



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Fabio De Masi
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 13 December 2024

L/CL/24/209

Re: Your letter (QZ-012)

Honourable Member of the European Parliament, dear Mr De Masi,

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 5 November 2024.

The ECB raised its key interest rates at an unprecedented pace between July 2022 and September 2023 in response to the 2021-22 inflation surge. Higher policy rates increased the cost of borrowing for banks, households and firms. The resulting dampening of aggregate demand put downward pressure on inflation – including the part driven by firm profits – and ensured that inflation expectations remained anchored at our target. In this context, it was important for monetary policy to act with determination to prevent high inflation from becoming entrenched.

Our monetary policy instruments operate economy-wide and are not specifically targeted at the energy sector. Measures targeting specific sectors fall within the remit of national governments and the European Commission, for instance through fiscal measures or structural reforms. Looking ahead, reduced dependency on traditional sources of energy could help prevent future energy price shocks from being transmitted forcefully to inflation and the euro area economy.

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As regards interest rates being increased far less in Japan than in the euro area, it is important to consider differences in the conduct of monetary policy against the background of the specific structural and cyclical conditions of the economies concerned. Central banks around the world are committed to delivering on their respective mandates. To do so, each central bank sets monetary policy that caters to the specific economic context it is facing at a given point in time. Quite naturally, different economic contexts result in differences in the monetary policy stance. While inflation rates increased in Japan during 2021 and 2022, they remained significantly below those observed in the euro area. Japan was less affected by the recent energy crisis and has faced the considerable challenge of a long period of very low or even negative inflation rates and below-target inflation expectations. These are among a number of factors that may explain differences between the monetary policies of the ECB and the Bank of Japan.

Yours sincerely,

[Signed]

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