EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI
President

Mr Enrique Calvet Chambon
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 10 March 2015

L/MD/15/139

Re: Your letter (QZ-21)

Honourable Member of the European Parliament, dear Mr Calvet Chambon,

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 29 January 2015.

There are various channels through which the extended asset purchase programme of the European Central Bank (ECB) will support the economic recovery and contribute to bringing inflation rates closer to levels below, but close to, 2%.

First, the decision to launch the programme strengthens confidence and supports inflation expectations. This will have a direct impact on real interest rates and thus counteract the unwarranted tightening of real financial conditions seen in the recent past. Second, the sovereign yield curve constitutes the bedrock benchmark indicator for the pricing of a vast array of credit instruments and external financing tools for the private sector, such as bank loans, corporate loans and equity.

Thus, the reduction in government bond yields caused by the ECB's interventions will set in motion a chain of propagation channels. These include the impact on prices of a large variety of assets and loan contracts in the economy, as well as the reallocation of portfolios into a multitude of other assets not directly included in the purchase programme. These developments should also directly or indirectly encourage banks and investors to seek higher returns through lending to the real economy. Overall, the purchases under the expanded asset purchase programme will lead to an easing of conditions across broad sources of financing, most notably of those relevant for the borrowing conditions of euro area firms and households.

We have already seen a significant number of positive effects from these monetary policy decisions. Financial market conditions and the cost of external finance for the private economy have eased further, also following our previous monetary policy measures. In particular, borrowing conditions for firms and households have improved considerably. Moreover, money and credit dynamics have been firming. In addition, over recent months net redemptions of loans to non-financial corporations have, on average, moderated from the historically high levels recorded a year ago. Net lending flows turned slightly positive in November 2014. Furthermore, the January 2015 euro area bank lending survey indicated a further net easing of credit standards across all loan categories in the fourth quarter of last year.

Consequently, the ECB's most recent monetary policy measures should support a further improvement in credit flows.

Yours sincerely,
[signed]

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