



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

COURTESY TRANSLATION

Mario DRAGHI
President

Mr Marco Zanni
Mr Marco Valli
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 13 July 2015

L/MD/15/420

Re: Your letter (QZ-95)

Honourable Members of the European Parliament, dear Mr Zanni, dear Mr Valli,

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 4 June 2015.

The process of money creation and the role played by banks as a source of broad money supply is described in detail in the ECB Monthly Bulletin published in October 2011.¹ Let me briefly summarise here the main elements of this process.

In general terms, a bank is an institution, the core operations of which consist of taking deposits from the public and granting credit. This transformation of liquid short-term liabilities (e.g. bank deposits) into illiquid assets (e.g. loans to corporates and households) is a key defining element of a bank.

More specifically, banks collect deposits from the public, which are then used, among other purposes, to grant credit, e.g. in the form of loans. According to the double-entry rule of accounting standards, which applies to ECB monetary financial institution balance sheet statistics, the entry related to the provision of a loan is always accompanied by a related counterpart entry in the balance sheet. Under the aforementioned

¹ The extract of the bulletin is accessible on the ECB's website at https://www.ecb.europa.eu/pub/pdf/other/art1_mb201110en_pp63-79en.pdf

Address

European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address

European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu

mechanism, the counterpart entry of a granted loan is a deposit that, for statistical purposes, is classified as an overnight deposit.

Please note that in this money creation process, banks need to maintain a fraction of the deposits they have accepted in the form of Eurosystem reserves, thus limiting the multiplication effects. In addition, banks need to comply with liquidity requirements that may impose further constraints on their ability to create money through the provision of loans.

Banks' liquid deposit liabilities, therefore, constitute the core of broad monetary aggregates, and banks play a leading role in the supply of broad money. Specifically, together with currency in circulation, banks' overnight deposit liabilities vis-à-vis the euro area money-holding sector constitute the narrow monetary aggregate (M1).

Finally, please note that, at the end of May 2015, bank loans to euro area households and non-financial corporations amounted to €9,541 billion. This information is released on a monthly basis by the ECB and is published on its website.²

Yours sincerely,

[signed]

Mario Draghi

² The statistical press releases on monetary developments in the euro area are accessible on the ECB's website at <https://www.ecb.europa.eu/press/pr/stats/md/html/index.en.html>. Further information on bank loans is published in Table 4 of each press release.

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