



**EUROPEAN CENTRAL BANK**  
EUROSYSTEM

**ECB-PUBLIC**  
*COURTESY TRANSLATION*

Christine LAGARDE  
President

Mr Fulvio Martusciello  
Mr Salvatore De Meo  
Ms Lucia Vuolo  
Ms Lara Comi  
Ms Alessandra Mussolini  
Mr Herbert Dorfmann  
Mr Massimiliano Salini  
Ms Francesca Peppucci  
Mr Aldo Patriciello  
Ms Isabella Adinolfi  
Ms Caterina Chinnici  
Members of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 28 July 2023

L/CL/23/156

**Re: Your letter (QZ-016)**

Honourable Members of the European Parliament, dear Mr Martusciello, Mr De Meo, Ms Vuolo, Ms Comi, Ms Mussolini, Mr Dorfmann, Mr Salini, Ms Peppucci, Mr Patriciello, Ms Adinolfi and Ms Chinnici,

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 5 July 2023.

The ECB is committed to fighting inflation, which continues to decline but remains too high, and is determined to ensure it returns to our 2% medium-term target in a timely manner. Restoring price stability is the best contribution monetary policy can make to sustained economic growth and job creation.

Our past rate increases continue to be transmitted forcefully: financing conditions have tightened again and are increasingly dampening demand, which is an important factor in bringing inflation back to target.

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We are very much aware that high inflation and the policy measures needed to restore price stability entail economic costs in the short term for households, firms and the economy at large. However, high inflation, if left unaddressed, would entail far greater economic costs in the medium to long term. Our commitment to price stability helps to protect the real value of households' and firms' income and wealth, bolstering confidence, consumption, investment dynamics and jobs in the medium term. Too high inflation for too long puts a large burden on households and firms, potentially unanchoring inflation expectations and triggering a self-fulfilling inflationary spiral, as workers and firms try to recoup the full extent of real income losses. This would have severe consequences for the economy and would require more drastic monetary policy measures. In addition, by stabilising inflation at our medium-term target, monetary policy contributes to reducing inequality, as it is typically poorer households that are most exposed to high inflation.

Going forward, the Governing Council's interest rate decisions will continue to be based on the assessment of the inflation outlook in the light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. This will help us to calibrate monetary policy in a way that is neither too tight nor too loose, in view of our commitment to achieving the timely return of inflation to our 2% medium-term target.

The incoming economic data that form part of the information set we use for calibrating our monetary policy show that the near-term economic outlook for the euro area has deteriorated, owing largely to weaker domestic demand. Importantly, the labour market remains robust: almost a million new jobs were created in the first quarter of 2023 and the unemployment rate in May stayed at its historical low of 6.5%. The projected recovery of labour income amid robust employment will continue to support the gradual strengthening of the economic outlook in the medium term, while inflation is expected to decline gradually. Over the next three years, the June 2023 Eurosystem staff baseline projections expect euro area economic growth to stand at 0.9% in 2023, and at 1.5% and 1.6% in 2024 and 2025 respectively.

The ECB's analyses and monetary policy decisions focus on developments in the euro area as a whole. While there are differences across countries in inflation rates and the transmission process, for instance reflecting the prevalence of fixed versus flexible rate financial contracts for households and firms, overall inflation in the euro area has been too high for too long. A sufficiently restrictive monetary policy stance for as long as necessary is required to achieve a timely return of inflation to the 2% medium-term target, which will benefit people and firms in all euro area countries.

Yours sincerely,

[signed]

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