

**EGOV**

ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT



MONETARY POLICY

Monetary Dialogue in February 2024

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 December 2023 and February 2024. 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 15 February Monetary Dialogue. We publish these documents regularly ahead and after each Monetary Dialogue with the European Central Bank.

1. Monetary Dialogue in February 2024

1.1 President Lagarde's introductory remarks

On [15 February 2024](#), ECB President Christine Lagarde attended the first Monetary Dialogue (MD) of 2024 with Members of the ECON Committee. This marks the last MD of the current legislative term before the June European elections.

President Lagarde [provided](#) an overview of the economic outlook for the euro area and recent monetary policy decisions of the ECB. Noting the current stagnation in euro area economic activity, she underscored the broad-based nature of weakness across sectors: *"Incoming data continue to signal subdued activity in the near term. However, some forward-looking survey indicators point to a pick-up in the year ahead".*

She indicated that, according to the latest flash estimate, **inflation in January 2024 decreased to 2.8%, following a half-percentage point increase in December.** This December rebound, although predicted, was smaller than expected and reflected base effects in the energy sector. In January, food inflation eased further to 5.7% while energy kept being disinflationary at -6.3%. Core inflation has been gradually decreasing, although its services component shows signs of persistence. President Lagarde further noted how strong wage growth is anticipated to increasingly influence inflation dynamics in the upcoming quarters. Overall, the expectation remains for a further **gradual decline in inflation over 2024.** In this context, **President Lagarde also presented the ECB's decision to maintain key policy interest rates**



unchanged and reaffirmed the ECB's commitment to a data-dependent approach in determining the appropriate monetary policy measures.

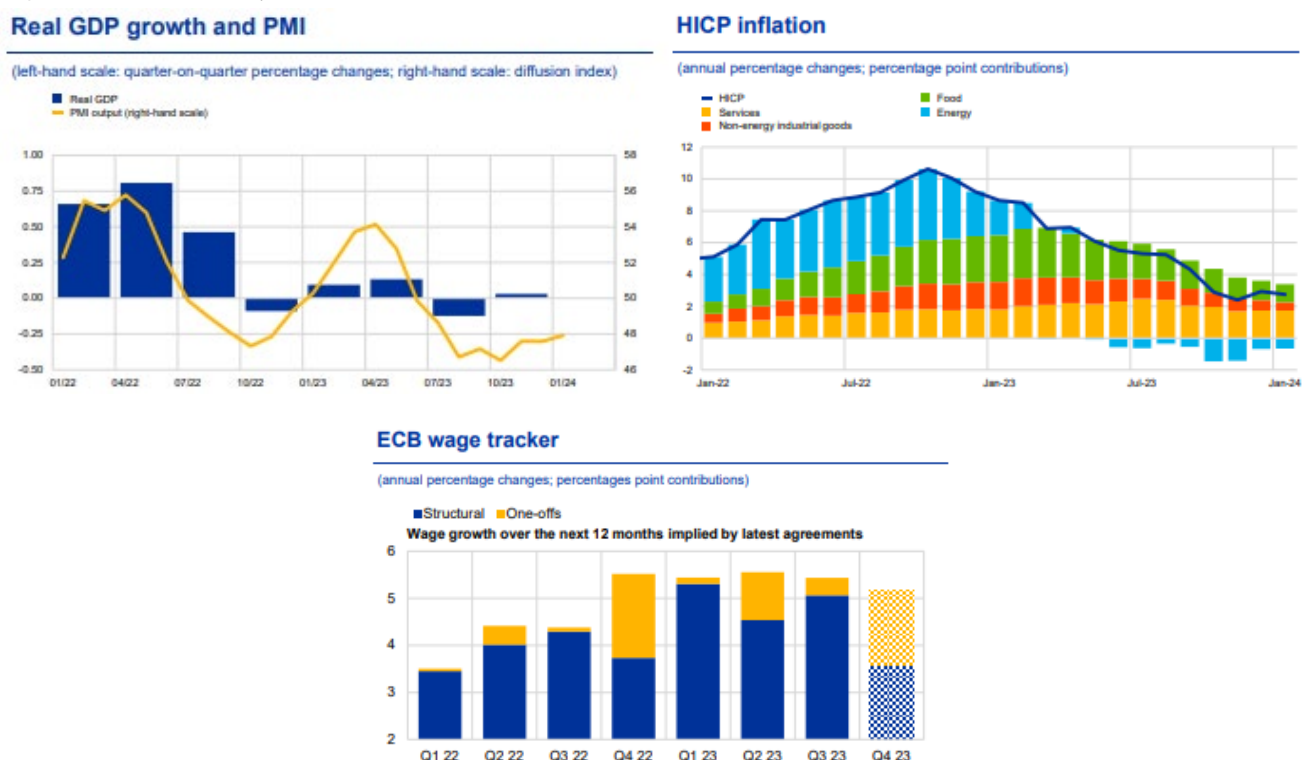
Transitioning to the theme of the hearing, the 25th anniversary of the euro, **President Lagarde outlined the currency's evolution from its inception to its status as an integral part of daily life for 350 million individuals across 20 countries.** She categorised the euro's history into three decades, highlighting its growth amidst various challenges and crises, and emphasised its role in fostering simplicity, stability, and sovereignty within the euro area. Over time, the ECB managed to establish its credibility while the Economic and Monetary Union (EMU) managed to respond to crises by updating its architecture, including through the creation of the Single Supervisory Mechanism (SSM). In her view, *"the euro has (...) repeatedly demonstrated its resilience and reliability in the face of significant challenges"*.

