



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE

President

Ms Lara Wolters

Mr Bas Eickhout

Members of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 8 May 2026

L/CL/26/129

Re: Your letter (QZ-008)

Honourable Members of the European Parliament, dear Ms Wolters, dear Mr Eickhout,

Thank you for your letter, 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 25 March 2026.

The EU's reliance on energy imports leaves its economy significantly exposed to energy supply disruptions and geopolitical tensions, which can translate into higher energy prices, as seen during the energy crisis following the unjustified Russian invasion of Ukraine.¹ Fossil fuel price shocks spill over directly into inflation, with an immediate pass-through to retail energy prices. Energy is also a key input for production across sectors, so rising energy costs push up input prices, which may then be passed on to consumers.

Beyond the direct inflationary impact, the EU, as a net energy importer, also faces a "terms-of-trade tax" when energy prices spike: a larger share of its income is transferred abroad to pay for expensive energy imports, reducing domestic purchasing power and placing economic strain on households, firms and governments. Higher energy prices can also weaken the EU's competitiveness compared with regions such as the United States, where energy costs are lower and which are net energy exporters. Europe was also more affected after the Russian invasion of Ukraine due to the asymmetric nature of the shock to gas prices. This disparity can

¹ See, for example, European Commission (2025), [Report on energy prices and costs in Europe](#), 26 February.

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lead to a decline in corporate investment, slower innovation and potential deindustrialisation in energy-intensive sectors.

In addition to geopolitical tensions, extreme weather events can also disrupt energy supply chains and increase demand for energy (e.g. during heatwaves or cold spells), potentially putting upward pressure on prices. While all energy sources are exposed to climate-related risks, there is evidence that fossil fuels may be particularly vulnerable given their centralised extraction, refining and transport infrastructure.² Reducing Europe's fossil fuel dependence and increasing locally produced clean energy will strengthen macroeconomic stability, lower long-term costs, support economic growth and enhance Europe's strategic autonomy.

Within its mandate and without prejudice to price stability, the Governing Council also takes into account other considerations relevant to the conduct of monetary policy. Addressing the physical consequences of climate change and nature degradation, as well as the transition to clean energy, is a major challenge and a policy priority for the EU. Governments have the primary responsibility and tools for addressing climate change. Nonetheless, within its mandate and in line with the EU's goals and objectives, the Governing Council is committed to ensuring that the Eurosystem fully takes into account the implications of climate change and nature degradation for monetary policy and central banking, as set out in the ECB's 2025 strategy assessment. This includes incorporating climate considerations into its policy framework, since physical and transition risks have implications for both price and financial stability and can affect the value and risk profile of the assets held on the Eurosystem's balance sheet.

At the same time, ensuring price stability over the medium term and anchoring inflation expectations remains the best way monetary policy can contribute to a stable macroeconomic environment that is conducive to investment, sustainable medium-term economic growth and job creation. Price stability is crucial to any type of fixed investment, as firms can feel more confident that their costs will not rise excessively over time. This is particularly true for investments in renewable energy and energy efficiency, which have a long-term horizon.

Against this backdrop, the ECB's monetary policy response to the economic consequences of the war in the Middle East will be rooted in its monetary policy strategy, which is well equipped to help us navigate the uncertainty stemming from the conflict. Our strategy sets out three principles that will guide us. First, it requires us to assess the nature, size and persistence of the shock before taking decisions on policy. Second, it requires us to focus on risks, not only the baseline. Third, it gives us a graduated set of options for how to respond, depending on the intensity and duration of the shock and how it propagates. Our 2025 strategy assessment also reconfirmed that the set of key ECB policy rates are the primary monetary policy instrument outside the effective lower bound on nominal interest rates. With this in mind, the Governing Council stands ready to adjust

² See, for example, International Renewable Energy Agency (2025), [Renewable energy in climate change adaptation: Metrics and risk assessment framework](#); European Environment Agency (2024), [European Climate Risk Assessment](#), EEA Report 01/2024; Eze Ekechukwu, D. and Simpa, P. (2024), "[A comprehensive review of renewable energy integration for climate resilience](#)", *Engineering Science & Technology Journal*, Vol. 5, No 6, pp. 1884-1908.

its instruments within its mandate to ensure that inflation stabilises sustainably at its 2% target in the medium term and to preserve the smooth functioning of monetary policy transmission.

In 2022, the forceful monetary policy tightening in response to the inflation surge was crucial for keeping longer-term inflation expectations anchored, avoiding a wage-price spiral and bringing inflation back towards target in a timely manner. The starting position of the euro area economy going into the energy shock is more favourable than it was before the Russian invasion of Ukraine, even if memories of recent high inflation could mean that firms and workers respond faster than last time if the shock intensifies. Inflation has been at around the 2% target for about a year, longer-term inflation expectations are well anchored and the policy stance is broadly neutral, without any pre-commitment to a particular rate path.

In line with its data-dependent approach, the Governing Council will draw on incoming information in the period ahead to assess how the war in the Middle East is likely to affect the inflation outlook and the surrounding risks. The Governing Council is monitoring the situation closely and committed to setting monetary policy to ensure that inflation stabilises at its 2% target in the medium term. Thanks to its meeting-by-meeting approach, without a pre-commitment to any particular rate path, it is well placed to react quickly as and when needed.

Yours sincerely,

[signed]

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