

**EGOV**

ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT



MONETARY POLICY

# Monetary Dialogue in November 2023

## Summary of parliamentary scrutiny activities

*This briefing provides a summary of all scrutiny activities of the European Parliament related to euro area monetary policy in the period between September 2023 and November 2023. For a recap of the key monetary policy developments and decisions taken by the European Central Bank in that period, please refer to our [briefing](#) published ahead of the 27 November Monetary Dialogue. We publish these documents regularly ahead and after each Monetary Dialogue with the European Central Bank.*

### 1. Monetary Dialogue in November 2023

#### 1.1 President Lagarde's introductory remarks

On [27 November 2023](#), ECB President Christine Lagarde attended the fourth Monetary Dialogue (MD) in 2023 with Members of the ECON Committee.

**President Lagarde [provided](#) an overview of the economic outlook for the euro area, noting the period of stagnation in recent quarters and the likely continuation of this trend until the end of the year.** The recent economic slowdown can be attributed to a combination of factors, including higher interest rates, weakened foreign demand, and a fading post COVID-19 pandemic economic rebound. Manufacturing output is on a continued decline, and the services sector is showing signs of weakening. However, labour markets remain generally robust, albeit with indications that job growth may taper off by year-end. Lagarde noted that *"While the short-term outlook remains subdued, the economy is set to strengthen again over the coming years as inflation falls further, household real incomes recover and the demand for euro area exports picks up."*

**In October, inflation in the euro area fell further to 2.9%**, driven by a general decline in inflation and visible base effects, particularly the decreasing rate of energy prices (-11.2%). Core inflation continues to be moderate at 4.2% in October, influenced by slowdowns in goods and services inflation. When comparing trends in the United States (US), she pointed out divergent patterns, including more contained food inflation and faster core inflation after the COVID-19 pandemic in the US. In the euro area, despite a weakening trend



in headline inflation, strong wage pressures persist, mainly attributed to "catch-up" effects related to past inflation, with wages anticipated to continue driving domestic inflation. Meanwhile, the contribution of profits, a significant factor of domestic price pressures during 2022, is weakening (**Figure 1**).

**While discussing the latest ECB's monetary policy decisions, President Lagarde reiterated the ECB's commitment to bring inflation down to 2% medium-target.** In October, the decision was made to maintain the key ECB interest rates at their existing levels (deposit facility rate (DFR) stands at 4%). President Lagarde underlined: *"We expect that maintaining interest rates at current levels for a sufficiently long duration will make a substantial contribution to restoring price stability. [...] Our future decisions will ensure that policy rates are set at sufficiently restrictive levels for as long as necessary. The appropriate level and duration of restriction will continue to be determined in a data-dependent manner, assessing the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission."* In mid-December, the Governing Council will review its monetary policy stance, taking into account incoming data and revised projections, including those for the year 2026.

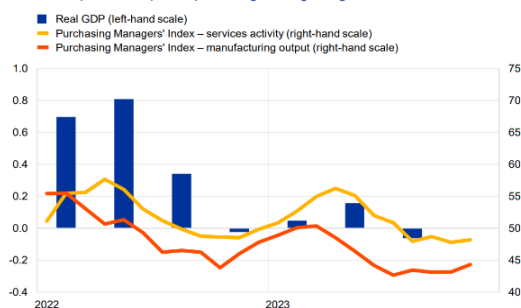
**President Lagarde emphasised the necessity of integrating climate change considerations into monetary policy decisions,** noting the increasing frequency and severity of climate-related disasters in Europe over the last past months. While emphasising that governments are primarily responsible for climate action, she argued the relevance of climate concerns for the ECB within its primary and secondary mandate. The ECB is committed to fulfilling its primary objective of price stability, acknowledging the role of large investments in green technologies in supporting the green transition. President Lagarde outlined the ECB's efforts in enhancing understanding of climate-related economic and financial risks, including the publication of climate-related indicators. In monetary policy implementation, ongoing ECB initiatives such as tilting activities to decarbonise corporate bond holdings and the commitment for further decarbonisation beyond 2024, aligning with the goals of the Paris Agreement, are pursued without compromising the primary mandate.

