EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

COURTESY TRANSLATION

Christine LAGARDE
President

Mr Stefano Cavedagna
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 26 September 2024

L/CL/24/162

Re: Your letter (QZ-005)

Honourable Member of the European Parliament, dear Mr Cavedagna,

Thank you for your letter regarding the ECB's monetary policy, 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 5 August 2024.

The ECB's primary objective is to maintain price stability. Ensuring price stability over the medium term is the best contribution monetary policy can make to supporting the economy – as it provides a stable macroeconomic environment that is conducive to sustainable medium-term economic growth and job creation.

Given the unprecedented surge in inflation in recent years, we raised our key interest rates by 450 basis points between July 2022 and September 2023 to ensure that inflation returns to our 2% medium-term target in a timely manner. The medium-term orientation of our monetary policy strategy allowed us to calibrate our response in a way that delivers price stability while minimising impact on economic growth and job creation.

Our actions to bring down inflation operate through two main channels: dampening demand and anchoring inflation expectations. Anchoring inflation expectations is crucial because it reduces the amount of demand dampening needed to achieve a given disinflation path; acting decisively ensures that expectations remain well-anchored, making the process less painful for the economy.

We will keep policy rates sufficiently restrictive for as long as necessary to achieve our symmetric 2% inflation target. The symmetry of our inflation target means that we consider negative and positive deviations from this target as equally undesirable. The integrated analytical framework underlying our monetary policy entails an ongoing in-depth assessment of how our monetary policy transmits across the financial system and the economy. This ongoing assessment helps us balance the risks of undershooting or overshooting our inflation target.

Progress towards reaching our inflation target has allowed us to moderate the degree of monetary policy restriction in two steps, in June and in September. While a bumpy path is projected in the coming months, inflation projections anticipate a decline towards our target in the second half of next year.

The calibration of the appropriate level and duration of monetary policy restriction will continue to be based on a data-dependent approach, considering in particular the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. In line with this data-dependent approach, we are not pre-committing to a particular rate path. Looking further ahead, survey and market financial data do not currently suggest a return to the pre-pandemic scenario of super-low policy interest rates.

Yours sincerely,

[signed]

Christine Lagarde