BRIEFING

European Parliament

EGOV
ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT

MONETARY POLICY

Monetary Dialogue in September 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 advance of the September2024 Monetary Dialogue with the European Central Bank (ECB). It covers the topics chosen by the competent Committee and related expertise papers provided in advance of the Dialogue, the topics addressed during the Dialogue, and latest written questions made by Members to the ECB President. The document is published regularly ahead and after each Monetary Dialogue with the ECB.

1. Monetary Dialogue in September 2024

1.1 President Lagarde's introductory remarks

On 30 September 2024, ECB President Christine Lagarde attended the **first Monetary Dialogue (MD) of the new (10th) legislative term** with Members of the ECON Committee.

President Lagarde provided an update of the economic outlook for the euro area and recent monetary policy decisions of the ECB. In early 2024, the euro area economy showed modest growth, mainly driven by exports and government spending, while domestic demand remained weak due to lower household consumption, investments and housing activity. She noted that euro area recovery is expected to gradually strengthen as higher real incomes support increased household consumption. The labour market remains resilient with low unemployment standing at 6.4% in July, even though employment growth is slowing and may continue to ease.

She discussed how the disinflation process has been underway for a longer period of time. Lagarde pointed to **headline inflation in August decreasing to 2.2%, with expectations to drop further in September.** Core inflation, which excludes energy and food, dropped as well to 2.8% in August as a decrease in goods inflation offset a rise in services inflation. However, domestic inflation remained elevated in August due to strong wage growth. Overall labour cost growth has been easing recently, with profits absorbing some of the impact of higher wages on inflation. President Lagarde emphasised that headline

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PE 760.246 - October 2024

EN

inflation may temporarily rise in Q4 2024 due to base effects of energy prices. Nevertheless, recent inflation trends have reinforced Governing Council's confidence that inflation will return to 2% target in a timely manner.

Regarding the assessment of the ECB's monetary policy stance, a first topic of the September MD, President Lagarde presented the recent decision to lower the deposit facility rate (DFR) by 25 basis points. The DFR cut (which stands at 3.5%) aligns with the ECB's updated monetary policy framework, which took effect in September. The gap between the main refinancing rate (MRO) and the DFR is set at 15 basis points, aiming to better align short-term money market rates with policy decisions. President Lagarde reiterated that the ECB continues to follow a data-driven approach, focusing on inflation trends and the effectiveness of monetary policy transmission.

In light of other policy discussions, it was announced that the ECB is launching an assessment of its monetary policy strategy. Lagarde noted: "*This assessment will be more limited in scope than our last review, which we completed in July 2021, and will include two work streams. One work stream will focus on the changed inflation environment and the other on the implications for our monetary policy strategy, including what we can learn from the periods of both low and high inflation.*"

Acknowledging the importance of advancing the Capital Markets Union (CMU), as the second topic of the MD, the President noted significant efforts to move forward over the past decade. The ECB has played a role in this by outlining its priorities for the CMU in March 2024, highlighting the need to further integrate markets and enhance both risk diversification and shock absorption to support monetary policy transmission. Thus, **President identified three key areas where progress is still needed**: the savings of European citizens, the role of supervisory and regulatory bodies in promoting market integration, and the deepening of market infrastructure. In conclusion, she urged the importance of establishing a constructive dialogue with a clear agenda and priorities, stating that "*Advancing the capital markets union must be a cornerstone of the EU's competitiveness strategy*".

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 September MD.

