



EUROPEAN CENTRAL BANK  
EUROSYSTEM

Christine LAGARDE

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European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 22 December 2020

L/CL/20/316

**Re: Your letter (QZ-059)**

Honourable Members of the European Parliament,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs (ECON), accompanied by a cover letter dated 3 November 2020.

As announced at the last regular hearing before ECON on 19 November 2020<sup>1</sup>, on 10 December the Governing Council carefully assessed the incoming information and in view of the economic fallout from the resurgence of the pandemic, decided to recalibrate its instruments.

The Governing Council has reiterated its commitment to providing the monetary stimulus needed to secure a robust convergence of inflation towards our medium-term aim, i.e. inflation rates of below, but close to, 2%. The role of monetary policy in the current environment is to provide a bridge until widespread immunity is achieved and the economy has recovered from the economic impact of the pandemic. A key pillar of this bridge is to ensure that financing conditions for all sectors of the economy remain favourable. The pandemic

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<sup>1</sup> See *Introductory statement*, Committee on Economic and Monetary Affairs, 19 November 2020, available at: <https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201119~c21450a2d2.en.html>.

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emergency purchase programme (PEPP) and the targeted longer-term refinancing operations (TLTRO III) are the key tools in that respect. As regards the PEPP, we decided to increase the envelope by €500 billion, to a total of €1,850 billion, while extending the horizon for net PEPP purchases to at least end-March 2022. Purchases will be conducted flexibly, according to market conditions, with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. As to TLTRO III, the period over which considerably more favourable terms will apply has been extended by twelve months, to June 2022. Moreover, the total amount that counterparties can borrow in TLTRO III operations will be raised from 50% to 55% of their eligible loan stock. The duration of the set of collateral easing measures adopted by the Governing Council in April 2020 has also been extended to June 2022, to ensure that banks can make full use of the Eurosystem's liquidity operations. The recalibration of the TLTRO conditions will preserve the very attractive existing funding conditions for banks, which will help to ensure that they can continue to offer favourable lending conditions and have ample liquidity to extend loans to households and firms.

Looking beyond the decisions taken at our last policy meeting, our ongoing strategy review gives us an opportunity to reflect on how to deliver on our mandate in the best interest of Europeans. While the Governing Council has not discussed proposals related to helicopter money, as mentioned in your letter, we will carefully consider the best combination of tools to deliver financing conditions at the appropriate level, how those tools should be implemented, and what features our toolkit needs to have to deliver on such a strategy.

Yours sincerely,

[signed]

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