained fairly muted. In this context it was pointed out that, in some countries, real estate transactions had already started to pick up again, presumably owing to reduced uncertainty about the future interest rate path. Indeed, while there had been a massive adjustment of mortgage rates earlier on, they had remained more or less stable at this higher level for quite some time, so households again felt confident in entering the housing market.

Against this background, members assessed that the risks to economic growth were tilted to the downside. Growth could be slower if the effects of monetary policy were more forceful than expected or if the world economy weakened, for instance owing to a further slowdown in China. Conversely, growth could be higher than projected if the strong labour market, rising real incomes and receding uncertainty meant that people and businesses became more confident and spent more.

With regard to price developments, members broadly concurred with the assessment presented by Mr Lane and underlined that, while headline inflation had declined, inflation was still expected to be too high for too long, with headline inflation for 2023 and 2024 in the September staff projections being revised upwards from the June projections. The first time inflation was foreseen to fall below 2% was only at the end of 2025, which was regarded as very late and appeared to be driven by a base effect for energy inflation. Moreover, the gradual disinflation path entailed in the September projections was seen as still being fragile and conditional on a number of benign assumptions, namely a turnaround in wage pressures, a compression of unit profits and a declining path for energy prices. It was also observed that a mechanical update to the projections to include the higher oil prices and weaker euro observed since the cut-off date suggested that headline inflation would no longer fall below the ECB's target by the end of the horizon.

In a context of recurrent underestimations of inflation over the past year, and despite a more clouded outlook for the real economy, there still appeared to be significant upward pressures on inflation. Especially in view of recent developments in the energy market, it was too early to consider the

projected disinflation process as being entrenched. According to Eurostat's flash estimate, headline inflation had surprised to the upside in August, remaining at a still very high level. This had contributed to an upward revision in the September staff inflation projections, together with other factors such as less favourable energy price assumptions. Despite the weakening of the economy, the inflation data did not yet give sufficient comfort that inflation would return to target in a timely manner, with the "last kilometre" expected to be particularly challenging. At the same time, indicators of inflation momentum were much lower than annual inflation rates, for both headline and core inflation. However, it was pointed out that momentum for several inflation components had rebounded somewhat recently and remained well above the medium-term inflation target. It was argued that core inflation continued to be sticky and that the previous quick progress on headline inflation was increasingly fading as energy base effects vanished or even reversed.

Turning to pipeline pressures, as reflected in the evolution of producer prices and input costs, including world food commodity prices, the picture of receding "upstream" price pressures remained broadly intact. However, it was pointed out that there was evidence of an asymmetry in the pass-through of rising and falling input costs to consumer prices. Reference was made to evidence from some countries which indicated that the share of firms that had lowered prices was increasing now that input costs were falling and this share – for the first time in the current inflation cycle – had exceeded the share of firms that were raising prices, indicating that the disinflation process was progressing. However, it was remarked that the share of firms lowering prices was – while growing – still falling far short of the share of firms that had increased prices when input costs had been going up. This asymmetry in the pass-through also had implications for the sacrifice ratio, i.e. that the Phillips curve would be flatter when inflation fell than when inflation was rising. The fact that prices were changing less frequently slowed down the pass-through of falling input costs.

With regard to the impact of the latest energy price increase on inflation, it was generally felt that this was becoming harder to assess. On the one hand, the rebound in oil prices, in particular, could be a more permanent shock, and therefore could affect wages and prices more persistently. On the other hand, since demand was weak and monetary policy in restrictive territory, the overall effects of the energy shock on headline inflation would likely differ from recent experience and be transitory or less persistent. In a context of volatile inflation due to frequent food and energy supply shocks, the key question was to what extent those shocks would feed into the medium-term inflation outlook. In the short term, they would clearly raise inflation. However, as they weighed on real incomes they would also lead to more subdued demand and lower capacity utilisation, implying a disinflationary impact in the medium term. It was thus seen as crucial to distinguish between one-off shocks to the price level and the effect of such shocks translating into inflation dynamics with relevance for the medium term.

