



EUROPEAN CENTRAL BANK  
EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE  
President

Mr Johan Van Overtveldt  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 16 September 2022

L/CL/22/206

**Re: Your letter (QZ-025)**

Honourable Member of the European Parliament, dear Mr Van Overtveldt,

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 20 July 2022.

In response to your question whether “*fighting unwarranted fragmentation is more important than fighting inflation*”, let me reiterate that the ECB’s primary objective is to maintain price stability. The Governing Council is fully committed to this mandate. To be able to address the present high inflation rates in the euro area, we need to make sure that the ECB’s monetary policy stance is transmitted smoothly across all euro area countries. We have designed the new Transmission Protection Instrument (TPI) for this purpose. It will safeguard the singleness of our monetary policy as the Governing Council proceeds on its policy rate normalisation path, helping us ensure price stability over the medium term in line with our mandate.

Regarding your question about the criteria the ECB considers when judging whether market developments are unwarranted, let me assure you that the Governing Council reviews a comprehensive range of market and transmission indicators to make a thorough assessment of potential fragmentation risks. Any conclusions in this regard will inevitably also require an element of judgement by the Governing Council. Besides the comprehensive assessment of market and transmission indicators, a decision by the Governing Council to

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activate the TPI will be based on an evaluation of the eligibility criteria and a judgement that activating purchases under the TPI is proportionate to achieving the ECB's primary objective.<sup>1</sup>

As far as the potential volume of purchases under the TPI is concerned, the scale would depend on the severity of the risks facing monetary policy transmission. Purchases are not restricted *ex ante*. At the same time, the TPI has been designed carefully, including through the establishment of adequate safeguards. Purchases would be terminated either upon a durable improvement in transmission or based on an assessment that persistent tensions are due to country fundamentals.

Yours sincerely,

[signed]

Christine Lagarde

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<sup>1</sup> See "The Transmission Protection Instrument", *press release*, ECB, 21 July 2022, available at: <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220721~973e6e7273.en.html>.

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