

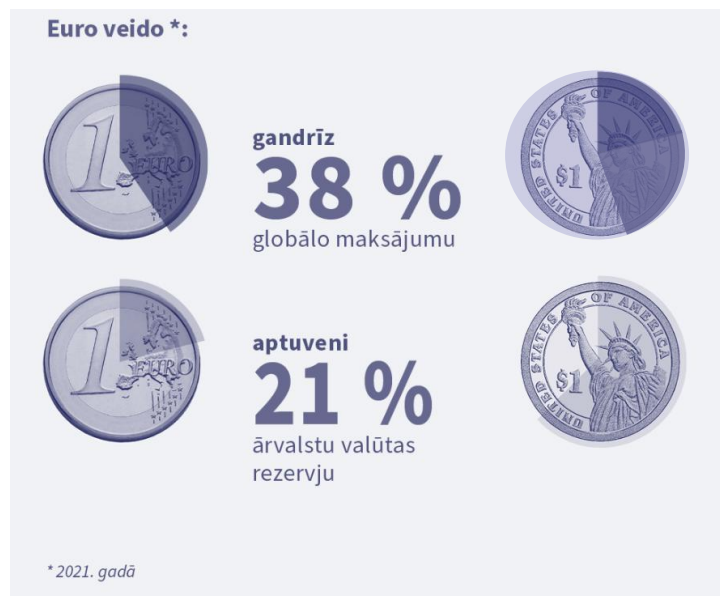
Euro area monetary policy and inflation

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Economist
Monetary Policy Department

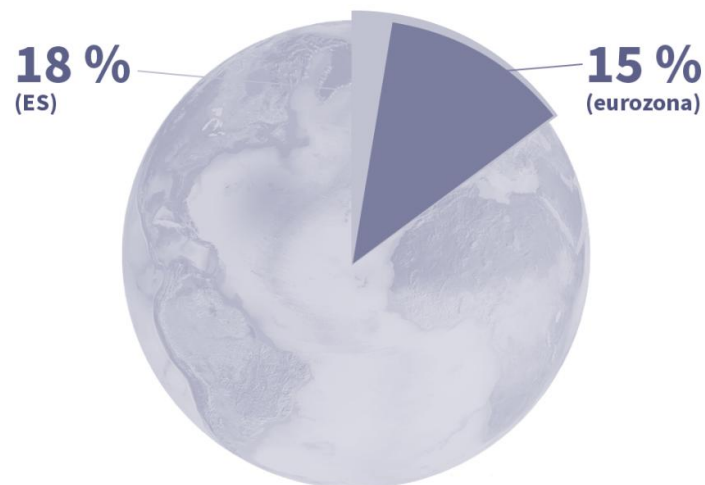
October 12, 2026

Euro is the second most important currency globally

The euro is an important part of global payments

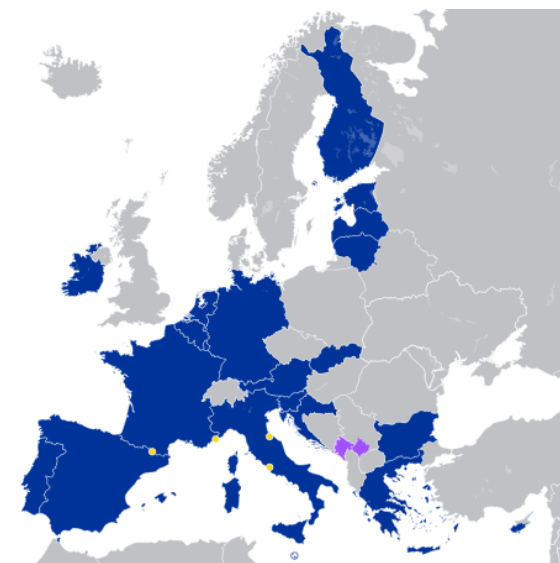


The EU and euro area are actively involved in global trade



* kā daļa no IKP, kas izteikts dolāros (2021)

More than 347 million people use the euro in their everyday payments



BANKA SLOVENIJE
EVROSISTEM



**BANCO DE
PORTUGAL**
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ANQUE CENTRALE DU LUXEMBOURG
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ΤΡΑΠΕΖΑ ΤΗΣ ΕΛΛΑΔΟΣ
ΕΥΡΩΣΥΣΤΗΜΑ



LIETUVOS BANKAS
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SUOMEN PANKKI
EUROJÄRJESTELMÄ



What is inflation and why does 2% matter?

- The primary objective of the ECB is to maintain price stability.
- Inflation is the general rise in prices of goods and services over time, reducing the purchasing power of money.
- Price stability is interpreted as an annual inflation rate of 2% in the medium term.
- Inflation is determined based on the Harmonized Index of Consumer Prices (HICP).



What are the tools at the ECB's disposal?

Conventional instruments

Key policy
interest rates

Refinancing
operations

Reserve
requirements

Unconventional instruments

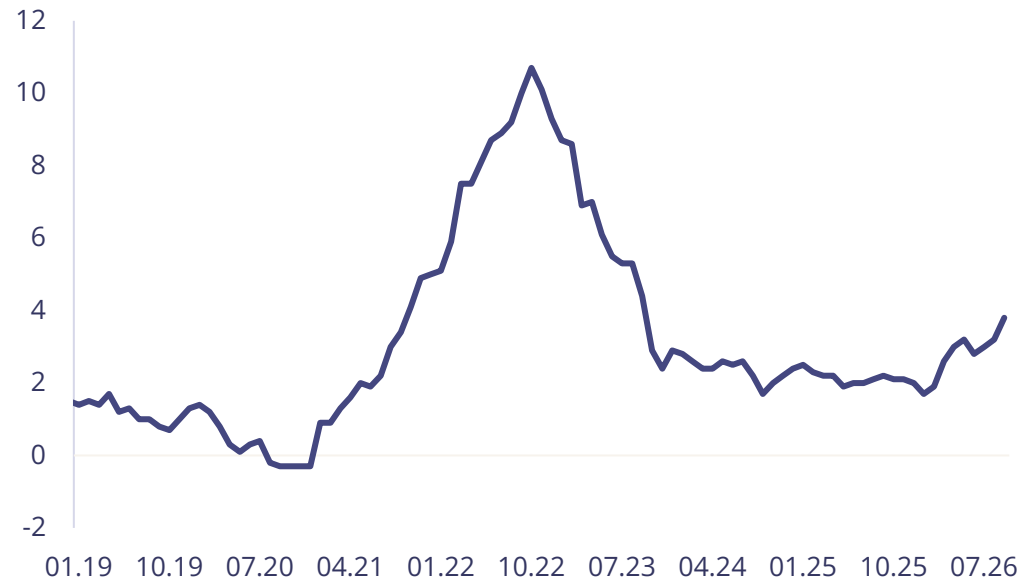
Asset
purchase
programs
(APP)