The introductory statement, as usual, was accompanied by a [two-page document](#) offering an overview of the latest economic and inflation developments and key takeaways on the two topics for the November MD (Figure 1).

**Figure 1:** Introductory statement in three charts

### Real GDP growth and sectoral PMIs

(left-hand scale: quarter-on-quarter percentage changes; right-hand scale: diffusion index)

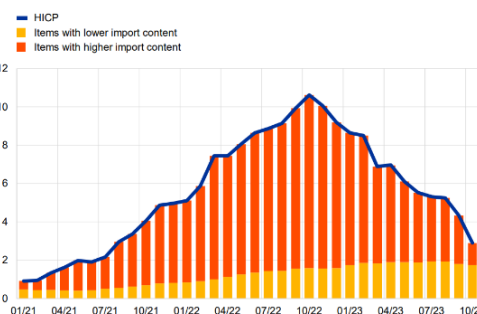


Sources: Eurostat and S&P Global.

Notes: Purchasing Managers' Indices (PMIs) reflect whether purchasing managers perceive output to be higher (>50), lower (<50) or unchanged (=50) since the previous month. The latest observations are for the third quarter 2023 for GDP and for November 2023 for PMIs.

### Decomposition of inflation

(annual percentage changes, percentage point contributions)

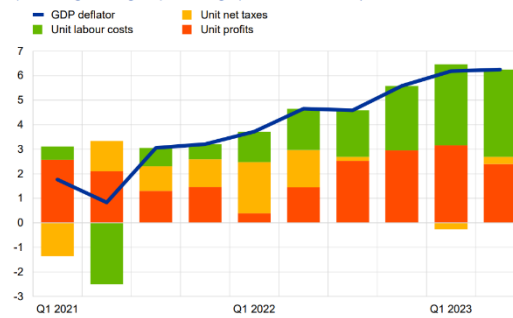


Sources: Eurostat and ECB calculations

Notes: See ["A new indicator of domestic inflation for the euro area"](#). Items with a higher import content include energy and food items. The latest observations are for October 2023.

## Contributions to GDP deflator

(annual percentage changes, percentage point contributions)



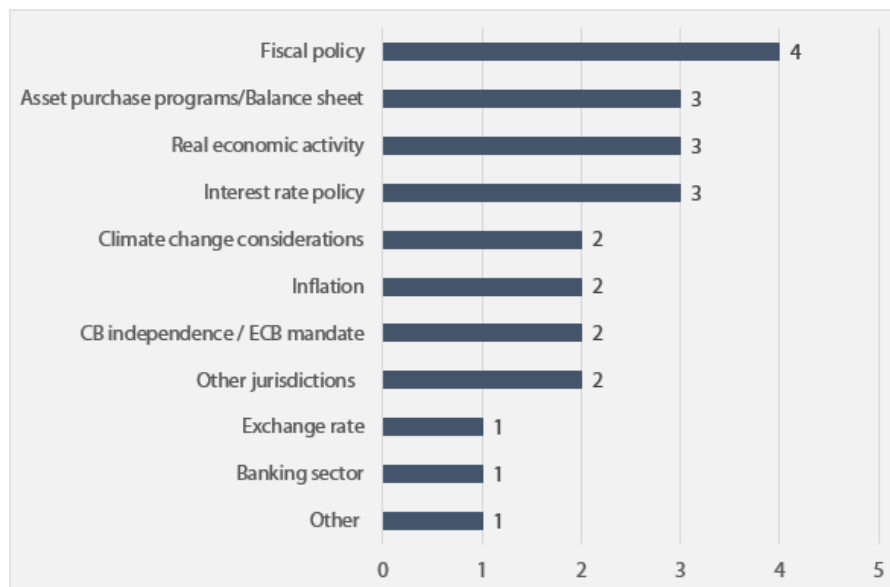
Sources: Eurostat and ECB calculations.

