



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Domènec Ruiz Devesa
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 25 September 2020

L/CL/20/239

Re: Your letter (QZ-048)

Honourable Member of the European Parliament, dear Mr Ruiz Devesa,

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 22 July 2020.

In response to the coronavirus (COVID-19) pandemic, the ECB has adopted a series of measures focused on supporting market stabilisation, providing central bank liquidity to maintain the provision of credit to the real economy, and ensuring that the overall monetary policy stance is sufficiently accommodative. Notably, the ECB has acted through its liquidity operations and asset purchase programmes, which included launching the pandemic emergency purchase programme (PEPP). The PEPP has the dual role of ensuring the transmission of monetary policy to all parts of the single currency area and of easing the general monetary policy stance, thereby helping to offset the downward impact of the pandemic on the projected path of inflation.

To help meet both objectives, the Governing Council at its meeting on 4 June 2020 decided to increase the envelope for the PEPP by €600 billion to a total of €1,350 billion.

The PEPP has been effective in supporting both objectives. It has succeeded in offsetting the harmful tightening in financial conditions that occurred immediately after the outbreak of the pandemic in Europe. It has also provided meaningful support to inflation. We estimate that the upward revision to our latest projection for core inflation in 2022 is due, to a large extent, to the June recalibration of our monetary policy

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measures. That said, other factors, such as the appreciation of the euro, have partly offset the positive pull coming from our measures.

Against this background, ample monetary stimulus remains necessary to support the economic recovery and to safeguard medium-term price stability. The Governing Council therefore decided at its July and September policy meetings to reconfirm its very accommodative monetary policy stance.

The monthly pace and composition of the PEPP can be adjusted over time to take account of risks to market stability and to effectively stave off risks to the smooth transmission of monetary policy. At the same time, the PEPP purchases are an important component of the overall monetary policy stance. Therefore, as I have already made clear in the past, under current circumstances, it is very likely that the full envelope of the PEPP will be used. The Governing Council is committed to providing the monetary stimulus needed to underpin the economic recovery and to secure a robust convergence of inflation towards our medium-term aim.

The strategy review covers all aspects of our monetary policy, within the framework of our mandate, which is to maintain price stability. It will be based on thorough analysis and take an open-minded approach. The COVID-19 pandemic and its impact on the euro area economy and inflation dynamics, as well as the effectiveness of the ECB's monetary policy instruments, will be key areas of reflection in this context.

Yours sincerely,

[signed]

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