



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Derk Jan Eppink
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 5 February 2021

L/CL/21/21

Re: Your letter (QZ-001)

Honourable Member of the European Parliament, dear Mr Eppink,

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 19 January 2021.

Preserving the singleness of monetary policy and safeguarding its appropriate transmission are within the mandate of the ECB as they are a prerequisite for, and contribute to, its primary objective, which is to maintain price stability. The pandemic is posing exceptional challenges for the euro area economy, for the smooth transmission of our monetary policy and ultimately for the attainment of our price stability objective. The monetary policy measures we have taken since the start of the pandemic were instrumental in preventing the initial financial market turbulence from developing into a broader financial crisis, which would have caused much worse economic outcomes than we have experienced. In fact, our monetary policy measures have ensured that all sectors and jurisdictions of the euro area economy benefit from favourable financing conditions which are helping them through this challenging period. In particular, our measures are supporting liquidity conditions and helping to sustain the flow of credit to households and firms, especially to small and medium-sized enterprises.

The asset purchases under the pandemic emergency purchase programme (PEPP) are conducted to preserve favourable financing conditions over the pandemic period. Purchases under the PEPP are conducted flexibly according to market conditions and with a view to preventing a tightening of financing conditions that would be

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inconsistent with the need to counter the downward impact of the pandemic on the projected path of inflation. In addition, the flexibility with which PEPP purchases are conducted over time, across asset classes and among jurisdictions supports the smooth transmission of our policies to all parts of the euro area economy. In fact, bond markets play a crucial role for the transmission of our monetary policy as they determine the borrowing conditions for companies on capital markets. Bond market conditions also play a pivotal role in serving as a benchmark for the pricing of bank loans to firms and households.

While the introduction of the PEPP in March 2020 and its recalibrations in June and December 2020 have been very effective in ensuring a smooth transmission of monetary policy, risk premia in euro area sovereign bond markets have not disappeared, underlining the continued disciplinary role played by financial markets. The PEPP complies fully with the obligations of the Eurosystem central banks under the Treaties, including the prohibition of monetary financing. In addition, the third series of targeted longer-term refinancing operations (TLTRO III) provides crucial support to bank lending conditions and the flow of credit to firms and households, thereby bolstering the transmission of monetary policy to the real economy. The provision of ample liquidity at very attractive conditions to banks allows them to continue the extension of credit to firms and households at favourable lending conditions.

Overall, in light of the risks posed by the pandemic to our price stability objective, monetary policy has a clear role in helping to preserve favourable financing conditions over the pandemic period for all sectors and jurisdictions across the euro area economy. Favourable financing conditions are crucial in helping to reduce uncertainty and bolster confidence, thereby encouraging consumer spending and business investment. This will in turn underpin the economic recovery until it is well advanced and self-sustained, and support the return of inflation to its pre-pandemic path. At the same time, it remains paramount that monetary and fiscal policies continue to work hand in hand, complementing each other in supporting the euro area economy. Fiscal policies – both at the national and at the European level – remain critical in bolstering the recovery in the euro area.

Yours sincerely,

[Signed]

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