Acknowledging the pivotal role of the European Parliament in strengthening the euro's foundations, President Lagarde commended legislative efforts such as the establishment of NextGenerationEU and reforms in economic governance, capital markets, and Banking Union. She also recalled other initiatives, e.g. digital euro and climate change related legislative actions, in ensuring that the euro is fit for the future. She reaffirmed the ECB's commitment to its mandate of ensuring price stability, integrating climate-change considerations into monetary policy operations, and advancing initiatives such as the digital euro.

Looking ahead, President Lagarde assured continued collaboration between the ECB and the European Parliament in addressing emerging challenges. She concluded by asserting that while the first 25 years of the euro have been successful, continuous work is necessary to ensure the resilience and viability of EMU in face of new geopolitical challenges.

The introductory statement 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 February MD (Figure 1).

Figure 1: Introductory statement in three charts

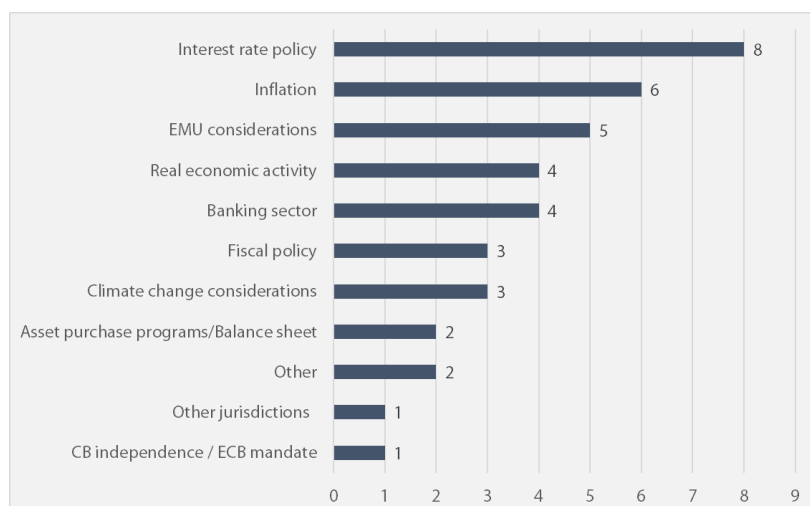


Source: [ECB](#).

1.2 MEP questions

During the February MD, 15 Members of the ECON Committee participated in the question and answer session with President Lagarde, with 23 interventions. **Figure 2** describes the main points of each intervention (through questions and follow-up questions raised by each Member), sorted into 11 categories. Most interventions were focused on interest rate policy (particularly rate cuts), inflation developments and forecasts, completion of the EMU, real economic activity and banking sector.

