



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE

President

Ms Eva Kaili
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 25 November 2022

L/CL/22/239

Re: Your letter (QZ-030)

Honourable Member of the European Parliament, dear Ms Kaili,

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 25 October 2022.

Inflation in the euro area, at 10.6% in October, remains far too high and will stay above our medium-term inflation target of 2% for an extended period. We started our monetary policy normalisation process in December 2021 and, since July 2022, have raised the key ECB interest rates by 200 basis points. We expect to raise interest rates further to reduce support for demand and guard against the risk of a persistent upward shift in inflation expectations.

The normalisation of monetary policy is necessary so that high inflation does not persist, eroding people's real incomes and pushing up costs for firms. Price stability is a key prerequisite for sustainable economic growth, employment and social cohesion. In this sense it benefits all parts of society, and poorer households in particular, as they are typically most exposed to high inflation. Withdrawing monetary policy accommodation implies costs to households, firms and governments in the short term, but these costs are by far outweighed by the medium-term benefits of our policies. That is why the Governing Council expects to raise interest rates further.

The path of our monetary policy aims to ensure the timely return of inflation to our 2% medium-term target. We will regularly re-evaluate this policy path based on the evolving outlook for inflation and the economy, also taking into account the staff macroeconomic projections, which will be updated again in December. In doing

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so, we will take into account the effects of economic activity on inflation. Future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

The singleness of monetary policy is a precondition for the ECB to be able to deliver on its price stability mandate. To ensure that the monetary policy stance is transmitted smoothly across all euro area countries, the Governing Council, in July, approved the establishment of the Transmission Protection Instrument. This instrument can be activated to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area.¹

Maintaining fiscal sustainability in the countries of the euro area is in the hands of national governments and the European Union, through its Stability and Growth Pact, which is currently being reviewed. National governments need to anchor market expectations by implementing credible fiscal strategies that gradually reduce high government debt ratios. Fiscal support measures for mitigating the impact of high energy prices should be temporary and targeted at the most vulnerable, to limit the risk of fuelling inflation. Policymakers should also provide incentives to lower energy consumption and bolster energy supply.

Yours sincerely,

[signed]

Christine Lagarde

¹ For details, see “The Transmission Protection Instrument”, *press release*, ECB, 21 July 2022, available at: <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220721~973e6e7273.en.html>.

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