



EUROPEAN CENTRAL BANK  
EUROSYSTEM

COURTESY TRANSLATION

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**Re: Your letter (QZ-068)**

Honourable Members of the European Parliament,

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 17 November 2020.

As I recently stated before the Economic and Monetary Affairs Committee, 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 coronavirus (COVID-19) pandemic shock.<sup>1</sup> 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.

Therefore, the Governing Council of the European Central Bank (ECB) maintains that an ambitious and coordinated fiscal stance remains critical in view of the sharp contraction in the euro area economy. The Governing Council recognises the key role of the Next Generation EU package – with the Recovery and

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<sup>1</sup> See *Introductory statement*, Committee on Economic and Monetary Affairs, 19 November 2020, available at: <https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201119-c21450a2d2.en.html>.

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Resilience Facility as its centrepiece – and stresses the importance of it becoming operational without delay. It calls on Member States to deploy the funds for productive public spending, accompanied by productivity-enhancing structural policies. This would allow the Next Generation EU programme to contribute to a faster, stronger and more uniform recovery and would increase economic resilience and the growth potential of Member States' economies, thereby supporting the effectiveness of monetary policy in the euro area.<sup>2</sup> As you know, the ECB contributes to EU economic policy discussions solely in an advisory capacity, including by participating in the meetings of the ECOFIN Council, the Eurogroup, the Economic and Financial Committee and the Euro Working Group.

The aim of our recent monetary policy measures, including those taken in December 2020, is to deliver the monetary stimulus needed to secure a robust convergence of inflation towards our medium-term aim, i.e. inflation rates of below, but close to, 2%. The role of monetary policy in the current environment is to provide a bridge until widespread immunity is achieved and the economy has recovered from the economic impact of the pandemic. A key pillar of this bridge is to ensure that financing conditions for all sectors of the economy remain favourable. The pandemic emergency purchase programme (PEPP) and the targeted longer-term refinancing operations (TLTRO III) are the key tools in that respect.

As regards the PEPP, we decided to increase the envelope by €500 billion, to a total of €1,850 billion, while extending the horizon for net PEPP purchases to at least end-March 2022. Purchases will be conducted flexibly, according to market conditions, 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. As to TLTRO III, the period over which considerably more favourable terms will apply has been extended by twelve months, to June 2022. Moreover, the total amount that counterparties can borrow in TLTRO III operations will be raised from 50% to 55% of their eligible loan stock. The duration of the set of collateral easing measures adopted by the Governing Council in April 2020 has also been extended to June 2022, to ensure that banks can make full use of the Eurosystem's liquidity operations. The recalibration of the TLTRO conditions will preserve the very attractive existing funding conditions for banks, which will help to ensure that they can continue to offer favourable lending conditions and have ample liquidity to extend loans to households and firms. The ECB takes all its monetary policy decisions in pursuit of its price stability mandate and fully independently, as required by the Treaty on the Functioning of the European Union.

Yours sincerely,

[signed]

Christine Lagarde

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<sup>2</sup> See *Introductory statement*, ECB press conference, 10 December 2020, available at: <https://www.ecb.europa.eu/press/pressconf/2020/html/ecb.is201210~9b8e5f3cdd.en.html>.