Figure 2: MEP interventions sorted by category



Notes: The interventions were categorised by the authors of this briefing based on the [transcript of the MD of 15 February 2024](#). 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 and digitalisation.

1.3 Monetary Dialogue papers prepared by the Monetary Expert Panel

The topic selected for the February MD was “Euro@25: What’s next for the EMU?”.

Table 1: MD papers on “Euro@25: What’s next for the EMU?”

Euro at 25: what's next for the EMU?		
Authors	Title	Abstract
L. Reichlin, J. Pidani-Ferry, J. Zettelmeyer	The Euro at 25: Fit for purpose?	This paper reviews the record of European Central Bank policymaking since the 2010-12 euro crisis in order to develop recommendations on: (1) the ECB’s future monetary policy strategy, (2) its operational framework, and (3) the governance of European Economic and Monetary Union.
D. Gros, F. Shamsfakhr	From past shocks to future uncertainties: navigating 25 years of euro area challenges	The euro area has been subject to a series of very different shocks, some of which, such as the COVID-19 pandemic, were unprecedented. While the ECB’s reaction to these deflationary shocks was vigorous, it persisted too long with its expansionary measures and failed to see their inflationary impact when energy prices shot up. The future is likely to bring new challenges, but climate change might not be the most important threat to price and financial stability.
C. Wyplosz	The age of reason?	At age 25, the euro has been a historical success, but it has not yet reached an adult stage. The ECB has made much progress and can do more on its own. Its next monetary policy strategy, to be announced in 2025, is an opportunity that should not be missed. Much more is needed

		from member governments, which are still reluctant to grant the ECB what it needs to become a normal central bank.
L. Bonatti, A. Fracasso, R. Tamborini	The ECB and the integrity of the euro area: Past and future	The key lesson of the first twenty five years of the euro is that the ECB is embedded in an incomplete and flawed institutional context. Its role has increasingly emerged as an integration agency in the face of existential threats to the euro. The way the world is going to change will put the ECB's status under further stress. The next strategy review will need to address structural changes adding new policy trade-offs to the old ones. The sooner the euro-area governance is reformed leaving politics and dogmatism aside, the better.
P. Siklos	Where has the euro area been? Where does it go from here?	When it comes to the euro, policy makers should not follow the expression: "if it ain't broke, don't fix it". A review of the first 25 years of the euro suggests that mistakes were made. Yet, the ECB has also been remarkably adaptable under difficult circumstances. Improvements to the resilience of the euro area are possible. This paper looks back over an eventful quarter century and offer a peak into the euro area's possible future challenges.
K. Whelan	The euro at 25 and what's next for the ECB?	The euro has proved to be remarkably resilient and is popular with the EU's citizens. This paper reviews the reasons for this and argues that the euro project is more resilient now due to several institutional changes. It also discusses how the ECB's monetary policy has evolved over time, its policy stance in recent years and some of the ways in which it may need to change in the future.
K. Bernoth, S. Dietz, R. Lastra, A. Pekanov	ECB monetary policy: Past, present and future	This paper considers the past, present, and future of the ECB monetary policy. Looking backwards, the ECB has succeeded in navigating through several crises. Looking forward, the paper examines some of the main challenges confronting the ECB in the years ahead with climate change, digitalisation, inequality, sovereign indebtedness, and the completion of Banking Union complicating the pursuit of the price stability primary objective.
C. Blot, J. Creel, H. Kempf, S. Levasseur, X. Ragot, F. Saraceno	Sailing in all weather conditions the next 25 years: challenges for the euro	Over the past 25 years, the euro faced various crises, prompting a reassessment of its governance. Concerns arise regarding the ECB's exposure to risk and the necessity of deep reforms for managing growing ecological, financial, and geo-economic risks. Despite initial achievements like the banking union, challenges persist, such as financial instability and economic fragmentation. Policymakers must address these risks through enhanced monetary and macroprudential policies, fiscal coordination, and supply-side fiscal measures to navigate digitalisation and environmental challenges effectively.
P. Canofari, G. Di Bartolome	The ECB in the age of turbulence	This study discusses the ECB's response to the recent crises, detailing interventions, new tools, and strategy shifts. It evaluates the effects of such crises on inflation expectations and financial stability across major European economies, offering insights into the euro area's policy dynamics and challenges.