Additional
liquidity
operations
(TLTRO)

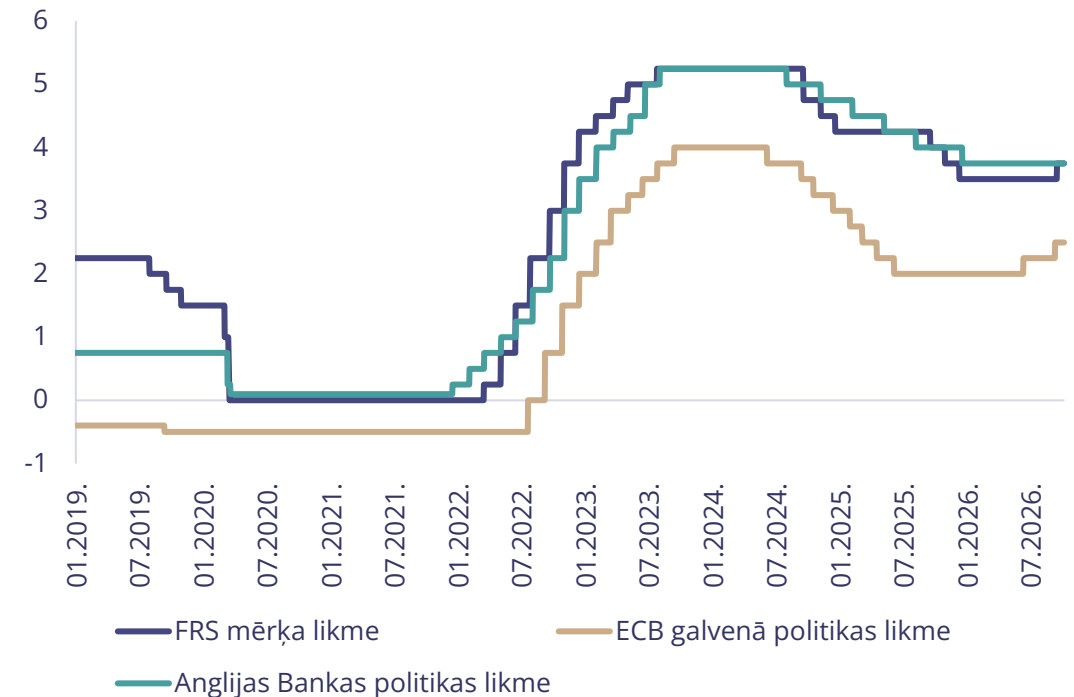
Forward
guidance

Euro area growth is expected to remain subdued, while inflation has risen, prompting major central banks to consider further interest rate hikes

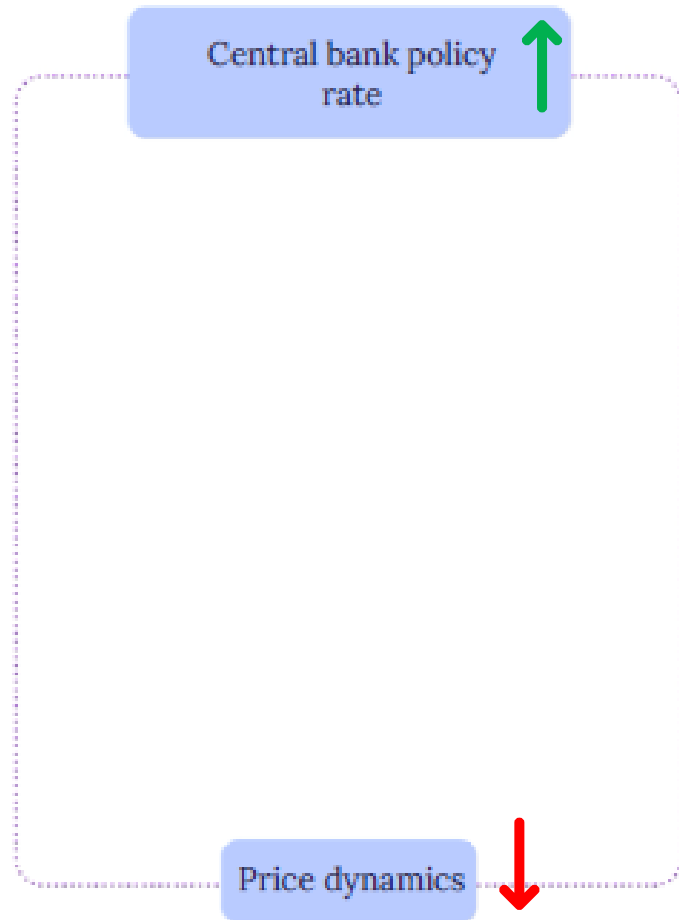
Eurozone annual inflation (%)



Main policy interest rates (%)