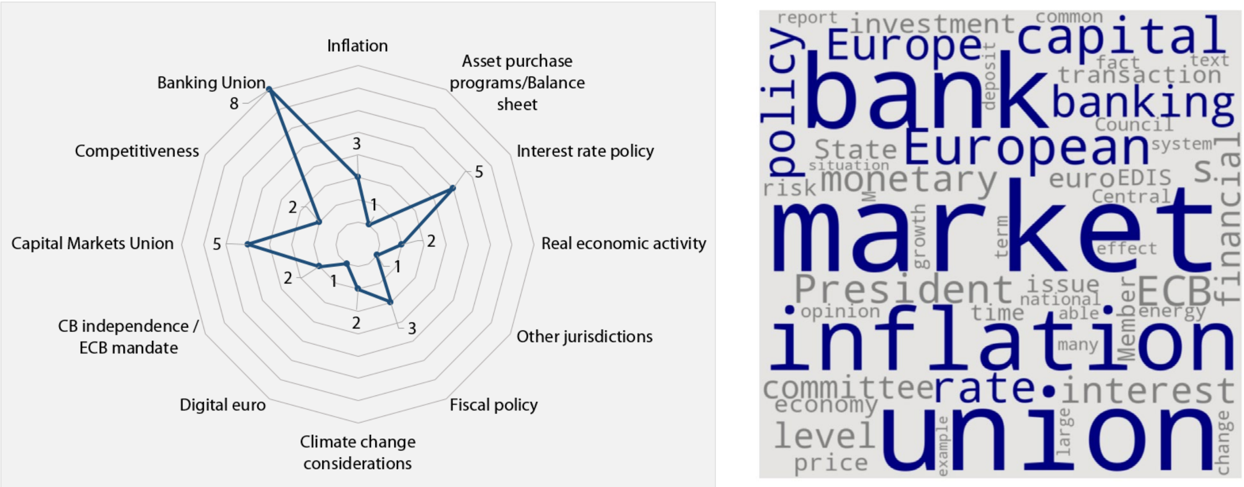
1.2 MEP questions

During the September MD, **16 Members of the ECON Committee participated in Q&A session with President Lagarde, with 29 interventions in total**.

Most interventions were focused on the banking union, interest rate policy, CMU, fiscal policy and inflation developments. The questions concerning the banking union were primarily focused on the EDIS, as well as on potential UniCredit and Commerzbank merger, addressing its impact on capital markets and the ECB's role in cross-border transactions. In their questions, Members were often referring to Draghi's and Letta's report when discussing topics of strengthening EU competitiveness and deepening the capital markets. Another key area of focus was the outlook for the ECB's monetary policy stance ahead of the next Governing Council meetings in October and December 2024.

Figure 1 shows the main points of each intervention (through questions and follow-up questions raised by each Member), sorted into 12 categories and most frequent words used by the MEPs in their interventions.

Figure 1: MEP interventions sorted by category (left) and World Cloud of the Sep MD hearing (right)



Notes: The interventions were categorised by the authors of this briefing based on the [transcript of the MD of 30 September 2024](). World Cloud in the right panel represents the most frequent words used by the MEPs in their interventions (consisting of mostly nouns). Both figures and their results should be interpreted as indicative as they are subject to interpretations and assumptions of the authors.

1.3 Monetary Dialogue papers prepared by the Monetary Expert Panel

The two topics selected for the September MD were "Assessment of the ECB's monetary policy stance" and "How relevant is the Capital Markets Union (CMU) for Monetary Policy?". These topics were discussed at a preparatory meeting with external experts (see Section 1.4 below). **Table 1** and **Table 2** list four papers published on these two topics.

Table 1: MD papers on "Assessment of the ECB's monetary policy stance"

Assessment of the ECB's monetary policy stance		
Authors	**Title**	**Abstract**
C. Blot & J. Creel	The ECB's Monetary Policy Stance in Perspective	In this paper, different assessments of the ECB's monetary policy stance are reviewed, beyond the mere observation of the sharp rise and subsequent decline of the policy rate. Overall, the **monetary policy stance has been more moderate during the tightening cycle than what has been indicated by the policy rate increase**. However, following the decline in energy prices, this **past and relatively mild restrictive policy stance poses a risk to economic activity**.
N. Sonnenberg	From Aggressive Rate Hikes to Gradual Easing	The ECB's interest rate hikes since 2022 aimed to curb inflation by tightening financial conditions and dampening aggregate demand. **While price pressures for food and goods have eased, persistent inflation in the services sector remains a key concern**. Although the ECB is expected to gradually ease its restrictive stance by 2025, inflation challenges could re-emerge. **The ECB should be careful not to undermine its commitment to price stability** by loosening monetary policy too aggressively.

Table 2: MD papers on "How relevant is the Capital Markets Union (CMU) of Monetary Policy?"

How relevant is the Capital Markets Union (CMU) for Monetary Policy?		
Authors	**Title**	**Abstract**
C. Wyplosz	One Money, One Financial Market	Bringing all European financial markets under one roof, the CMU **stands to provide European savers and borrowers with better opportunities. This, in turn, is expected to boost long-term growth and to improve the functioning of the Economic and Monetary Union (EMU).** Yet, powerful private and public interest groups have been able so far to stand in the way of this transformation. Most governments are torn between the benefits from CMU and the pressure of these interest groups.
A. Pekanov	The Capital Markets Union – an extra feather to the EMU	The first 10 years of the CMU have been marked by minimalistic progress. **The unfinished nature of the CMU has direct relevance for the ECB by affecting financing conditions in Member States and eroding the risk-sharing ability of the EMU**, imposing a higher burden on the ECB to act as "the only game in town". It has even bigger implications for the long-term investment opportunities and economic performance of the EU. This calls for a renewed approach and narrative on the CMU to gather political support to move forward.

