



EUROPEAN CENTRAL BANK
EUROSYSTEM

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COURTESY TRANSLATION

Mario DRAGHI
President

Mr Gerolf Annemans
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 17 February 2016

L/MD/16/82

Re: Your letter (QZ-179)

Honourable Member of the European Parliament, dear Mr Annemans,

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 January 2016.

The ECB has been assigned a narrow mandate: its primary objective is to maintain price stability, as per Article 127 (1) of the Treaty on the Functioning of the European Union. The ECB's Governing Council has also clarified that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term. In view of this clear and unambiguous mandate, the ECB has no policy targets for other indicators, e.g. exchange rates or stock market indices. Developments in such indicators matter only to the extent that they affect the risks to price stability.

I had the opportunity to extensively discuss the effectiveness of the ECB's expanded Asset Purchase Programme (APP) during my appearance before the plenary session of the European Parliament on 1 February 2016.¹ Nevertheless, please allow me to expand on this issue here.

Firstly, the APP should not be looked at in isolation. Rather, it complements a broad package of standard and non-standard measures which presently ensure an expansionary monetary policy stance. These include a

¹The text of the introductory remarks is available on the ECB's website at:
http://www.ecb.europa.eu/press/key/date/2016/html/sp160201_1.en.html

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combination of very low policy rates, a number of credit easing measures – most notably, the targeted longer-term refinancing operations – and the use of forward guidance. All these measures have been adopted in an environment of very low inflation and weak growth where the interest rate instrument alone has not been sufficient to steer inflation to levels consistent with the ECB Governing Council's aim of stabilising inflation at a rate below, but close to 2%, over the medium term.

Furthermore, the relevant evidence available at the beginning of 2016 clearly indicates that the monetary policy measures implemented by the ECB since mid-2014 have been effective. The pass-through of these measures to the interest rates faced by consumers and firms when borrowing funds has been significant. For example, between May 2014 and November 2015, bank lending rates for euro area non-financial corporations dropped by approximately 80 basis points. In major vulnerable euro area countries, this decrease was even greater, falling within the range of 100-140 basis points. On the supply side, banks indicate that macroeconomic risk and a lack of liquidity are no longer a prime concern holding back credit growth. Consequently, fewer small and medium-sized enterprises (SMEs) report that credit has been a limiting factor for their businesses. The latest survey on the access to finance of enterprises signalled an improvement in the availability of external sources of finance and more favourable terms and conditions for bank loans – for the second consecutive time, SMEs reported an increase in the availability of financing (loans and overdrafts). Moreover, the external financing gap of SMEs – which measures, at firm level, the perceived difference between the need for external funds and the availability of funds – turned negative at the euro area level for the first time since 2009.

In short, developments in the real economy, credit provision and financing conditions have improved, strengthening the euro area's resilience to global economic shocks. Yet, since the start of 2016, downside risks have increased again amid heightened uncertainty about emerging market economies' growth prospects, volatility in financial and commodity markets, and geopolitical risks. In this environment, euro area inflation dynamics also continue to be weaker than expected.

The ECB's Governing Council will closely monitor the evolution in the outlook for price stability and, if warranted, is willing and able to act by using all the instruments available within its mandate in order to maintain an appropriate degree of monetary accommodation – and thereby bring inflation back to levels below, but close to 2%, over the medium term.

Yours sincerely,

[signed]

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