



EUROPEAN CENTRAL BANK

EUROSYSTEM

**ECB-PUBLIC**

*COURTESY TRANSLATION*

Christine LAGARDE  
President

Mr Emmanouil Fragkos  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
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Frankfurt am Main, 21 April 2020

L/CL/20/95

**Re: Your letter (QZ-002)**

Honourable Member of the European Parliament, dear Mr Fragkos,

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 20 January 2020.

According to Eurostat's flash estimate, euro area annual HICP inflation decreased to 0.7% in March 2020, from 1.2% in February. On the basis of the sharp decline in current and futures prices for oil in March, headline inflation is likely to decline considerably over the coming months. Indicators of inflation expectations have fallen and measures of underlying inflation remain generally muted. The spread of the coronavirus adds a new and substantial downside risk to the growth outlook that also impacts on the outlook for inflation. However, the balance between downward pressures on inflation linked to weaker demand and upward pressures related to supply disruptions is surrounded by considerable uncertainty.

At its meeting on 12 March, the Governing Council decided on a comprehensive package of monetary policy measures, which together with the substantial monetary policy stimulus already in place, will support liquidity and funding conditions for households, businesses and banks and will help to preserve the smooth provision of credit to the real economy, in turn supporting the convergence of inflation to our medium-term aim.<sup>1</sup> In addition, the Governing Council on 18 March decided to launch the Pandemic Emergency Purchase Programme (PEPP) with an overall envelope of €750 billion to counter the serious risks to the monetary

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<sup>1</sup> See <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200312~8d3aec3ff2.en.html>.

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policy transmission mechanism and the outlook for the euro area posed by the outbreak and escalating diffusion of the coronavirus, COVID-19.<sup>2</sup> It also decided to expand the range of eligible assets under the corporate sector purchase programme (CSPP) to non-financial commercial paper, and to ease the collateral standards by adjusting the main risk parameters of the collateral framework.

As regards the relationship between banking supervision and the ECB's monetary policy, I would first like to recall the ECB's mandate. Article 127 of the Treaty on the Functioning of the European Union clearly states that the primary objective of the European System of Central Banks (ESCB) "shall be to maintain price stability". Moreover, it states that the "ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to [...] the stability of the financial system". Specific tasks related to the prudential supervision of banks were conferred on the ECB by means of the SSM Regulation<sup>3</sup> consistent with Article 127(6) of the Treaty. With a view to avoiding possible conflicts of interest, the ECB is required to carry out its monetary policy and supervisory tasks in full separation pursuant to Article 25 of the SSM Regulation.

In line with this separation of tasks, on 12 March, the ECB announced a number of measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy as the economic effects of the coronavirus become apparent.<sup>4</sup>

Yours sincerely,

[signed]

Christine Lagarde

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<sup>2</sup> See [https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318\\_1~3949d6f266.en.html](https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html).

<sup>3</sup> [Council Regulation \(EU\) No 1024/2013 of 15 October 2013](#) conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

<sup>4</sup> See <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200312~43351ac3ac.en.html>

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