



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE
President

Mr Jonás Fernández
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 14 February 2025
CL/LS/25/52

Re: Your letter (QZ-0014)

Honourable Member of the European Parliament, dear Mr Fernández,

Thank you for your letter regarding the impact of renewable energy on inflation, which was passed on to me by Ms Aurore Lalucq, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 9 December 2024.

The European Central Bank (ECB) closely monitors developments in electricity markets, including in the renewable energy component. The main reason for this – as you say – is that the transition to green energy has a significant impact on energy prices. This has been highlighted in several speeches by high-level ECB officials as well as in ECB publications.¹ While entailing high fixed costs in the short term, the marginal costs of renewable energy production tend to be lower than those of other fossil-based energy sources. Therefore, renewable energy could put downward pressure on overall energy prices in the medium term. Moreover, expanding renewable energy production would gradually increase the European economy's resilience to fossil fuel price spikes and supply disruptions.

Given the increasing share of renewables in the European energy mix, the ECB is conducting research to explore the relationship between investments in renewable energy and price dynamics. For example, an article

¹ See, for instance, Cipollone, P., "[Europe's tragedy of the horizon: the green transition and the role of the ECB](#)", speech at the Festival dell' Economia di Trento, 26 May 2024; Panetta, F., "[Greener and cheaper: could the transition away from fossil fuels generate a divine coincidence?](#)", speech at the Italian Banking Association, 16 November 2022; and Kuik, F. et al., "[Energy price developments in and out of the COVID-19 pandemic – from commodity prices to consumer prices](#)", *Economic Bulletin*, Issue 4, ECB, 2022.

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

in the ECB's Economic Bulletin found that the countries with the highest wholesale electricity prices in 2021 were those in which electricity demand was more frequently covered by gas-fired electricity generation.²

Let me turn to your question on the monetary policy implications of developments in renewable energy. We monitor these closely, since reducing the EU's dependency on traditional energy sources may contribute to lower energy costs. If developments in renewable energy are found to have a substantial impact on inflation, they are included in our analysis and projections of inflation developments. Indeed, electricity is one of the energy components included in both the short-term inflation projections and the medium-term Eurosystem staff projections.³ Our inflation projections also consider medium-term factors that may be relevant for energy prices. For example, in the December 2024 Eurosystem staff macroeconomic projections, we looked at the possible impact of the reform and extension of the Emissions Trading System on inflation.⁴

Additionally, in July 2022 the ECB announced the incorporation of climate change considerations into the Eurosystem's purchases of corporate sector securities, encompassing both the corporate sector purchase programme and pandemic emergency purchase programme corporate bond holdings. As recently as March 2024, the ECB clarified on occasion of its communication on the review of the operational framework that, to the extent that different configurations of the operational framework are equally conducive to ensuring the effective implementation of the monetary policy stance, the operational framework should facilitate the ECB's pursuit of its secondary objective of supporting the general economic policies in the European Union – in particular the transition to a green economy – without prejudice to the ECB's primary objective of price stability. In this context, the design of the operational framework will aim to incorporate climate change-related considerations into our structural monetary policy operations.

Yours sincerely,

[signed]

Christine Lagarde

² See Kuik, F. et al., "[Energy price developments in and out of the COVID-19 pandemic – from commodity prices to consumer prices](#)", *Economic Bulletin*, Issue 4, ECB, 2022.

³ See [A guide to the Eurosystem/ECB staff macroeconomic projection exercises](#), ECB, July 2016.

⁴ See [Eurosystem staff macroeconomic projections](#), ECB, December 2024.

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