1.4 Monetary Dialogue Preparatory Meeting

On **12 February 2024**, members of the **ECON Committee** discussed the topic “Euro at 25: what’s next for the EMU?” as part of an [Interparliamentary Committee Meeting](#) in the context of [the European Parliamentary Week](#) (EPW).

Members of the ECON Committee’s Monetary Expert Panel (Lucrezia Reichlin from Bruegel and Daniel Gros from CEPS) presented their papers. Niels Thygesen, Chair of the European Fiscal Board and independent member of the Delors Committee which prepared the outline of EMU in 1988-9, also attended as guest discussant. A second panel featured interventions of invited policy makers Commissioner Mairead McGuinness, ECB Executive Board Member Piero Cipollone and the Managing Director of the European Stability Mechanism (ESM) Pierre Gramegna.

Lucrezia Reichlin acknowledged the ECB’s success in innovating its monetary policy operations by maturing into a modern central bank and addressing structural shortcomings. Regarding future policy considerations, she underscored the importance of monetary-fiscal coordination. She noted that while they are always intertwined, their interaction becomes particularly crucial during certain periods, e.g. when interest rates are very low thus limiting the effectiveness of monetary policy. She advocated for measures such as a larger EU budget, more own resources and fiscal sharing, emphasising that simply increasing debt is not sufficient to tackle future challenges. Additionally, Reichlin talked about the role of monetary policy in addressing climate concerns. She suggested that monetary policy could contribute to the transition by greening corporate bond portfolios and adjusting interest rates to align the horizon of the price stability goal with environmental objectives.

Daniel Gros also addressed climate change consideration but expressed scepticism about the efficacy of monetary policy in reducing emissions. He argued that while the Emissions Trading System (ETS) sets a cap on emissions, it may inadvertently incentivise the expansion of other polluting industries. This would be due to a fall in the price of ETS certificates whereas the amount of total emissions would remain unchanged. Gros questioned the superiority of centralised decision-making compared to decentralised fiscal policy decisions across the euro area countries, suggesting that distributing fiscal policy decisions may not be as detrimental as often perceived. He highlighted the advantage of having low debt levels in responding to crises, citing examples such as aid to Ukraine which primarily comes from countries with lower constraints on their public finances. Lastly, Gros agreed with President Lagarde’s stance that during normal times, the ECB’s focus should not be on addressing interest rates differentials on sovereign debt across the euro area.

Niels Thygesen highlighted that the euro has enhanced the resilience of the EMU to economic shocks. However, he cautioned that risks such as the bank-sovereign doom loop still persist and little progress has been achieved on the Capital Markets Union (CMU). Thygesen noted the evolution of the ECB from a purist institution to resemble more other central banks, albeit not entirely, in its ability to mobilise resources during crises. He underscored the importance of clarifying the allocation of tasks between national and EU authorities as well as of delineating responsibilities between fiscal and monetary authorities. This would allow to prevent fiscal dominance and tensions between the national components of the EMU. In his view, the ECB managed to develop an emergency toolbox that has nevertheless led to an unwarranted confidence in the stability of the present structure. In fact, responsibility for the fiscal component of the policy mix should rest with governments. He suggested that while short-term liquidity support should remain a central bank task, longer-term lending by governments is a political task which necessitates some conditionality. He also called for more ambitious reforms and the development of an EU safe asset.

[Mairead McGuinness](#), Commissioner for financial services, financial stability and Capital Markets Union, [highlighted](#) the EU's resilience and the strengthening of the EMU in the past 25 years despite initial scepticism and crises. She credited crisis-driven reforms such as the establishment of the Banking Union for enhancing financial sector resilience and coordination. In her view, the euro is today stronger than ever before and second only to the dollar in terms of importance. Looking ahead, McGuinness emphasised the need to address remaining gaps in the EMU, particularly through the completion of the Banking Union and the CMU. On this, she claimed that renewed enthusiasm on the CMU is welcome but insufficient. Additionally, she emphasised the need for action and political leadership to address challenges effectively. Among these challenges, she noted the trend of European companies delisting and seeking financing in third countries, the investment needs for the green transition, the development of a market for retail investors, and the need for further trust among EU Member States.