It was also noted that there was particular uncertainty about the outlook for the fiscal stance in the coming year due to the uncertainties surrounding the European fiscal governance framework. Evidence from some countries suggested that fiscal deficits could well be larger than expected in the projection baseline, which would have implications for the inflation outlook.

The latest developments in core inflation were described as encouraging. In the last few months core inflation had largely developed as projected. More broadly, most indicators of underlying inflation appeared to have peaked or were stabilising. However, this was not the case for the indicator of domestic inflation, which remained strong and was likely to reflect more persistent pressures on services prices, which had a high wage content.

Members recalled that wage pressures were key in understanding medium-term inflation pressures. It was generally acknowledged that recent wage developments had remained in line with recent staff projections and that there were tentative signs of an imminent peak in wage pressures. At the same time, it was stressed that there was no firm evidence of a turnaround in wage dynamics yet, and sufficient hard data on wage agreements and employee compensation would only emerge in the course of spring 2024. In this context, it was recalled that labour markets, and wage-setting in particular, very much relied on national institutional frameworks. In some countries, wage-setting had a very strong backward-looking component, for example through wage indexation or cost of living allowances. In other countries, the backward-looking component was much weaker, which would inevitably lead to wage differentials across countries. In the last two quarters there had been no significant projection errors for wages, which was very important because one of the main risks to inflation was that wage growth might be even higher or more persistent than incorporated in the projections. So far, wage data had broadly confirmed the indications obtained from forward-looking indicators such as the ECB wage trackers. It was also remarked that most recently unit profits appeared to have been lower than predicted. This was important because one of the main assumptions in the projection of a downward trajectory for inflation was that, over time, a lower contribution from unit profits to the GDP deflator would compensate for a recovery in real wages and robust growth in unit labour costs.

At the same time, it was underlined that recent increases in unit labour costs had been driven not only by higher wages but also by lower than expected labour productivity growth. On the one hand, the view was expressed that low labour productivity growth should largely be of a temporary nature, owing to labour hoarding. It was not surprising that labour productivity growth was low, given the ongoing economic slowdown and the procyclicality of labour productivity. But labour hoarding was necessarily a temporary phenomenon. If the economy remained weak, firms would start to shed jobs, which would lead to higher productivity, lower unit labour costs and lower inflationary pressures. If GDP growth were instead to accelerate, a cyclical improvement in labour productivity could be expected. All in all, it

would be plausible to expect productivity growth to rebound in the near future, which would contain unit labour costs and inflation. On the other hand, structural changes in the labour market, such as the fall in average hours worked, should also be acknowledged as potentially having a permanent impact on labour productivity, unit labour costs and, ultimately, prices.

As regards longer-term inflation expectations, members took note of the assessments by Ms Schnabel and Mr Lane of the latest developments in market-based measures of inflation compensation and survey-based indicators. It was widely acknowledged that, on the basis of ILS rates adjusted for inflation risk premia, long-term market-based genuine inflation expectations had remained broadly stable since the middle of 2022, which was seen as a great achievement of the Governing Council's monetary policy decisions. This estimated measure of genuine inflation expectations had hardly increased despite the high inflation numbers, although there was no room for complacency.

With the renewed commodity price shocks, it was clear that monetary policy was now in a completely different situation from when the initial energy shocks had hit in 2021-22. At the same time, there were some warning signs, both in surveys and in financial markets, with certain indicators – such as the measure of expectations for inflation five years forward five years ahead – edging up in spite of the weakening economy. This suggested that lower economic growth may not be sufficient to tame underlying price pressures, which could be seen as a warning sign that risks of an unanchoring of inflation expectations remained elevated. The rise in market-based inflation compensation could be due to the risk of supply shocks becoming more prevalent in the future. It mostly reflected risk premia, thus signalling investor concern that inflation would turn out to be higher than the ECB's target. Moreover, in the Survey of Professional Forecasters, the balance of risk indicator was still clearly tilted to the upside. So even if average expected headline inflation remained flat, there were still upside risks in the inflation expectations surveys. This asymmetric distribution of expected inflation, together with elevated inflation risk premia, suggested that a continued anchoring of inflation expectations should not be taken for granted. If people expected repeated shocks pushing inflation above 2%, it was likely that this would eventually become embedded in inflation expectations, which would in turn affect wages, pushing inflation away from the target.

