



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Gunnar Beck

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 28 May 2021

L/CL/21/120

Re: Your letter (QZ-027)

Honourable Member of the European Parliament, dear Mr Beck,

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 April 2021.

The pandemic emergency purchase programme (PEPP), within which private and public sector securities are purchased, was launched as a temporary instrument aimed at countering the serious risks posed to the smooth transmission of monetary policy and the outlook for the euro area economy by the coronavirus (COVID-19) outbreak. Conducting purchases in a flexible manner has been a cornerstone of the PEPP's purchase strategy from the start. Net purchases under the PEPP are conducted flexibly according to market conditions, to support the smooth transmission of monetary policy to all sectors and jurisdictions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation.

The PEPP's strategy has allowed purchases to be allocated flexibly over time, across asset classes and among jurisdictions and this flexibility has been instrumental in stabilising financial markets and in supporting the smooth transmission of our policies, thereby effectively supporting all citizens in the euro area in these challenging times. In fact, without the ECB's decisions, the initial stress in financial markets at the start of last year owing to uncertainty about the pandemic could have spiralled out of control, with even more severe consequences for the real economy and inflation. Our measures have helped to keep financing conditions for governments, firms and banks at very favourable levels, underpinning economic activity and inflation

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developments. According to our estimates, the measures taken since March 2020 as regards asset purchases and the parameters of the targeted longer-term refinancing operations will increase inflation by around 1.2 percentage points and real GDP growth by around 1.8 percentage points between 2020 and 2023, cumulatively.

Regarding your question on the reliance of fiscal actions on the ECB's monetary policy stance, let me emphasise that our monetary policy actions are always guided by our price stability objective, and are not constrained by other considerations. In the current environment of elevated uncertainty, it is more important than ever that monetary and fiscal policies work hand in hand, within their respective mandates, to absorb the fallout from the COVID-19 pandemic shock. The crisis response thus far has powerfully illustrated how monetary policy and fiscal policy, while remaining independent, can be mutually reinforcing. While monetary policy can ensure favourable financing conditions for all sectors of the economy, fiscal policy can bolster demand in the short and medium term, offer targeted support and enhance the growth potential of our economies, thereby strengthening confidence.

Yours sincerely,

[signed]

Christine Lagarde

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