



**EUROPEAN CENTRAL BANK**  
EUROSYSTEM

*COURTESY TRANSLATION*

Christine LAGARDE  
President

Ms Francesca Donato  
Mr Marco Zanni  
Mr Valentino Grant  
Mr Antonio Maria Rinaldi  
Members of the European Parliament  
European Parliament  
60, rue Wiertz  
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Frankfurt am Main, 30 September 2021

L/CL/21/212

**Re: Your letter (QZ-037)**

Honourable Members of the European Parliament, dear Ms Donato, Mr Zanni, Mr Grant and Mr Rinaldi,

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 22 July 2021.

We follow closely the initiatives of the European Commission to combat climate change. In this context, we welcome its recent proposal on the “Fit for 55” package. This comprehensive package aims to support climate change mitigation through a wide range of policy elements, including enhanced carbon pricing and improved energy efficiency. Among other things, a more realistic carbon price is expected to set better incentives and foster a surge in innovation and investment, which is indispensable for a timely and cost-efficient transition to a carbon-neutral economy.

Building on its previous analyses of the implications for the economy of climate change and related policies, the ECB will take a careful look at the individual elements of the “Fit for 55” package. Specifically, we will assess how and through which channels they are likely to affect the euro area economy, with a particular focus on the factors that could potentially have an impact on relative prices and inflation.

While existing evidence suggests that the effects of climate change and the transition to a carbon-neutral

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economy are likely to be substantial,<sup>1</sup> there is considerable uncertainty regarding the channels through which these would have an impact on the euro area in general and inflation developments in particular. The impact on inflation is likely to be both direct and indirect, affecting not only the level of inflation but also its seasonality and volatility. For example, inflationary pressures could emerge from higher carbon prices and from firms passing on to customers the higher costs they incur in having to become more environmentally friendly or having to adapt their business models. Conversely, prices for renewable energy sources may decline further over time if more efficient technologies are developed.

I would like to stress that the ECB is committed to increasing its contribution to addressing climate change in line with its mandate. In our communication of 8 July 2021 on the outcome of the ECB's strategy review, we presented an ambitious action plan outlining how we intend to integrate climate change considerations into our monetary policy strategy.<sup>2</sup> In particular, we place great emphasis on the importance of assessing the implications for the euro area economy of climate change and of the policy responses to it. The ECB's new Climate Change Centre will contribute to shaping and steering the ECB's climate agenda. This includes the analysis of the impact of EU policies, such as the "Fit for 55" package. The results of these analyses will be communicated in due course. In the meantime, let me refer you to the occasional paper on "Climate change and monetary policy in the euro area" which contains analysis conducted as part of the workstream on climate change in the context of the strategy review.<sup>3</sup>

Yours sincerely,

[signed]

Christine Lagarde

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<sup>1</sup> See, for example, Andersson, M., Baccianti, C. and Morgan, J. (2020), "Climate change and the macro economy", *Occasional Paper Series*, No 243, ECB, available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op243~2ce3c7c4e1.en.pdf>; and Osterloh, S. (2020), "The implications of fiscal measures to address climate change", *Economic Bulletin*, Issue 2, ECB, available at: [https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202002\\_04~a7d137cb35.en.html](https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202002_04~a7d137cb35.en.html).

<sup>2</sup> See the press release of 8 July 2021 entitled "ECB presents action plan to include climate change considerations in its monetary policy strategy" and the annex thereto outlining a "Detailed roadmap of climate change-related actions", both available at: [https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708\\_1~f104919225.en.html](https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708_1~f104919225.en.html).

<sup>3</sup> See <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op271~36775d43c8.en.pdf?f26c937c8b72f2d321adc33893e17197>.

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