Against this background, members assessed that there were still upside risks to inflation due to potential renewed upward pressures on the costs of energy and food. Adverse weather conditions, and the unfolding climate crisis more broadly, could push food prices up by more than expected. A lasting rise in inflation expectations above the 2% target, or higher than anticipated increases in wages or profit margins, could also drive inflation higher, including over the medium term. By contrast, weaker demand – for example due to a stronger transmission of monetary policy or a worsening of the economic environment outside the euro area – would lead to lower price pressures, especially over the medium term. At the same time, the view was also expressed that inflation risks had become

balanced, as most analyses suggested that inflation was broadly evolving as projected, or that they had even moved to the downside.

Turning to the monetary and financial analysis, members largely concurred with the assessment provided by Mr Lane in his introduction. Monetary policy tightening continued to be transmitted strongly to broader financing conditions. Funding had again become more expensive for banks, as savers were replacing overnight deposits with time deposits that paid more interest and the ECB's targeted longer-term refinancing operations (TLTROs) were being phased out. Average lending rates for business loans and mortgages continued to increase.

Attention was drawn to the fact that credit dynamics had weakened further, with the annual growth rate of loans to both firms and households declining. Amid weak lending and the reduction in the Eurosystem balance sheet, money growth was falling sharply. In particular measures of momentum (i.e. annualised growth rates over the past three months) showed monetary and credit aggregates to be decelerating very fast, in a manner that had only previously been seen during the global financial crisis and the sovereign debt crisis. The decline in lending likely reflected a combination of weaker loan demand and banks tightening the credit supply, with the respective contributions of the two factors hard to disentangle.

The view was expressed that credit developments primarily reflected weak loan demand and remained broadly in line with historical patterns of monetary policy transmission, while there was little evidence of credit supply constraints playing a role. In addition to the past effects of monetary policy and a deteriorating macroeconomic outlook, lower demand could also reflect the fact that firms still had large cash buffers that they had accumulated in periods of heightened uncertainty related, first, to the pandemic and, more recently, to the energy crisis. This could suggest they had less need for external financing. It was stressed that banks were in a strong position to lend more if loan demand rose. In particular, banks with a duration mismatch on their balance sheet – which had locked in low rates on their loan books before funding costs increased – also had strong incentives to satisfy an eventual increase in demand from creditworthy borrowers to support future profitability. Moreover, it was emphasised that banks' balance sheets were solid, as reflected in their elevated capital ratios, low levels of non-performing loans and resilient profitability. From a microprudential perspective, banks' net interest income had adjusted favourably to higher rates, thus mitigating concerns that rate increases were detrimental to banks.

This raised the question of why banks were tightening credit standards, as was emerging from the bank lending survey. On the basis of anecdotal evidence, it was suggested that, despite strong fundamentals, banks had become cautious about extending credit owing to worries about liquidity, especially in view of the turmoil that had occurred in the banking sector in March 2023. While banks were not liquidity-constrained, expectations for overall levels of excess liquidity had declined

throughout the year. Banks were faced with the movement from overnight to term deposits, which required higher remuneration, as well as with the run-off of the TLTROs. These developments could have been making banks more careful. Moreover, it was argued that, even if a large part of the credit slowdown could thus far be attributed to demand factors, there was a risk that credit conditions could tighten further once supply restrictions came into play more forcefully.