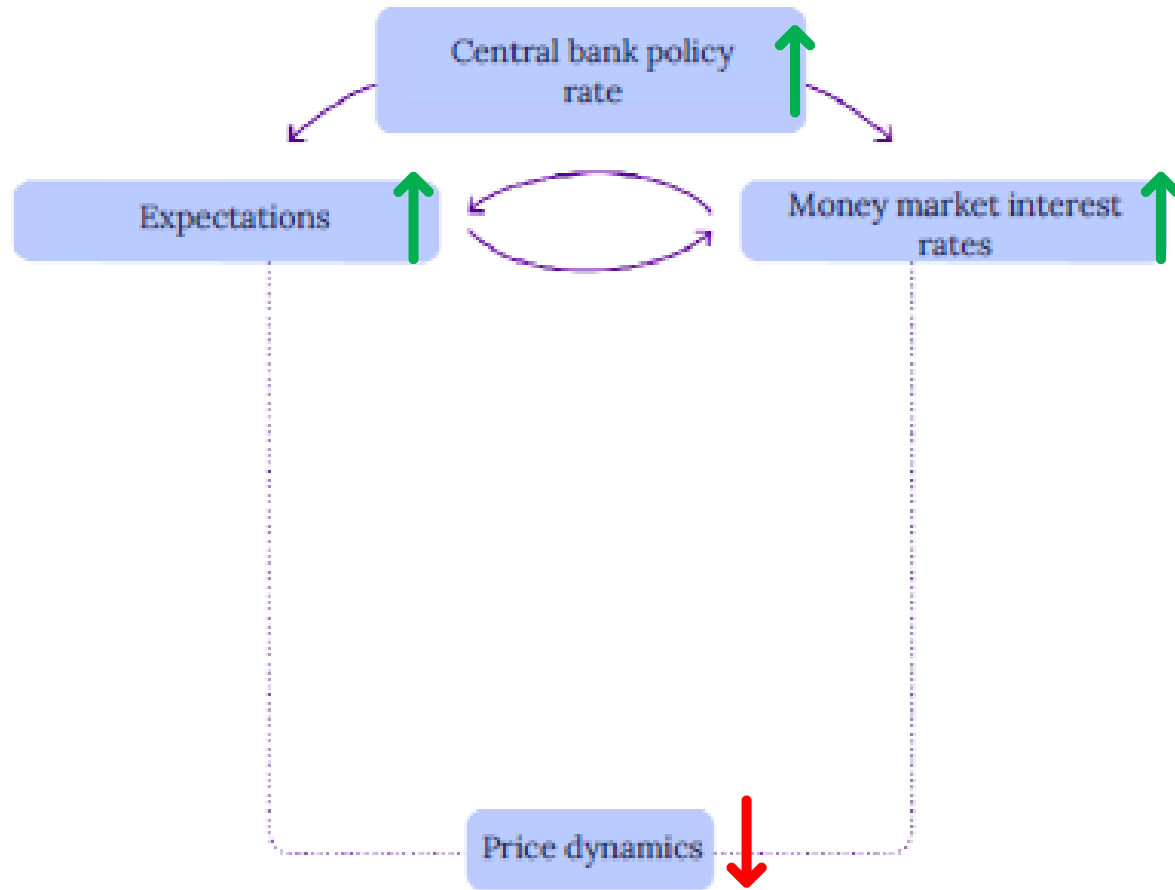


What is monetary policy transmission and how does it work?



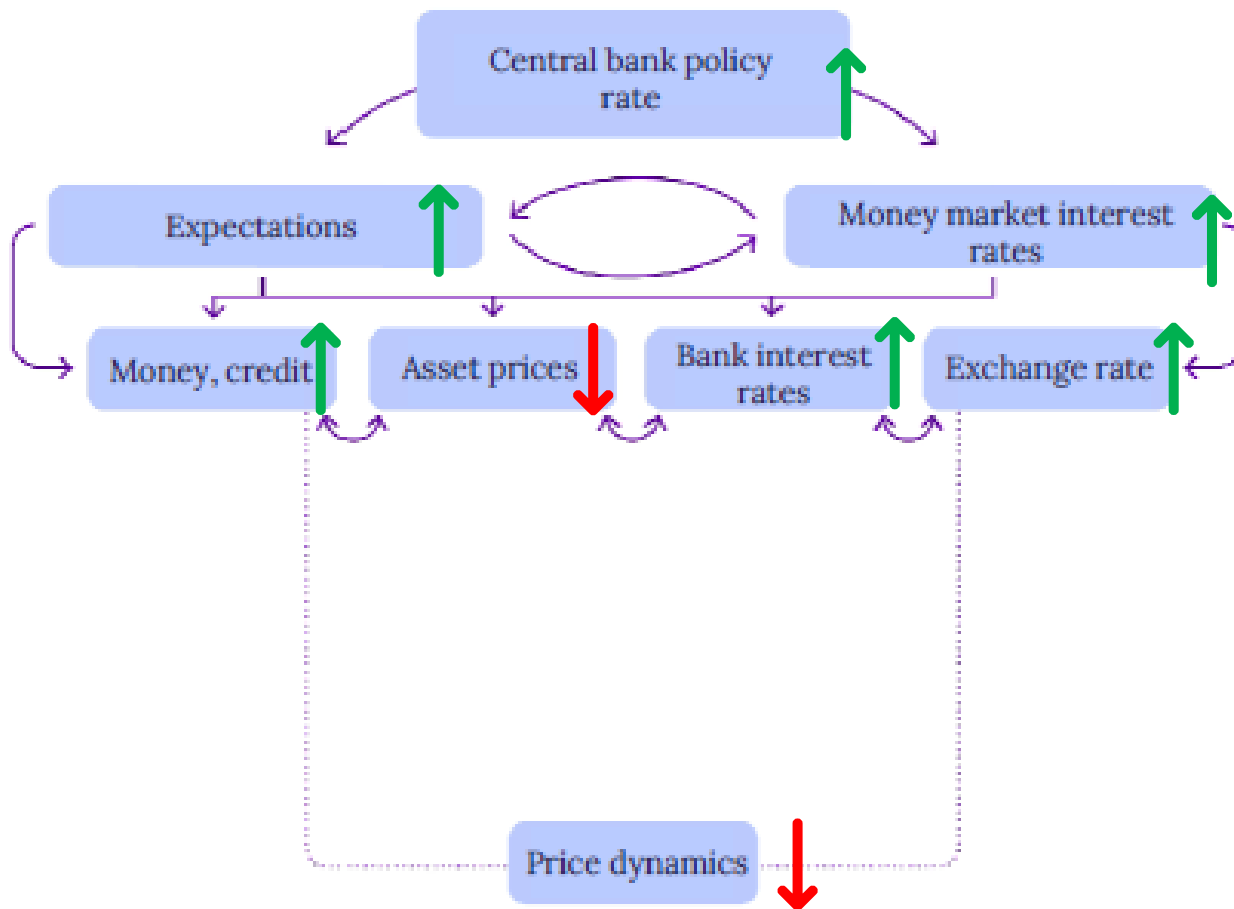
- **Monetary policy transmission** is the process through which central bank decisions affect financial markets, economic activity and ultimately inflation.

