EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI
President

Mr Hugues Bayet
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 20 April 2015

L/MD/15/244

Re: Your letter (QZ-37)

Honourable Member of the European Parliament, dear Mr Bayet,

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 27 February 2015.

The ECB's expanded asset purchase programme works through a number of different channels enabling them to support the economic recovery and contributes to a sustained return of inflation towards a level below, but close to, 2% over the medium term, as well as underpin the firm anchoring of inflation expectations.

First, our asset purchases strengthen confidence and support inflation expectations. This directly impacts on real interest rates and, thereby, counteracts the unwarranted tightening of real financial conditions that we had seen ahead of our monetary policy decisions of 22 January 2015. In this context, the asset purchases will also complement the ECB's forward guidance on interest rates.

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. In this regard, 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. Increases in financial asset prices are therefore part of the foreseen transmission channel and have also been observed in other jurisdictions engaging in large-scale sovereign bond purchases.

We have already seen a significant number of positive effects from the ECB's monetary policy decisions, with the described transmission channels already at work. Financial market conditions and the cost of external finance for the private sector have eased further, also following our previous monetary policy measures. The euro area money market yield curve has further flattened. Government, bank and corporate bond yields have further declined. The broad-based easing in financial conditions is being passed on to the real economy. In particular, borrowing conditions for firms and households have improved considerably. Moreover, money and credit dynamics have been firming. The growth of credit to the private sector turned positive in December 2014 for the first time since mid-2012. Also, the January 2015 bank lending survey showed a further easing in credit standards for all loan categories in the fourth quarter of 2014.

The positive impact of improved financial conditions on the euro area economy is also reflected in the March 2015 ECB staff macroeconomic projections. The projections for real GDP growth in both 2015 and 2016 have been revised upwards relative to the previous projections exercise, partly driven by the impact of our recent monetary policy measures. The rate of inflation projected for 2016 has been revised slightly upwards to 1.5%, and for 2017 inflation is projected at 1.8%. The projected pick-up in inflation is supported by the impact of our recent monetary policy measures on aggregate demand, conditional on the full implementation of all the announced measures.

Yours sincerely,
[signed]

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