Against this background, it was argued that the transmission of monetary policy tightening via prices (loan rates) and quantities (credit volumes) since the first rate hike in July 2022 was both much stronger and faster than expected, and much stronger and faster than typically taken into account by macroeconomic models. It was remarked that the pass-through of past interest rate decisions differed greatly across countries. Countries with a large share of floating rate mortgages and a sizeable construction sector had experienced a very rapid pass-through and a sustained weakening of economic activity. Elsewhere, where fixed rate mortgages were prevalent or home ownership more limited, transmission was likely to be more sluggish. This suggested that a large part of the pass-through of past interest rate increases was still in the pipeline.

However, it was argued that the tightening cycle had started long before interest rates were increased, and taking this and the end of net asset purchases into account suggested a transmission that was more in line with historical averages. It was also maintained that, while the impact on loan rates and volumes indeed appeared exceptionally strong, this simply reflected the regular transmission of exceptionally large and rapid interest rate changes, rather than a change in historical regularities in relation to each unit of rate increment. Attention was also drawn to the fact that the pass-through to bank deposit rates was currently still sluggish.

Monetary policy stance and policy considerations

Turning to the assessment of the monetary policy stance, members assessed overall financing conditions as having tightened further since the Governing Council's previous monetary policy meeting on 26-27 July, with the transmission of monetary policy to broader financing conditions and the real economy firmly taking hold. The risk-free forward curve had remained broadly unchanged relative to the levels prior to the previous monetary policy meeting. This could reflect market participants' assessment that growth was weakening amid still elevated inflation. Real long-term rates had also remained broadly stable in the euro area.

It was underlined that uncertainty about the outlook remained exceptionally high. Against this background, members assessed the data that had become available since the last monetary policy meeting in accordance with the three main elements of the "reaction function" that the Governing Council had communicated earlier in the year. These comprised the implications of the incoming

economic and financial data for the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission.

Starting with the inflation outlook, members broadly concurred with the assessment presented by Mr Lane in his introduction. Overall, the process of disinflation seemed to be proceeding largely as expected. Headline inflation had declined in July but stalled in August on the back of higher energy prices. At the same time, comfort was drawn from the fact that core inflation figures had no longer surprised to the upside over the past few months. Although the staff projections for inflation had been revised upwards in September for 2023 and 2024, there was a downward revision for 2025, albeit with inflation expected to reach the target only in the last quarter of that year. However, it was recalled that the Governing Council’s focus was on medium-term inflation, so that the small upward revision of the inflation projections in the shorter term should not be a large concern, as long as the deviation from the target did not spill over into inflation expectations and second-round effects on wages and profits. In a similar vein, base effects on inflation in the coming months were likely to temporarily push inflation down, without implications for the medium-term inflation outlook, although this profile might raise some communication challenges. Overall, the risks to inflation had become more balanced, as demand had weakened significantly and monetary policy was clearly in restrictive territory. This notwithstanding, a further increase in energy prices and the possibility of upward energy price shocks occurring more often in the future could push inflation up. Moreover, the risk of underestimating the persistence of inflation and of second-round effects from wages remained present.

Members saw most indicators of underlying inflation now more clearly on a moderately declining path and closer together. An exception was domestic inflation, which was still rising. As regards wage growth, there were limited signs that this was starting to turn, although hard evidence of an inflection point still needed to emerge. At the same time, unit profits had been lower than implied by earlier projections, suggesting that rising wage pressures could in part be absorbed by firms over time, which was an important assumption underlying the moderation in the GDP deflator projected by staff, despite an upward revision for 2023 owing to higher unit labour costs.

Turning to the assessment of monetary policy transmission, members noted that ample evidence could now be found that this was proceeding strongly, more so than expected. While this could in part reflect the exceptionally strong increase in the key ECB interest rates, staff analysis suggested that the impact went beyond the usual pattern of transmission. Moreover, a significant part of the interest rate pass-through was still pending and likely to restrain economic activity and inflation over the projection horizon. On the one hand, it was remarked that the effects of the monetary policy tightening could still increase over time and extend well beyond 2025. On the other hand, since the tightening cycle had started a long time previously (before the raising of policy rates in July 2022), its impact could also be expected to recede over time, on the basis of typical transmission lags.