What is monetary policy transmission and how does it work? (con't)



- When a central bank makes changes to its key policy interest rates, **money market interest rates** change accordingly.
- Frequently the decisions and the information provided by central banks affects the **expectations** of the economic outlook as well as future interest rates.

What is monetary policy transmission and how does it work? (con't)

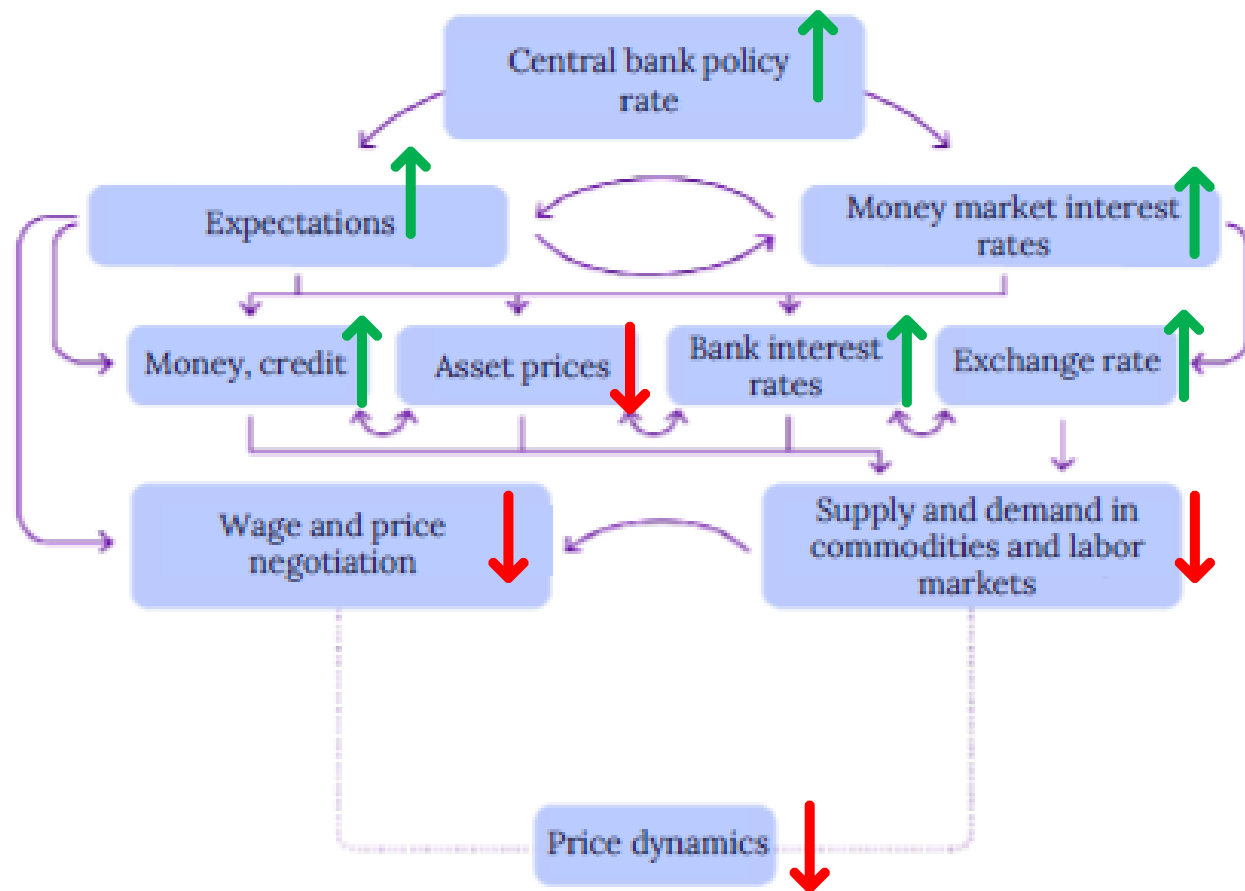


Changes in interest rates and expectations are reflected **across different financial market segments**.

For example (ceteris paribus), when the central bank raises interest rates:

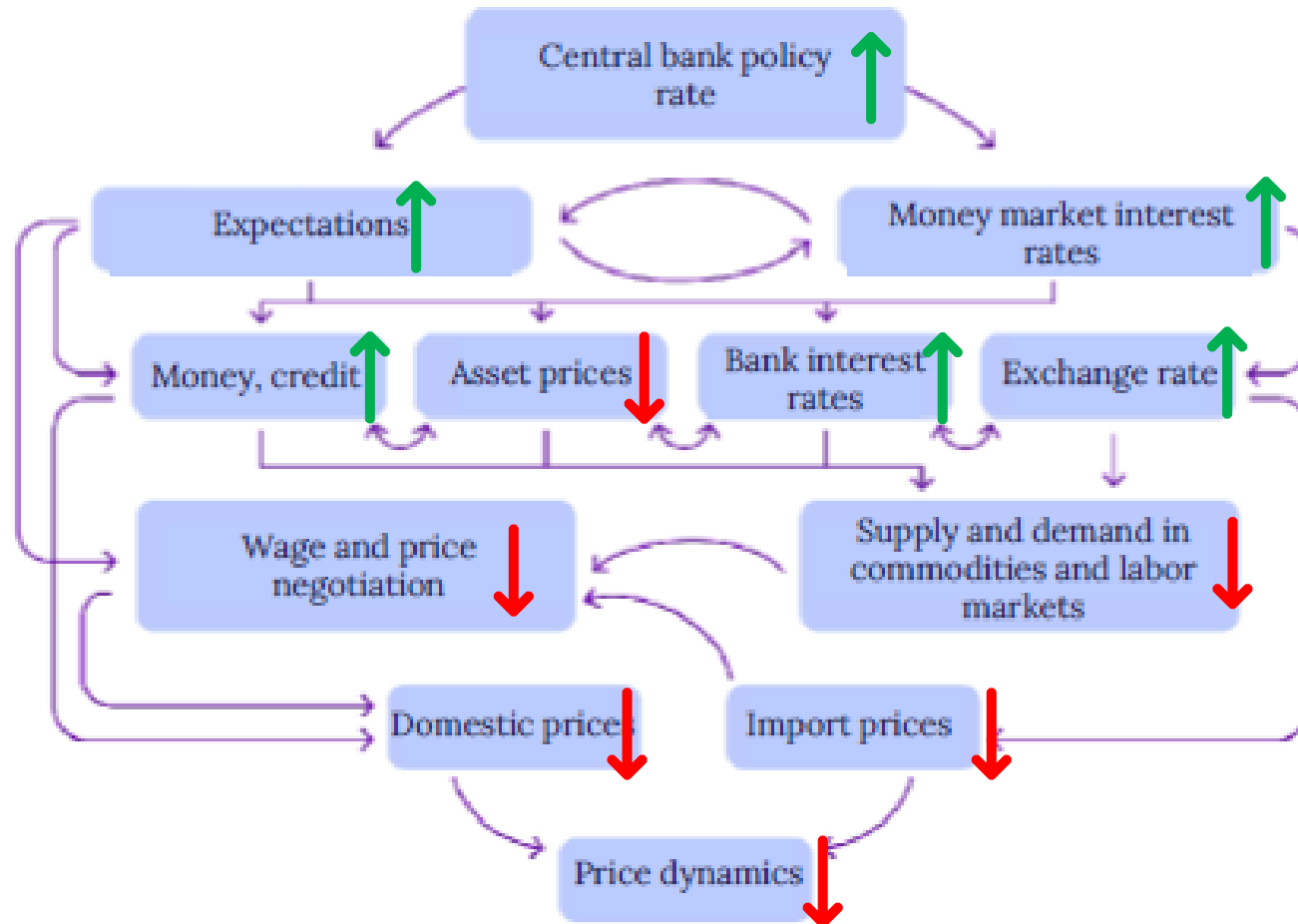
- Borrowing costs increase
- Bank financing becomes less available
- Asset prices decline
- The exchange rate appreciates (interest rate parity)

What is monetary policy transmission and how does it work? (con't)



- Afterwards the effects are transmitted **from the financial markets to the real economy**.
- Expectations about the future affect wage negotiations, procurement prices and eventually prices in stores.
- At the same time higher interest rates and limited credit supply dampens economic activity.

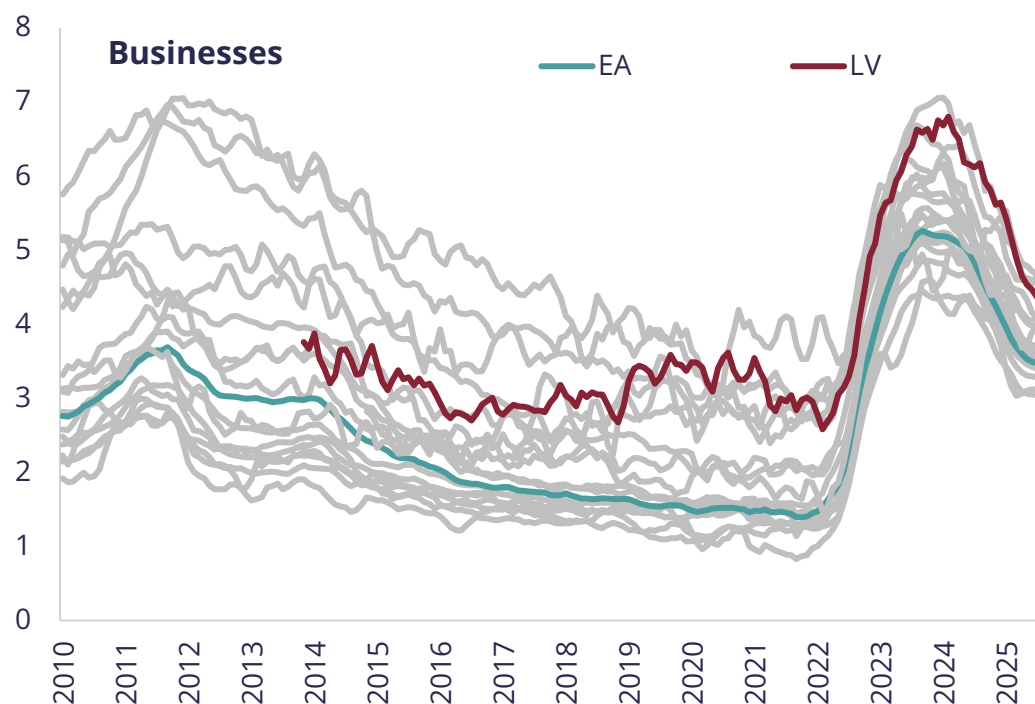
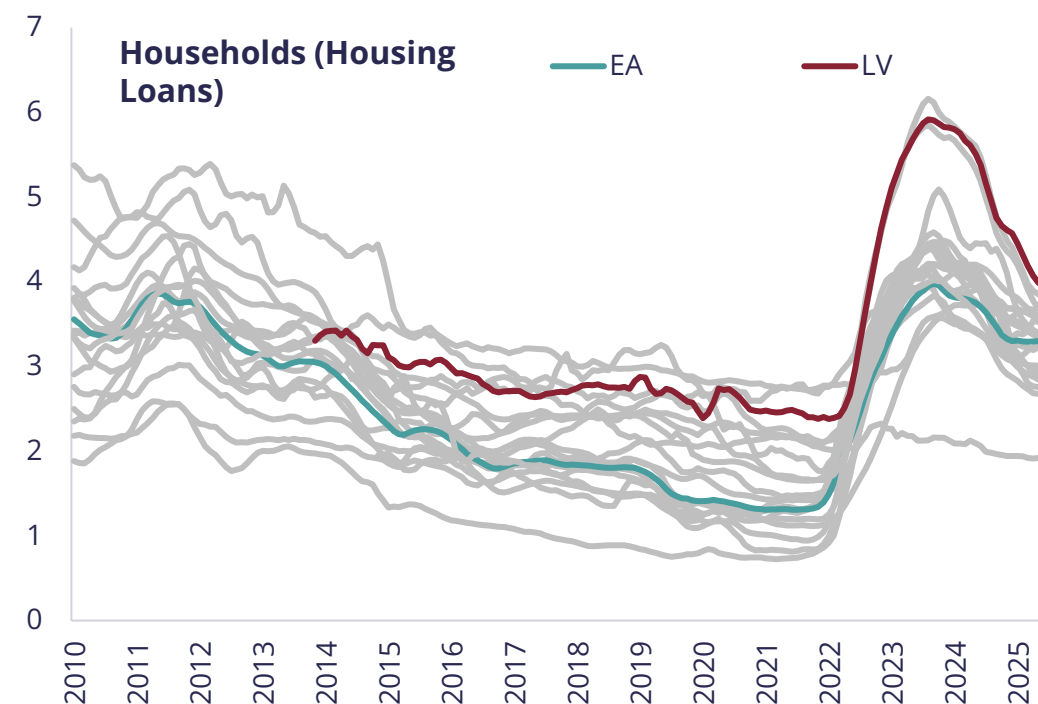
What is monetary policy transmission and how does it work? (con't)