1.4 Monetary Dialogue Preparatory Meeting

On 25 September 2024, members of the ECON Committee participated in the first Monetary Dialogue Preparatory Meeting of the 10th parliamentary term. Experts presented their papers on the topic of the ECB's monetary policy stance (Christophe Blot from Sciences Po, OFCE) and the relevance of the Capital Markets Union for monetary policy (Charles Wyplosz from the Graduate Institute Geneva). Ester Faia from Goethe University Frankfurt attended the meeting as a guest discussant.

Christophe Blot reminded that the ECB's monetary policy stance needs to be reassessed since it can be restrictive, expansionary, or neutral, depending on its impact on economic activity and inflation. Based on the increased use of the term "restrictive" during the ECB press conferences, he noted that the monetary policy stance of the ECB started to be restrictive in early 2023, and later on resulted in reaching historically high key policy rates. Comparing the previous cycles, Blot noted that the ECB's monetary policy stance was more restrictive than during the 2006-2008 tightening cycle considering that the real policy rate sharply increased due to high policy rate and receding inflation. According to Blot, further computations of shadow and proxy rates have shown that the quantitative tightening measures have not been translated in other indicators of monetary policy. He underlined that it is not easy to assess the monetary policy stance due to the uncertainty about neutral rate, but it is nevertheless important to evaluate its effect in terms of size and timing. A restrictive monetary policy stance might later generate negative impact on the economic activity due to the long transmission delays (approx. 12-18 months), while expansionary effects might be observed only after mid-2025.

Charles Wyplosz addressed the importance of the CMU for the effectives of monetary policy and productive investments in the EU. He began with reminding that the idea of the CMU has been put forward long time ago and undergone several developments since it was first advocated for by former Commission President Juncker in 2014. Wyplosz highlighted the large lag in investment in frontier technology in Europe due to the strong dominance of banks, both in terms of risk-aversion to lend to developing innovative businesses as well as in terms of savings mostly being located in banks or budget deficits. He criticised that powerful interest groups prevented the emergence of a CMU. In his view, this can be attributed to the unwillingness of national regulators to transition to a single supervisor, the comfortable long-standing relationship between national financial institutions and national regulators, as well as the interests of foreign financial institutions. In the end, Wyplosz reminded that the absence of a "truly single" monetary policy is observed through the differences in borrowing costs for firms within the EU, cautioning policymakers from being too hopeful that the CMU will address this issue due to different sizes of public debts and their perceived riskiness. He nevertheless reiterated that having a single EU capital market is important and suggested that the ECB could issue its own debt instrument.

During the discussion, Ester Faia echoed that the effectiveness of the monetary policy depends on the quality of the institutional setting. Assessing the approach with proxy rates taken by Blot, she agreed that even though it is not easy to make definite conclusions, the consensus is that before the recent inflationary episode monetary policy globally was expansionary for too long, leading to problem of hitting a zero lower bound. She stressed the importance of interest rates as a monetary policy tool and suggested that future easing of monetary policy stance could be facilitated by improving institutional setting and progressing on further integration (labour markets, social security, banking union and CMU). Post-crisis economic recovery can be accelerated with more policy coordination, less centralised institutions, more incentives for firms to innovate and tools to smooth regional shocks (e.g. labour mobility).

During the meeting, Members of the ECON Committee engaged in the discussion with the experts. In terms of monetary policy, members were concerned about the lagged effect of interest rate changes, negative impact of transmission delay on growth, fiscal-monetary interplay to address existing issues and constraints to conduct an efficient policy mix. On the CMU, members expressed concerns about the potential dominance of banks in shaping the financial leadership of key euro area countries like France and Germany, and on the access to funds referring to the requirement on certain amount of assets to be invested in high risk assets as an alternative to the CMU.

2. Questions for written answer

From 15 February 2024 to 30 September 2024, the period between the two most recent MDs, the ECB replied to three written questions from MEPs in accordance with Rule 140 of the European Parliament Rules of Procedure. These three questions were related to monetary policy and Eurosystem institutional matters. During that period, there were no other unanswered questions (see below **Table 3**).

Table 3: Questions for written answer

MEP	Political group	Subject	Date of question	ECB category	Date of response
M. Zanni, M. A. Rinaldi	ID	Authoritarian remarks to ECB staff by an executive board member	07/03/2024	Eurosystem institutional matters	26/04/2024
P. Tang	S&D	Effects of monetary tightening on the energy transition	26/04/2024	Monetary policy	29/05/2024
S. Cavedagna	ECR	De-escalation of European Central Bank's interest rates	06/08/2024	Monetary policy	26/09/2024

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