EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI
President

Mr Fabio De Masi
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 18 April 2016

L/MD/16/187

Re: Your letter (QZ-023)

Honourable Member of the European Parliament, dear Mr De Masi,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 10 March 2016.

On 10 March 2016, the Governing Council of the ECB decided on a comprehensive package of measures to further ease financing conditions, stimulate new credit provision and thereby reinforce the momentum of the euro area's economic recovery and accelerate the return of inflation to levels below, but close to, 2%. The new measures are a continuation of the decisions made since mid-2014 and they complement a broad package of standard and non-standard measures that ensure an expansionary monetary policy stance. The package includes a constellation of very low policy rates, a number of credit easing measures (including the new series of targeted longer-term refinancing operations, which offer favourable funding terms with rates potentially as low as -0.4%), an expansion of the asset purchase programmes (with investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area included in the list of eligible assets) and the use of forward guidance.[1]

Taking stock of the evidence available, it is clear that the monetary policy measures adopted by the ECB since mid-2014 are working. In particular, the impact on financial conditions and the pass-through of

[1] I discussed these measures in my introductory statement to the 10 March press conference. The full text, with Q&A, is available on the ECB's website at: http://www.ecb.europa.eu/press/pressconf/2016/html/is160310.en.html

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monetary policy measures to borrowing and lending rates have been significant. The GDP-weighted average of euro area ten-year government bond yields has fallen by some 125 basis points and bank lending rates to euro area companies have decreased by about 85 basis points since June 2014. The measures have also helped to arrest the contraction of loans to companies, which have started to increase in volume again and are granted on more favourable terms. As a result, fewer small and medium-sized enterprises report that credit is a limiting factor for their businesses. There is evidence that, without the set of measures taken by the Governing Council, inflation would have been much lower.

In sum, the outlook for the real economy has improved and the monetary policy measures adopted by the ECB have strengthened the euro area’s resilience to recent global economic shocks. According to ECB staff projections, these measures should bring inflation back to levels below, but close to, 2% by the end of 2018.

Helicopter money means different things to different people, but all these schemes are fraught with complexities from accounting, operational, and legal perspectives, especially as regards compatibility with Article 123 of the Treaty on the Functioning of the European Union.

As stated above, the ECB believes that its current policies are sufficient to ensure medium-term price stability. Should adverse developments render additional accommodation necessary, the ECB’s policy approach can still go a long way in providing this. The Governing Council will closely monitor developments in the outlook for price stability and, if warranted, is willing and able to act by using all the instruments available within its mandate in order to maintain an appropriate degree of monetary accommodation.

Yours sincerely,
[signed]

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