- If interest rates rise and the euro appreciates:
- Importers benefit (imports become cheaper)
- Exporters face challenges (exports become more expensive)
- Rising rates reduce demand. Firms try to maintain market share by competing on prices or lowering them.
- **Softer price increases** (or even price decreases) results in lower wage pressures. Consequently, inflationary pressures decrease as well.

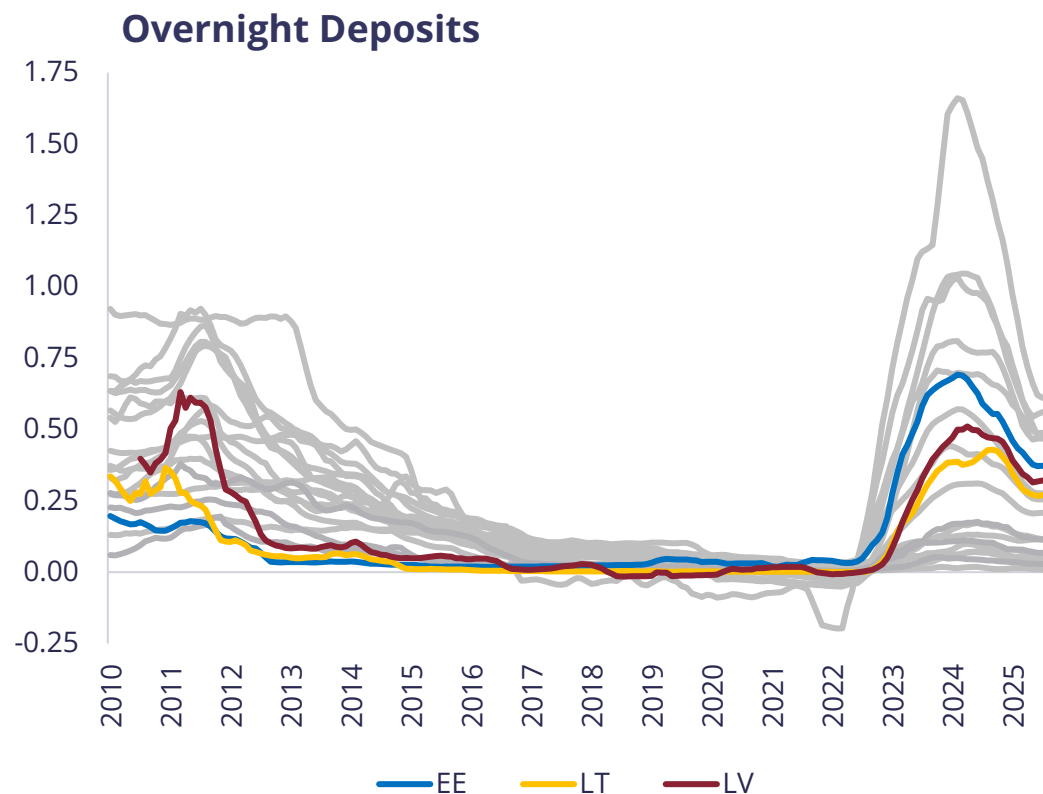
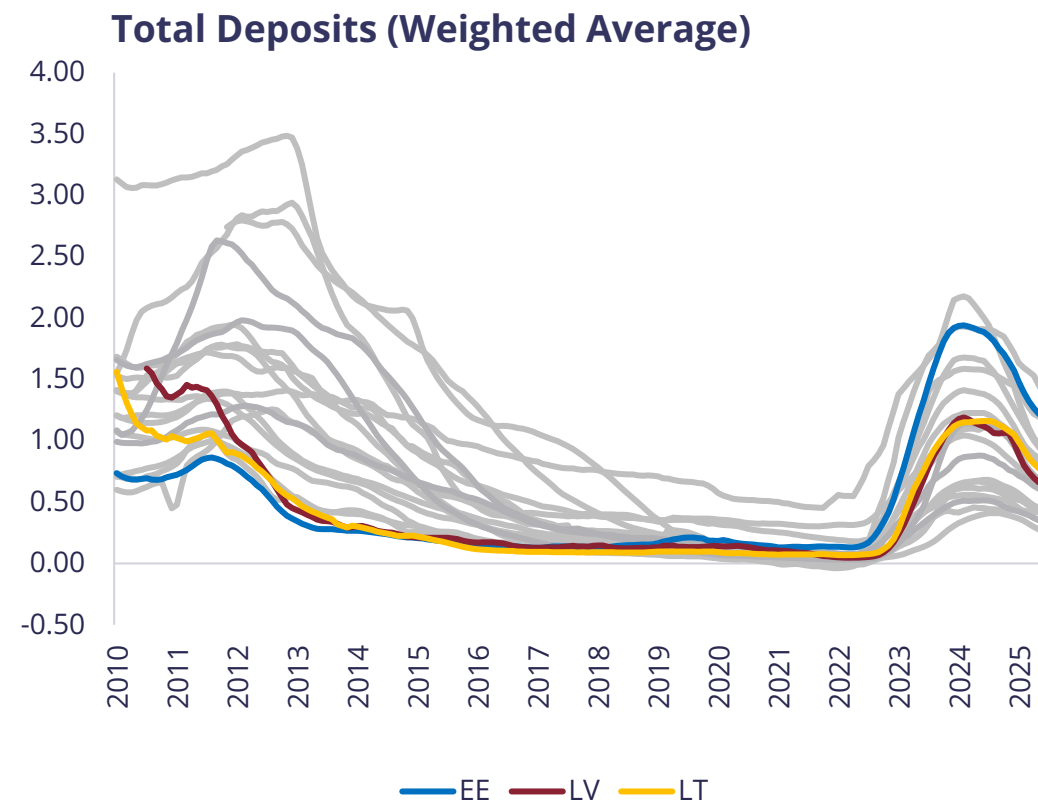
Lending rates in Latvia responded rapidly to ECB rate hikes

Interest Rates on New Loans to Businesses and Households (% , 3-m. avg.)



