EUROPEAN CENTRAL BANK

EUROSYSTEM

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COURTESY TRANSLATION

Christine LAGARDE
President

Ms Manon Aubry
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 25 November 2022

L/CL/22/242

Re: Your letter (QZ-032)

Honourable Member of the European Parliament, dear Ms Aubry,

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 28 October 2022.

In response to the still far-too-high inflation in the euro area, the Governing Council of the ECB expects to raise interest rates further to ensure the timely return of inflation to our 2% medium-term inflation target. In this environment, it is particularly important that monetary policy and fiscal policy work hand in hand.

Fiscal policies can partly buffer the energy price shock, as they can mitigate the immediate impact of high inflation on low-income households. However, to limit the risk of fuelling inflation, fiscal support measures to shield the economy from the impact of high energy prices should be temporary and targeted at the most vulnerable. Policymakers should also provide incentives to lower energy consumption and bolster energy supply.

Governments should also pursue fiscal policies that show they are committed to gradually bringing down high public debt ratios. As fiscal policies will have to consolidate over time, countries may also need to seek additional tax revenues or reprioritise expenditures. In general, such decisions need to take fairness and macroeconomic considerations into account. A basic trade-off is that, if those in need are supported through higher taxes, it has less of an effect on inflation than if deficits are increased. Moreover, there may be industries and firms that are highly profitable in spite of the energy shock.

In this regard we welcome the Eurogroup statement of 3 October 2022 on the fiscal policy response to high energy prices and inflationary pressures, according to which fiscal measures to support those who are suffering the most from high energy prices, as well as the financing of such measures, should be designed so as not to add to inflationary pressures.[1] At the same time, tax policies are the prerogative of EU Member States, and we do not comment on the concrete design features – such as rates or bases – of country-specific revenue measures that are under discussion for the financing of energy-related support measures. In addition, structural policies should be designed to increase the euro area's growth potential and supply capacity and to boost its resilience, thereby contributing to a reduction in medium-term price pressures. The swift implementation of the investment and structural reform plans under the Next Generation EU programme will make an important contribution to these objectives.

As a general principle, national tax systems should be conducive to sustainable economic growth in order to support economic development. This also implies that changes to tax policy should adequately take into account their effects on private investment, which is a key contributor to long-term growth and job creation, as well as essential for the green and energy transitions.

Yours sincerely,

[signed]

Christine Lagarde

1 See the press release on the European Council's website, entitled "Eurogroup statement on the fiscal policy response to high energy prices and inflationary pressures", available at: https://www.consilium.europa.eu/en/press/press-releases/2022/10/03/eurogroup-statement-on-the-fiscal-policy-response-to-high-energy-prices-and-inflationary-pressures/.

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