It was underlined that an important channel of monetary transmission was via inflation expectations. Having been able to keep inflation expectations anchored, despite the long period in which inflation had been above target, was seen as a major achievement. At the same time, it was recalled that market-based measures of inflation compensation were still elevated, so this achievement was fragile. There was still a risk of inflation staying above target for too long, which called for humility and caution.

Overall, members concurred that inflation was still expected to remain too high for too long. At the same time, the monetary policy cycle had reached a stage where the risks of tightening too much and the risks of tightening too little had become more balanced. In particular, the key ECB interest rates were in a range of levels that, maintained for a sufficiently long duration, would make a substantial contribution to the timely return of inflation to the ECB's target. This assessment was supported by model-based simulations, expert surveys and market pricing, which suggested that constellations with a deposit facility rate in the region of 3.75% to 4.00%, as long as it was understood as being maintained for a sufficiently long duration, should be consistent with a return of inflation to target within the projection horizon. In view of the considerable uncertainty, members highlighted that the decision between raising rates and pausing was a close call, and that tactical considerations also played a role.

This situation was also reflected in the forward rate curve, which suggested that the probability of a rate increase versus a pause at the September meeting had been relatively evenly split for some time, as had been the case with analysts' expectations, such as those reported in the Survey of Monetary Analysts.

Monetary policy decisions and communication

Against this background, while the decision was generally seen as a close call, a solid majority of members expressed support for the 25 basis point rate increase proposed by Mr Lane.

These members emphasised the still high levels of inflation and the fact that a rate increase would signal a strong determination on the part of the Governing Council to bring inflation back to the target in a timely manner. The horizon over which inflation would be brought back to 2% should not extend beyond 2025. According to the latest ECB staff projections this was expected to be the case, although by that time inflation would have exceeded the target for more than four years in a row. Hence erring on the side of pausing the first time the decision was a close call could risk being interpreted as a weakening of the ECB's determination, especially at a time when headline and core inflation were above 5%.

Emphasis was also placed on the upward revisions to the headline inflation projections for the first two years of the projection horizon and the fact that the projections were conditioned on market interest

rates, which embodied a further rate increase by the end of the year. Moreover, although there was tentative evidence suggesting that wage growth was close to a peak, further evidence was required to be sure it was turning. An additional consideration was the risk that the inflation path embedded in the projections was fragile and additional supply shocks could push inflation further above the target for longer, which could feed into inflation expectations. Further climate-related events also risked pushing up food prices. Hence, raising rates further also contained an element of insurance, against the continued elevated risk of inflation remaining above target for too long. It was seen as safer to confront such a situation with interest rates at 4.00% than at 3.75%, since higher rates could reduce the amplification of further shocks and thus lessen the probability of having to raise rates again in the future. In this context, it was argued that when monetary policy had been close to the effective lower bound and inflation low, there had had been a strong case for looking through supply shocks, whereas at present the situation was very different.

These members also argued that a pause could give rise to speculation that the tightening cycle was over, which increased the risk of a rebound in inflation. This situation would require another wave of monetary tightening later on, which could have adverse consequences for real estate markets and financial stability more generally. Not hiking could also send a signal of the Governing Council being more concerned about the economy and a potential recession than too high inflation.

Some members expressed a preference for maintaining rates at their current levels. These members underlined the fact that the Governing Council had made clear its decisions were data-dependent. They viewed the data that had become available since July as, on balance, not supporting a further rate hike: the economy had weakened substantially and inflation was projected to return to around 2% by the end of the projection horizon, while the risks to the inflation outlook were now balanced. Although oil prices had increased, this could turn out to be temporary. The 425 basis point increase in rates that had already taken place since the start of the tightening cycle was seen as sufficiently demonstrating the Governing Council's commitment to deliver on its mandate of price stability.

