



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE

President

Mr Rasmus Andresen  
Mr Ernest Urtasun  
Members of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 16 September 2022

L/CL/22/216

**Re: Your letter (QZ-023)**

Honourable Members of the European Parliament, dear Mr Andresen and Mr Urtasun,

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 13 July 2022.

First, let me take the opportunity to emphasise that our primary mandate is to ensure price stability over the medium term. Price stability is a key prerequisite for sustainable economic growth and social cohesion. In this sense, it is to the benefit of all parts of society. And, at the European Central Bank (ECB), we are well aware that the current period of high inflation is putting a strain on euro area citizens.

With our mandate in mind, we judged that it was appropriate at our July 2022 monetary policy meeting to take a larger first step on our interest rate normalisation path than signalled after our June meeting. Our decision to raise the key ECB interest rates by 50 basis points took into account both our most recent update of the inflation outlook and the support provided by the Transmission Protection Instrument (TPI), and should ensure the effective transmission of monetary policy impulses to households and firms across the euro area. The availability of the TPI further enhances the effectiveness of our monetary policy by addressing potential fragmentation risks, which can lead to unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area. At our September monetary policy meeting, we raised the key ECB interest rates again, by 75 basis points. This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation

**Address**

European Central Bank  
Sonnemannstrasse 20  
60314 Frankfurt am Main  
Germany

**Postal address**

European Central Bank  
60640 Frankfurt am Main  
Germany

Tel: +49-69-1344-0  
Fax: +49-69-1344-7305  
Website: [www.ecb.europa.eu](http://www.ecb.europa.eu)

to our two per cent medium-term target. Based on our current assessment, over the next several meetings we expect to raise interest rates further, as inflation remains far too high and is likely to stay above our target for an extended period.

Like all our decisions, these monetary policy actions are the outcome of thorough deliberation by the ECB's Governing Council, including an assessment that our measures are proportionate to the achievement of our price stability target. For a more in-depth discussion on the analysis on the growth and inflation outlook underlying our decisions, allow me to refer you to the August issue of our Economic Bulletin and the account of the 20-21 July 2022 monetary policy meeting.<sup>1</sup>

Moreover, as I highlighted during the European Parliament plenary debate on the ECB's Annual Report in February, good communication is crucial for our policy, for our credibility and for the trust people have in us. Following up on our 2020-21 strategy review, we have taken important steps to enhance the information content of our communication and its accessibility for various audiences. And we will continue to openly engage in public discourse on the implications of our monetary policy.

Regarding potential side effects, monetary policy normalisation must be carefully calibrated to the circumstances we face. Inflation in the euro area is not above target because the economy has grown at rates far in excess of its potential. At present, surging energy and food prices are the most important components of overall inflation, and persistent supply bottlenecks are also contributing to price pressures. At the same time, we are witnessing the spread of inflationary pressures to an increasing number of other goods and services, sometimes as a reflection of significant imbalances between demand and supply in some sectors of the economy. This is especially the case of those sectors, such as travel and hospitality, that benefited most from their recent reopening following the lifting of pandemic-related restrictions. Should such tensions be left unaddressed, the consequences would be felt in the form of a persistent erosion of the purchasing power of households and firms, as well as lower overall levels of confidence, consumption, investment and employment. Hence, restoring inflation to our target in these circumstances means that monetary policy normalisation needs to aim to keep inflation expectations in line with our target and to ensure demand conditions that are consistent with the target over the medium term. This will also limit the costs of monetary policy normalisation. These costs would be much larger if we tolerated a de-anchoring of inflation expectations, as this would require more aggressive monetary policy tightening later on. In addition, by stabilising inflation at our medium-term target, monetary policy contributes to reducing inequality, as poorer households are those typically most exposed to high inflation.

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<sup>1</sup> See *Economic Bulletin*, Issue 5, ECB, August 2022, available at: <https://www.ecb.europa.eu/pub/economic-bulletin/html/eb202205.en.html>, and the Account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 20-21 July 2022 at: <https://www.ecb.europa.eu/press/accounts/2022/html/ecb.mg220825~162cfabae9.en.html>

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Regarding your question about the implications of the latest monetary policy decisions on employment, I am convinced that, even in times like these, the best contribution our monetary policy can make to sustainably protect employment and support job creation is to ensure price stability over the medium term. Importantly, given the current favourable situation in the labour markets, monetary policy normalisation will predominantly protect the real value of income and wealth of both households and firms, which, in turn, should support confidence, consumption, investment and employment overall in a sustainable way. Looking ahead, taking into account strong headwinds to activity in the euro area in the wake of the war in Ukraine, labour markets are expected to remain relatively resilient. At the same time, there are some first signs emerging of weakening in line with the expected developments in economic activity.

Yours sincerely,

[signed]

Christine Lagarde

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