



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC
COURTESY TRANSLATION

Christine LAGARDE
President

Mr Nuno Melo
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 29 June 2020

L/CL/20/184

Re: Your letter (QZ-035)

Honourable Member of the European Parliament, dear Mr Melo,

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 29 May 2020.

As I discussed with Members of the European Parliament during my last hearing before the Committee on Economic and Monetary Affairs on 8 June 2020, the European Central Bank (ECB) is subject only to the jurisdiction of the Court of Justice of the European Union and not to the national courts of the Member States. In December 2018, the Court found that the public sector purchase programme (PSPP) did not exceed the ECB's mandate – the programme falls within the area of monetary policy, in respect of which the EU has exclusive competence for the Member States whose currency is the euro, and observes the principle of proportionality.¹

Let me emphasise, first of all, that the ECB constantly evaluates whether its monetary policy measures – including the PSPP – achieve their intended purpose, are commensurate with the risks to our price stability objective, and proportionate in their execution. In my first hearing before the Committee on Economic and Monetary Affairs in September 2019, I referred to this exercise as a “cost-benefit analysis”.

¹ See “The ECB's PSPP programme for the purchase of government bonds on secondary markets does not infringe EU law”, *press release*, No 192/18, Court of Justice of the European Union, Luxembourg, 11 December 2018, available at <https://curia.europa.eu/jcms/upload/docs/application/pdf/2018-12/cp180192en.pdf>.

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address
European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu

These assessments, including those made before monetary policy measures are introduced, are organised along three dimensions. First, we evaluate whether our monetary policy measures are effective in the pursuit of the price stability objective. For this, we rely on quantitative tools to estimate whether there is a predictable relationship between adjustments to a specific monetary policy instrument and an intended change in economic variables that we seek to influence over a certain horizon. Second, we analyse whether an instrument is efficient, i.e. whether the objective it pursues could not be achieved by other means that would potentially have lesser unintended effects on the economy at large. For this, we rely on scenario analysis, looking at how the economy would have evolved under a range of alternative monetary policy configurations. Finally, we gauge whether the benefits of a recalibration of a given instrument might be outweighed by potential adverse side effects under the prevailing conditions. If this analysis indicates that the recalibration of a given instrument might generate excessive side effects, our policy stance will rely more heavily on other instruments.

These assessments are explained in a number of public communications, such as the accounts of the Governing Council's monetary policy meetings, the introductory statements to the press conferences which follow those meetings, speeches by members of the ECB's Executive Board and Governing Council, and not least in the regular exchanges with the European Parliament.

At the last monetary policy meeting on 3 and 4 June 2020, the Governing Council discussed the effectiveness, efficiency and potential side effects of the measures included in the package adopted, as explained before the Committee on Economic and Monetary Affairs, and reported in the published account of the Governing Council's meeting.² Looking ahead, the ECB's strategy review will also play an important role in reviewing the effectiveness, efficiency and potential side effects of our monetary policy toolkit, and we will engage in regular exchanges with the European Parliament on the progress we make in this exercise. I thus look forward to further occasions to explain and discuss the ECB's monetary policy decisions and their effects on the euro area economy.

Regarding your question on the judgement of the German Federal Constitutional Court, the ECB has taken note of the judgement. It was directed at the German Federal Government and the German Parliament. We are confident that the matter can be addressed in a manner which is at the same time consistent with the independence of the ECB and of the Deutsche Bundesbank, the fact that the Deutsche Bundesbank is an integral part of the Eurosystem, the primacy of EU law and the binding nature of judgements of the Court of Justice of the European Union. The ECB is supporting the Deutsche Bundesbank in its efforts to ensure its continued participation in the implementation of the PSPP and its cooperation with the German Federal Government and the German Parliament, as appropriate. Earlier this month, the Governing Council of the

² See *Account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 3-4 June 2020*, ECB, 25 June 2020, available at <https://www.ecb.europa.eu/press/accounts/2020/html/ecb.mg200625~fd97330d5f.en.html>.

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ECB received a request from the President of the Deutsche Bundesbank to authorise the disclosure by the Deutsche Bundesbank of non-public documents that show how the ECB has assessed and continues to assess the proportionality of the PSPP and of all its instruments of monetary policy. In line with the principle of sincere cooperation, the Governing Council has decided to accommodate this request and to authorise the Deutsche Bundesbank to disclose these documents to the German Federal Government, provided that the non-public elements are treated confidentially. On the same condition, the German Federal Government may share the documents if need be with the German Parliament. As I have said before, the dialogue between the ECB and the European Parliament is an essential element of the ECB's accountability. I thus look forward to continuing discussing with the European Parliament the substance of our monetary policy actions, as also covered in the aforementioned documents and the many types of document that we publish on a regular basis.

Regarding your question on the pandemic emergency purchase programme (PEPP), the ECB remains fully committed to doing everything necessary within its mandate to ensure that inflation rises to levels consistent with its medium-term aim and that the monetary policy action taken in pursuit of the objective of maintaining price stability is transmitted to all parts of the economy and to all jurisdictions of the euro area. As I said during my last hearing before the Committee on Economic and Monetary Affairs, the PEPP is temporary, targeted and proportionate. Two aspects make it the most appropriate instrument in our toolkit to step up the monetary policy impulse at the current juncture. First, in line with the execution of the programme since its inception, the in-built flexibility of the PEPP purchases can play a key role in market stabilisation, safeguarding the smooth transmission of monetary policy across asset classes and among jurisdictions. Second, asset purchases are particularly effective in easing the monetary policy stance in the current crisis environment because they can directly affect market funding conditions for companies and the price of credit for households and small and medium-sized businesses. By easing credit conditions for the private sector, the additional asset purchases will help viable businesses to continue operating and retain as many workers as possible. Our decision to expand the PEPP was thus essential to avoid an even deeper recession with more jobs lost and an increase in the risk of deflation, and to optimise our route to normalisation.

Yours sincerely,

[signed]

Christine Lagarde

Address

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Sonnemannstrasse 20
60314 Frankfurt am Main
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