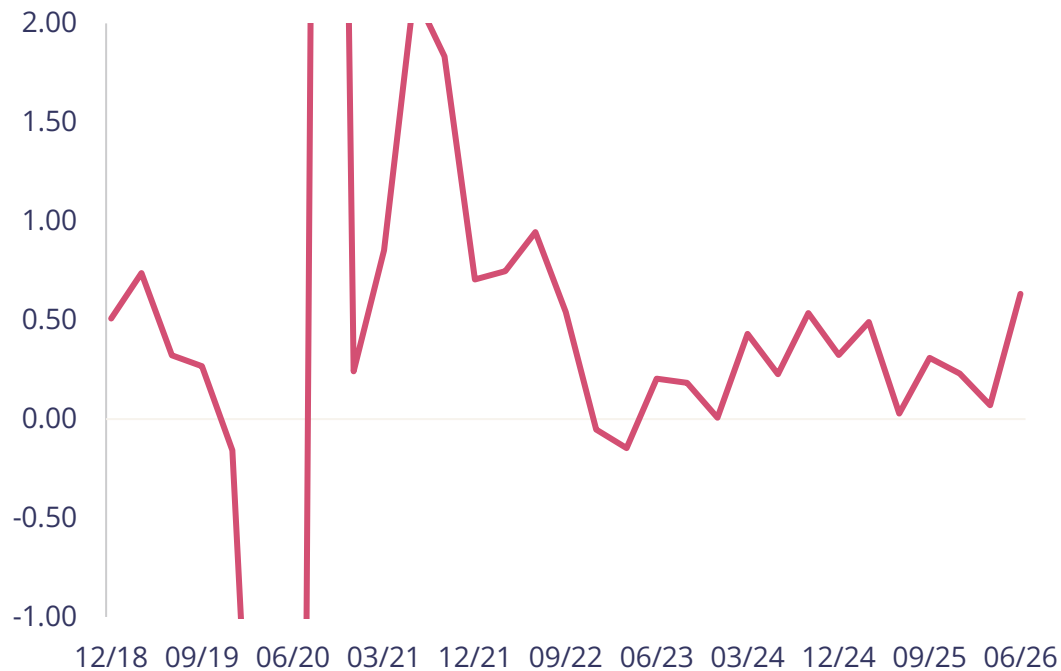
Deposit rates also increased, but more slowly than lending rates

Interest Rates on Outstanding Deposits in Euro Area Countries (% , 3-m. avg.)

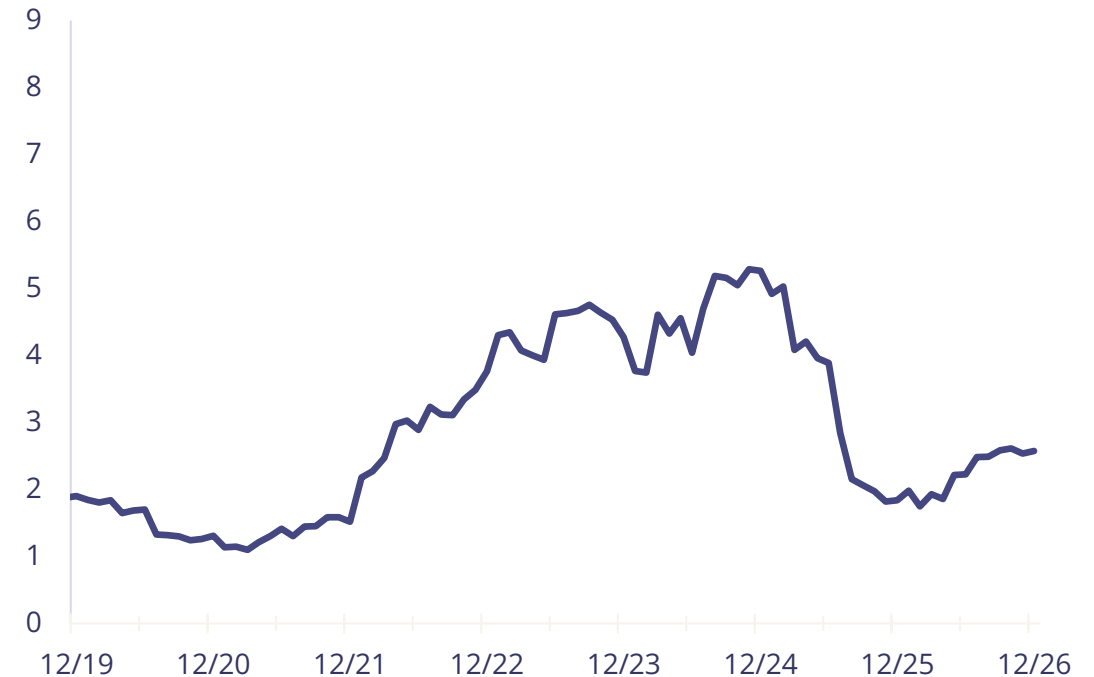


Economic growth remained weak, while wage growth stayed elevated.

