Dear Mr Sturdy,

Thank you very much for your questions regarding developments in the banking sector, which were transmitted to me through a letter by ECON Chair Berès of 17 December 2008.

As regards your first question, I should like to stress that the European Central Bank’s primary objective is to maintain price stability, which, in turn, is a precondition for sustainable growth and financial stability to the benefit of consumers, investors and savers. The ECB has managed to anchor long term inflation expectations in line with its primary objective, despite shocks of first magnitude such as the terrorist attacks in September 2001 or the sharp increase in commodity prices until last summer.

With regard to your second question, I would like to remark that the European Central Bank has, especially in its Financial Stability Review but also on the occasion of hearings before the European Parliament, repeatedly pointed to the emergence of risks for the stability of the financial system. In the very first issue of our Financial Stability Review of December 2004 we argued that a high level of risk appetite of investors together with a high degree of innovation and creativity in the global financial markets was creating new sources of risk. Similarly, on the occasion of our Monetary Dialogue in December 2006, I replied to a question by ECON Chair Berès, stating that we were diagnosing a level of risk appreciation in the global financial markets that was signalling an under-pricing of risks.
Finally, let me draw your attention to the fact that the European Central Bank, at this stage, does not have direct supervisory responsibilities even if the possibility exists for the future, according to Article 105.6 of the Treaty. Today the Eurosystem has institutional responsibility, derived from the Treaty (Article 105.5), to contribute to the smooth contact of policies pursued by the national authorities responsible for the prudential supervision of credit institutions and the stability of the financial system.

I hope the above considerations help to answer your questions.

Yours sincerely,

[signed]