Note: The latest observations are for the second quarter of 2023.

Source: [ECB](#).

## 1.2 MEP questions

In the November MD, 11 Members of the ECON Committee participated in the question and answer session with President Lagarde, with 14 interventions. **Figure 2** shows the main points of each intervention (through questions and follow-up questions raised by each Member), sorted into 11 categories. Most interventions focused on monetary and fiscal policy interactions, asset purchase programs/balance sheet, real economic activity (focusing on recession risk and effects of monetary policy tightening) and interest rate policy.


**Figure 2:** MEP interventions, by category

Notes: The interventions were categorised by the authors of this briefing based on the [transcript of the MD of 27 November 2023](#). These results should be interpreted as indicative as they are subject to interpretations and assumptions of the authors. Other refers to: Member State specific questions, Capital Markets Union and EU Industrial Policy.

### 1.3 Monetary Dialogue papers prepared by the Monetary Expert Panel

The two topics selected for the November MD were "Comparative analysis of monetary policy and inflation dynamics in the euro area and the United States" and "Climate change considerations in monetary policy implementation".

**Table 1:** MD papers on "Comparative analysis of monetary policy and inflation dynamics in the euro area and the United States"

Comparative analysis of monetary policy and inflation dynamics in the euro area and the United States 		
Authors	Title	Abstract
L. Bonatti, A. Fracasso & R. Tamborini	<a href="#">Inflation and monetary policy across the Atlantic: A comparison</a>	Under the stress test of the inflation process, the two central banks' stances across the Atlantic share similarities but show also significant differences. Similarities and differences are reflected also in inflation dynamics in the US and the euro area. Differences are mainly due to the mix of factors that originated the take-off of inflation, some structural features of the economies, the institutional contexts and associated fiscal stances.
K. Whelan	<a href="#">Comparing Fed and ECB monetary policies</a>	The European Central Bank and Federal Reserve have taken similar approaches to tightening monetary policy to tackle high inflation. However, relative to the US, euro area inflation has been driven more by supply shocks and less by strong demand. The euro area economy is also weakening while the US economy is still growing solidly. Markets expect the Fed to ease more than the ECB in 2024 but falling inflation and a weak euro area economy may see the opposite occur.
C. Wyplosz	<a href="#">The Inflation Episode: Similarities and differences in the euro area and the United States</a>	Inflation has surged and then declined in broadly similar ways in the euro area and the United States, because it has been driven by the impact of the pandemic and its aftermath. Yet, specific differences reflect how monetary and fiscal policies responded as well as the impact of the Russian invasion of Ukraine. The central banks face whole new challenges as they prepare to navigate the next phase now that inflation has rapidly declined, but also further along.
M. Moschella & D. Romelli	<a href="#">Inflation dynamics and monetary policy in the euro area and the US</a>	This paper compares the inflation dynamics and the monetary policy stance in the euro area and the United States. The paper also discusses the challenges that monetary authorities confront on the two sides of the Atlantic, also considering the uncertainties brought about by the ongoing crisis in the Middle East.
C. Blot & F. Geerolf	<a href="#">Are inflation dynamics different in the euro area and the United States?</a>	The euro area and the United States have both experienced an episode of strong inflation post COVID-19 pandemic and after the Russian invasion of Ukraine. We highlight commonalities as well as differences in these episodes, in terms of headline and core inflation, inflation differentials and causes, and monetary policy between the euro area and the United States. We propose different scenarios for inflation and monetary policy.

