



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE
President

Mr Domènec Ruiz Devesa
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 25 November 2022

L/CL/22/238

Re: Your letter (QZ-029)

Honourable Member of the European Parliament, dear Mr Ruiz Devesa,

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 October 2022.

As part of our strategy review concluded in July 2021¹, the ECB carefully examined the appropriateness of the instruments in its monetary policy toolkit. This included an extensive assessment of the ECB's set of unconventional monetary instruments. We found that, in the low interest rate environment of the past decade, forward guidance, asset purchases and longer-term refinancing operations helped to mitigate the limitations generated by the lower bound on nominal interest rates. These instruments will, therefore, remain an integral part of the ECB's toolkit, to be used as and when appropriate.

Regarding "helicopter money", let me reiterate that the Governing Council has never discussed this issue and, therefore, the ECB has not adopted a formal position on the matter.

On this subject, please refer to my reply of 21 April 2020² to a letter from your honourable colleague Mr Lamberts, in which it was noted that the term "helicopter money" has been associated with a wide range of

¹ See "An overview of the ECB's monetary policy strategy", available at:
https://www.ecb.europa.eu/home/search/review/html/ecb.strategyreview_monpol_strategy_overview.en.html.

² See *Letter from the ECB President to Mr Philippe Lamberts, MEP, on monetary policy*, ECB, 21 April 2020, available at:
https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter200422_Lamberts_2~484e3afccb.en.pdf?c29706e9d3074c95ad1d5250e6f5ae6c.

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policy proposals.³ In many cases, these proposals do not fully address the associated operational, accounting and legal complexities, nor do they provide a comprehensive cost-benefit analysis of the full economic and monetary impact. This broad assessment is confirmed in background work for the monetary policy strategy review to which you refer.⁴

Studies on “helicopter money” – including those to which you refer in your letter⁵ – typically consider a context in which inflation is persistently too low relative to the central bank’s target, while the primary instrument of monetary policy, namely the set of main policy rates, is constrained by the effective lower bound.

The current macroeconomic environment is very different, requiring a distinctly different monetary policy response. Inflation in the euro area is far too high, having reached double digits for the first time in October. To respond to this challenge, the ECB has taken decisive action – guided by our primary objective to maintain price stability over the medium term – in order to ensure a timely return of inflation to our target of 2%. Net asset purchases have ended, policy rates have been raised by 200 basis points since July and further rate increases are expected along this normalisation path.

As regards your concerns for the poorest people in society and how to support them, low-income households are hit hardest by the strong rise in energy and food prices as they typically spend a higher proportion of their budget on energy-related goods and food.⁶ The best contribution monetary policy can make to support the economy and the purchasing power of vulnerable households is to ensure price stability over the medium term, while concerns about an equitable income and profit distribution need to be addressed by appropriate fiscal measures. For a good policy mix, fiscal support measures to cushion the impact of higher energy prices should be temporary, targeted to the most vulnerable households and companies, and tailored so that they do not weaken incentives to cut energy demand. This limits the risk of fuelling inflationary pressures, enhances the efficiency of public spending and preserves debt sustainability.

Yours sincerely,

[signed]

Christine Lagarde

³ Please also refer to my reply to a letter from a group of MEPs, including yourself: *Letter from the ECB President to several MEPs, on monetary policy*, ECB, Frankfurt am Main, 22 December 2020, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter201229_Urtasun_Ruiz_Devesa~8c3f04f65b.en.pdf?796e180a800e83f3a4954868994aeca7.

⁴ See Section 3.3 of “Monetary-fiscal policy interactions in the euro area”, *Occasional Paper Series*, No 273, ECB, Frankfurt am Main, September 2021, available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op273~fae24ce432.en.pdf>.

⁵ Martin, P., Monnet, E. and Ragot, X., “What Else Can the European Central Bank Do?”, *Les notes du conseil d’analyse économique*, No 65, 2021. Buetzer, S., “Advancing the Monetary Policy Toolkit through Outright Transfers”, IMF Working Paper 22/87, 2022.

⁶ See also “The impact of the recent rise in inflation on low-income households”, *Economic Bulletin*, ECB, Frankfurt am Main, November 2022, available at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2022/html/ecb.ebbox202207_04~a89ec1a6fe.en.html.

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