EA GDP (%) q-o-q



ECB Wage tracker (y/y, %)



Geopolitical tensions create new challenges for monetary policy



War in Ukraine

Ukraine's allies vow to pressure Moscow after Trump-Putin diesel deal

US president's suggestion that Zelenskyy should be replaced shocked Kyiv and European nations

Israel and US launch attack on Iran

US President Donald Trump announces massive operation



Energy and commodity prices have become increasingly volatile

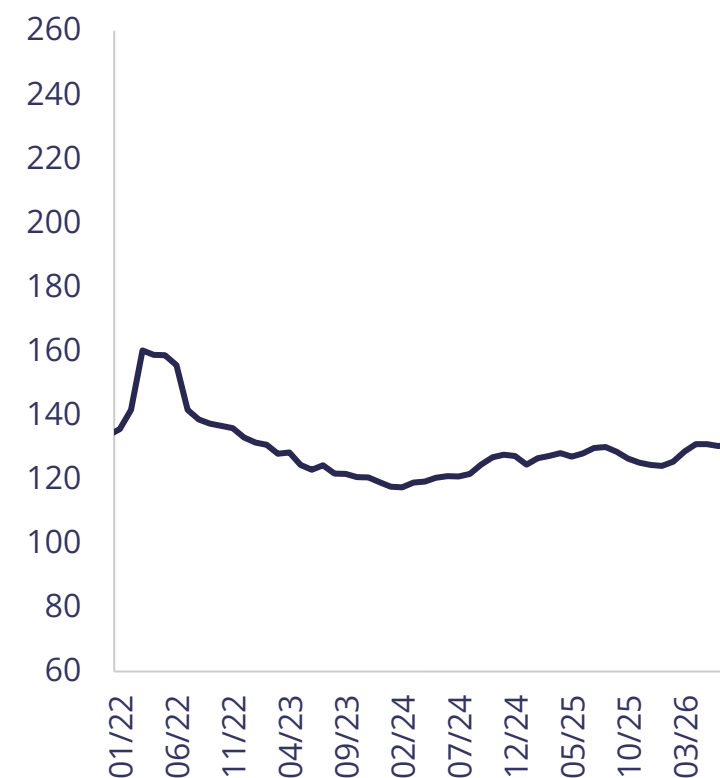
Brent Crude Oil Spot and Futures Prices (USD/ bbl)



Dutch Natural Gas Spot Prices (EUR/MWh)

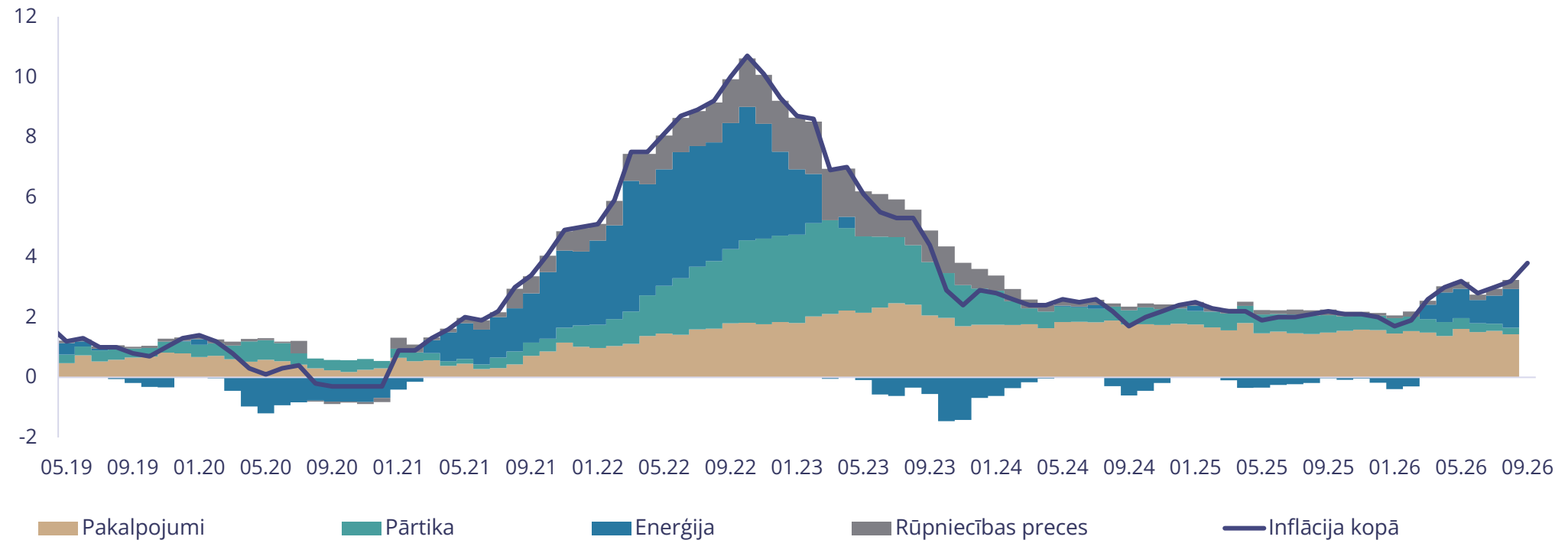


Food Prices (FAO index, 2016=100)



Inflation is expected to rise in the short term. Should the ECB raise interest rates?

Eurozone annual inflation decomposition (% un pp)



What have we learned?

- ✓ What is inflation, and why does the ECB target 2%?
- ✓ How do ECB interest rate decisions affect the economy?
- ✓ Why are monetary policy decisions not always straightforward?



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LATVIJAS BANKA



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18.06.2024.



- 🏆 vienam pirmās vietas ieguvējam – 1500 eiro;
- 🥈 diviem otrās vietas ieguvējiem – 1250 eiro katram darbam;
- 🥉 trim trešās vietas ieguvējiem – 1000 eiro katram darbam.

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- augstskolā iegūto zināšanu pielietošanu praksē;
- mācīties no augstas raudzes profesionāļiem;
- iegūt ieskatu savā nākotnes profesijā;
- interesantu un dinamisku darbu sakārtotā, ērtā un iekļaujošā darba vidē;
- atalgojumu un sociālās garantijas (mēneša darba alga no 750 EUR pirms nodokļu nomaksas).

[Prakse Latvijas Bankā - Latvijas Banka](#)



Traineeship

Trainee grant

As of 1 December 2023, the trainee grant is the exact amount of €1,170 per month. The trainee grant is increased to €2,120 per month for trainees who have completed at least two years of PhD study and who apply for a traineeship vacancy that requires such a level of qualification.

[Traineeship](#)

Thank you!



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www.makroekonomika.lv