



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE
President

Mr Billy Kelleher
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 17 November 2023

L/CL/23/190

Re: Your letter (QZ-024)

Honourable Member of the European Parliament, dear Mr Kelleher,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 6 September 2023.

In its monetary policy strategy statement of 8 July 2021, the ECB clarified that the Governing Council bases its monetary policy decisions, including the evaluation of the proportionality of its decisions and of potential side effects, on an integrated assessment of all relevant factors.¹ In doing so, the ECB gives due regard to the hierarchy of objectives established by Article 127(1) of the Treaty on the Functioning of the European Union, whereby the primary objective of the European System of Central Banks (ESCB) is to maintain price stability.² Without prejudice to the primary objective, the ESCB is to support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union laid down in Article 3 of the Treaty on European Union (TEU).³ 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. At the same time, the ECB's decisions heed the principle of proportionality

¹ See the ECB's monetary policy strategy statement published on the ECB's website, available at: https://www.ecb.europa.eu/home/search/review/html/ecb.strategyreview_monpol_strategy_statement.en.html.

² Treaty on the Functioning of the European Union (OJ C 326, 26.10.2012, p. 47), available at: https://data.europa.eu/eli/treaty/tfeu_2012/oj.

³ Treaty on European Union (OJ C 202 7.6.2016, p. 13), available at: http://data.europa.eu/eli/treaty/teu_2016/2020-03-01.

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enshrined in Article 5(4) TEU, under which the content and form of ECB action must not exceed what is necessary to achieve the ESCB's objectives.

In practice, when adjusting its monetary policy instruments, the Governing Council will – provided that two configurations of the instrument set are equally conducive and not prejudicial to price stability – choose the configuration that best supports the general economic policies in the Union related to growth, employment and social inclusion, and that protects financial stability and helps to mitigate the impact of climate change, with a view to contributing to the objectives of the Union.⁴

As regards the impact of current monetary policy on economic growth and households, one of the ways that monetary policy operates is by dampening aggregate demand. The Governing Council is committed to ensuring that inflation returns to our 2% medium-term target in a timely manner. By maintaining inflation expectations anchored at the target, monetary policy is minimising the cost of disinflation for the wider economy. We are very much aware that our measures to restore price stability entail economic costs in the short term for households, firms and the wider economy. But inflation that stays too high for too long is a burden that weighs heavily on households and firms. It has the potential to de-anchor inflation expectations and trigger a self-fulfilling inflationary spiral as workers and firms try to recoup the full extent of real income losses. This would have severe consequences for the economy and would require more drastic monetary policy measures. By having acted decisively over the last one-and-a-half years, we have limited those risks.

Based on our latest assessment, we consider that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to returning inflation to our target in a timely manner. Restoring price stability over the medium term is the best contribution monetary policy can make to sustained economic growth and job creation.

Yours sincerely,

[signed]

Christine Lagarde

⁴ See Section 3.3 of the monetary policy strategy overview published on the ECB's website, available at https://www.ecb.europa.eu/home/search/review/html/ecb.strategyreview_monpol_strategy_overview.en.html.

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