These members also maintained that a lot of the pass-through of past rate hikes was still pending, and not all of this was likely to be included in the central scenario, implying that downside risks to economic growth could be significant. They saw little room for upside risks to the growth outlook. Pausing at this meeting would also have the advantage of providing time to assess the impact of previous decisions on the economy and to evaluate whether the slowdown was deeper than expected and whether inflation was actually coming down as projected without requiring a further increase in interest rates. Another consideration was that a further rate hike risked repeating the situation that had occurred in 2011, when interest rate increases had had to be reversed quickly in the face of the economic consequences of the sovereign debt crisis. Against this background, it was recalled that the ECB also had secondary objectives. If the inflation target could be reached at the end of 2025 via a

lower interest rate path, thereby increasing the likelihood of a soft landing, this would be preferable. The Governing Council also needed to take into account the economic and social costs of a possible hard landing. From a risk management perspective, the point was made that the risks of hiking at the present time, and later having to reverse course should the economy weaken by more than expected, were larger than those of introducing a pause in the tightening cycle and having to increase rates at one of the coming meetings.

Members also agreed with the Executive Board proposal to continue applying flexibility in reinvesting redemptions falling due in the PEPP portfolio.

Taking into account the foregoing discussion among the members, upon a proposal by the President, the Governing Council took the monetary policy decisions as set out in the monetary policy press release. The members of the Governing Council subsequently finalised the monetary policy statement, which the President and the Vice-President would, as usual, deliver at the press conference following the Governing Council meeting.

Monetary policy statement

Monetary policy statement for the press conference of 14 September 2023

Press release

Monetary policy decisions

Meeting of the ECB's Governing Council, 13-14 September 2023

Members

- Ms Lagarde, President
- Mr de Guindos, Vice-President
- Mr Centeno
- Mr Elderson
- Mr Hernández de Cos
- Mr Herodotou
- Mr Holzmann
- Mr Kazāks

- Mr Kažimír
- Mr Knot
- Mr Lane
- Mr Makhlouf*
- Mr Müller*
- Mr Nagel*
- Mr Panetta
- Mr Reinesch
- Ms Schnabel
- Mr Scicluna
- Mr Šimkus
- Mr Stournaras*
- Mr Välimäki, temporarily replacing Mr Rehn
- Mr Vasle
- Mr Villeroy de Galhau
- Mr Visco
- Mr Vujčić
- Mr Wunsch*

* Members not holding a voting right in September 2023 under Article 10.2 of the ESCB Statute.

Other attendees

- Mr Dombrovskis, Commission Executive Vice-President**
- Ms Senkovic, Secretary, Director General Secretariat
- Mr Rostagno, Secretary for monetary policy, Director General Monetary Policy
- Mr Winkler, Deputy Secretary for monetary policy, Senior Adviser, DG Economics

** In accordance with Article 284 of the Treaty on the Functioning of the European Union.

Accompanying persons

- Ms Bénassy-Quéré
- Ms Buch

- Mr Dabušinskas
- Mr Demarco
- Mr Gavilán
- Mr Haber
- Mr Kaasik
- Mr Koukoularides
- Mr Lünnemann
- Mr Madouros
- Mr Martin
- Mr Nicoletti Altimari
- Mr Novo
- Mr Pösö
- Mr Rutkaste
- Mr Sleijpen
- Mr Šošić
- Mr Tavlas
- Mr Vanackere
- Ms Žumer Šujica

Other ECB staff

- Mr Proissl, Director General Communications
- Mr Straub, Counsellor to the President
- Ms Rahmouni-Rousseau, Director General Market Operations
- Mr Arce, Director General Economics
- Mr Sousa, Deputy Director General Economics

Release of the next monetary policy account foreseen on 23 November 2023.