**Table 2:** MD papers on “Climate change considerations in monetary policy implementation”

Climate change considerations in monetary policy implementation		
Authors	Title	Abstract
D. Schoenmaker	<a href="#">Low-carbon allocation in the implementation of monetary policy</a>	This paper analyses how the European Central Bank (ECB) can incorporate climate change considerations into its implementation of monetary policy. It reviews the impact of climate shocks on inflation, and the instruments available to decarbonise the ECB's asset and collateral portfolio. The paper concludes with recommendations to the ECB that would increase the low-carbon allocation in its monetary policy framework. This will in turn speed up the green transition and reduce the euro area's fossil-fuel dependency.
D. Gros & F. Shamsfakhr	<a href="#">Shades of Green Monetary Policy: Would a green tilt help?</a>	Any greening of monetary policy is likely to have at best a marginal effect on emissions given the very small spreads on the yields of green bonds and the cap on emissions inherent in the EU's emissions trading system. Trying to limit the supply of capital to brown industries could backfire as these industries are those most in need of financing for capital-intensive decarbonisation. These arguments apply both to the tilting of investments under the corporate sector purchase programme (CSPP) towards green industries/enterprises and to the potential greening of targeted long-term refinancing operations. Moreover, CSPP holdings will decline rapidly, so this prospective policy instrument will become irrelevant in a few years.
S. Dobkowitz, P. Hüttl, A. Kriwoluzky & J. Wittich	<a href="#">Climate Change and Monetary Policy: Risks, instruments, &amp; chances</a>	Rising inflation complicates the alignment of the ECB's policies with the Paris Agreement. This paper provides novel evidence for inflationary pressures arising from natural disasters. We then discuss the effectiveness of monetary instruments to boost a green transition, concluding that the scope of policy measures used thus far is limited. As additional measures, we advise active rebalancing of the ECB's bond holdings towards greener issuers, enforcing stricter disclosure standards, and differentiating lending facilities in favour of green investments.
J. Beckmann, K. Gern, N. Jannsen & N. Sonnenberg	<a href="#">Climate Change and Monetary Policy in the Euro Area</a>	Climate considerations have entered the agenda of the ECB in recent years. The ECB has intensified its analyses of the macroeconomic impact of climate change and started to evaluate and implement more active approaches and best practices to support the green transition. In this paper we discuss how climate change could affect monetary policy, other policies available to the ECB to support the green transition, and potential trade-offs with its primary objective of price stability.



## 1.4 Monetary Dialogue Preparatory Meeting

**On 14 November 2023, members of the ECON Committee attended a preparatory meeting in Brussels ahead of the November MD.** Luigi Bonatti (University of Trento) presented a paper on the topic “Comparative analysis of monetary policy and inflation dynamics in the euro area and the United States” with Evi Pappa (Universidad Carlos III de Madrid) participating as a guest discussant. Dirk Schoenmaker (Bruegel) presented a paper on the topic “Climate change considerations in monetary policy implementation”.

**Luigi Bonatti discussed the comparison between the US and the euro area on inflation and monetary policy.** In his view, the FED and ECB have displayed similar attitudes over the past three years. However, discernible differences arise from circumstances beyond the control of central banks, including structural disparities, geopolitical factors, institutional frameworks, and variations in the macro environment, encompassing distinct fiscal policies. He contends that past increases in euro area core inflation were driven by pass-through effects of large headline inflation shocks, while the US experienced inflation driven by domestic overheating and labour market tightness. The strategies adopted by both central banks share similarities, emphasising a conventional policy of higher interest rates alongside balance sheet downsizing.

Notably, the expansionary fiscal policy in the US outsizes that of the euro area, characterised by budgetary constraints that could potentially tame expectations for a soft landing in Europe. In his view, however, the US fiscal policy is however unsustainable policy, leading to potential tensions in the medium-term.

**Evi Pappa [echoed](#) these remarks, emphasising that supply-side bottlenecks and oil shocks were influential in both regions. Additionally, she noted that the similar contribution of monetary policy to inflation in both the US and Europe.** However, significant differences emerged, with Europe experiencing stagnation, in stark contrast to the US, which demonstrated robust economic expansion. Professor Pappa highlighted that while in the US inflation follows a common trend across regions, in the euro area there are substantial inflation differentials following the COVID-19 pandemic, necessitating different policy responses. She also drew attention to the varying nature of sovereign debt between the US and euro area countries, warning that sovereign risk variation in the euro area could put pressure on the financial markets of certain member States and lead to solvency concerns. In the discussion with Members, she warned against the use of the ECB's collateral framework to address these issues, calling instead to use the window of the reform of the economic governance framework to tackle the fear of rising spreads in the markets.

