



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Ms Elisa Ferreira

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt, 25 January 2016

L/MD/16/38

Re: Your letter (QZ-171)

Honourable Member of the European Parliament, dear Ms Ferreira,

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 8 December 2015.

The possibility of directly recapitalising viable euro area financial institutions with European Stability Mechanism (ESM) resources has the potential to be a useful tool to sever the feedback loop between banks and sovereigns, as also highlighted in the report entitled "Completing Europe's Economic and Monetary Union" (Five Presidents' Report), to which I contributed.

As noted in my letter sent to your MEP colleague Mr Carthy¹ on 1 December 2015, decisions on the use of the ESM's direct recapitalisation facility are taken by its Board of Governors. Consequently, the ECB has no say on such matters, as it has only observer status at meetings of that body. For further technical details regarding the ESM's direct recapitalisation, I would therefore suggest that you approach the European Stability Mechanism.

In order to further weaken the bank-sovereign nexus, the Five Presidents' Report also discussed the need for a swift agreement to provide the Single Resolution Fund (SRF) with an adequate bridge financing mechanism, in line with the commitment made by the Eurogroup and ECOFIN ministers in December 2013.²

¹ The letter is available on the ECB's website at http://www.ecb.europa.eu/pub/pdf/other/151201letter_carthy.en.pdf

² The statement is available at www.consilium.europa.eu/press/press-releases/2013/12/pdf/Statement-of-Eurogroup-and-ECOFIN-Ministers-on-the-SRM-backstop/

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In this respect, the recent agreement to provide bridge financing to the SRF via national credit lines should only be an interim solution. I agree with your assessment that such national credit lines fail to break the sovereign-bank nexus and thereby weaken one of the main objectives of the SRF. Therefore, I will continue to call on the Eurogroup and ECOFIN to develop a common backstop to the SRF during the transition period in order to replace the system of national credit lines as soon as possible. Such a common backstop could be established through a direct credit line from the ESM to the SRF.

Yours sincerely,

[signed]

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