ECB Executive Board Member [Piero Cipollone](#) [emphasised](#) the role of competition in stimulating economic growth and highlighted the euro's contribution to strengthening the Single Market. However, he said that it remains incomplete, e.g. given the lack of a unified banking, capital and payment market, and called for renewed efforts to address these gaps. Referring to the lack of a single market for payments, he warned that the unfavourable competitiveness dynamics tend to be irreversible. On the Banking Union, he claimed that conditions exist for the establishment of a European Deposit Insurance Scheme (EDIS) whose absence might be driving further fragmentation in the euro area. Cipollone advocated for a rebalancing of the EMU economic models in favour of domestic models, facilitating the reinvestments of savings in the euro area. In his view, pressure on the EU cost competitiveness has further highlighted the need to invest in technology and education in the euro area. Among avenues for future integration, he suggested bringing the ESM under the EU legal framework and strengthen role of EU institutions for instance to better account for individual countries' fiscal measures for the aggregate fiscal stance. He pointed to the rising costs of non-Europe, advocating for more joint initiatives. He finally warned that as the depth and frequency of external crises is increasing, the euro area's ability to react will become weaker.

ESM Managing Director [Pierre Gramegna](#) identified two pending issues in the euro area: the establishment of EDIS and the absence of ESM backstop to the Single Resolution Fund (SRF). He underscored the need to address these issues to further strengthen the resilience of the euro area. Furthermore, he emphasised the importance of learning from past experiences, particularly in incentivising public investments and creating fiscal buffers in the context of the Stability and Growth Pact to improve preparedness to future crises. He highlighted the need for structural reforms at the national level to strengthen the EU's economy, noting for instance to the positive performance of countries who implemented structural reforms under ESM programme assistance. In his view, the completion of the Banking Union, particularly by establishing EDIS, is crucial to boost the euro area's competitiveness.

2. Questions for written answer

From 27 November 2023 to 15 February 2024, the period between the two most recent MDs, the ECB replied to four written questions from MEPs in accordance with [Rule 140 of the European Parliament Rules of Procedure](#). These four questions were related to ethical matters, digital euro, ECB and Eurosystem institutional matters. During that period, there were no tabled questions pending.

Table 3: Questions for written answer

MEP	Political group	Subject	Date of question	ECB category	Date of response
Melo, N.	EPP	Nomination of Mário Centeno as prime minister	21/11/2023	Ethical matters	15/12/2023
Eroglu, E.	Renew	Transition to the preparatory phase of the digital euro	27/10/2023	Digital euro	12/01/2024
Eroglu, E.	Renew	Performance related compensation of the ECB leadership	27/11/2023	ECB institutional matters	12/01/2024
Ponsati Obiols, C.	NI	Follow-up to answer to question (QZ-000026/2023) on the independence of governing bodies of national central banks	12/12/2023	Eurosystem institutional matters	26/01/2024

3. European Parliament resolution on the ECB 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. The **plenary then adopted the annual report on 27 February 2024** with 418 votes in favour, 157 against and 42 abstentions (see results [here](#)).

Before the final vote, President Lagarde discussed the report and participated in a debates with MEPs and Commissioner Mairead McGuinness on 26 February 2024. Van Overtveldt intervened as rapporteur and stressed that ECB has restored the price stability within the euro area despite complex geopolitical and economic circumstances, as well as a delayed tightening of monetary policy. President Lagarde asserted that ECB expects inflation to continue slowing down despite future wage pressures and that key policy rates should remain the main tool to contain inflation. She also mentioned the importance of taking into account climate change as a secondary objective without prejudice to the ECB's primary mandate of price stability. She pledged in favour of a more integrated single market and reiterated the importance of ongoing dialogues between the ECB and the European Parliament. During the debate, Commissioner McGuinness drew attention to the need for fiscal policy to be consistent with the monetary policy, however not at the expense of public investment, and underlined the importance of advancing the CMU project.

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