**Dirk Schoenmaker [discussed](#) the repercussions of climate change shocks on monetary policy implementation and explored potential tools that the ECB could employ to address climate change issues.** He underscored the significant role that volatile energy prices have played in driving sharp price increases in the euro area over the past two years. The key challenge in balancing the ECB's primary objective of price stability while maintaining price stability and reducing fossil-fuel dependencies. He proposed potential green monetary policy instruments, including carbon factors and Green Targeted Longer-Term Refinancing Operations (GTLTROs) to incentivise banks' sustainable lending. In his remarks he noted the slow pace of the ECB in tilting its portfolio towards low-carbon sectors and emphasised the role on carbon factors, including for bank loans and asset-based securities, in accelerating the rebalancing of the loan portfolio. In his view, the permanent nature of the collateral pool would allow the green tilting even during the phase out of QE, thus preventing interferences with the monetary policy. In an exchange with MEPs, he evaluated other potential policy tools. He warned that the Emission Trade System (ETS) covers only 45% of emissions and presents a number of exemptions, criticised green bonds for being relatively ineffective at this stage and instead praised green deposits as a potential helpful solution for the transition.

## 2. Questions for written answer

From 25 September to 27 November, the period between the two most recent MDs, the ECB replied to five written questions from MEPs in accordance with [Rule 140 of the European Parliament Rules of Procedure](#). These five questions were related to monetary policy, macroeconomic projections and Eurosystem institutional issues. As presented in **Table 3**, the answers by the ECB President to three questions that were tabled during this period are still pending.

**Table 3:** Questions for written answer

MEP	Political group	Subject	Date of question	ECB category	Date of response
R. Andresen, B. Eickhout, H. Hahn, V. Niinistö, E. Urtasun	Verts/ALE	Implications of recent monetary policy decisions	<a href="#">24/07/2023</a>	Monetary policy	<a href="#">17/11/2023</a>
B. Kelleher	Renew	ECB's mandate	<a href="#">31/08/2023</a>	Monetary policy	<a href="#">17/11/2023</a>
E. Eroglu	Renew	Monetary Dialogue with Christine Lagarde on 5 June 2023 – Committee on Economic and Monetary Affairs	<a href="#">06/09/2023</a>	Macroeconomic projections	<a href="#">17/11/2023</a>
C. Ponsatí Obiols, C. Puigdemont i Casamajó, A. Comín i Oliveres	NI	Unsatisfactory answer to Written Question on the independence of the governing bodies of national central banks	<a href="#">12/09/2023</a>	Eurosystem institutional issues	<a href="#">17/11/2023</a>
M. Zanni, V. Grant, A. Maria Rinaldi	ID	Remuneration of bank reserves held at the European Central Bank	<a href="#">20/09/2023</a>	Monetary policy	<a href="#">17/11/2023</a>
Eroglu, E.	Renew	Transition to the preparatory phase of the digital euro	<a href="#">27/10/2023</a>	-	-
Melo, N.	EPP	Nomination of Mário Centeno as prime minister	<a href="#">13/11/2023</a>	-	-
Eroglu, E.	Renew	Performance related compensation of the ECB leadership	<a href="#">27/11/2023</a>	-	-

## 3. Report on European Central Bank - annual report 2023

On 28 November 2023, the Members of the ECON Committee adopted the [ECB annual report for 2023](#) with Mr Johan Van Overtveldt (ECR, BE) as the rapporteur. In total, [40 ECON Members](#) out of the 53 present voted in favour of the report. Adoption by the plenary is envisaged for 5 February 2024.

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