



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI

President

Ms Rodi Kratsa-Tsagaropoulou
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

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Re: Your letter

Dear Ms Kratsa-Tsagaropoulou,

Thank you for your letter, which was passed on to me by Ms Sharon Bowles, Chairwoman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 5 March 2013.

With regard to your first question, let me mention that since 2008 the ECB has introduced a number of non-standard measures to address the exceptional circumstances that emerged with the financial crises, such as the Securities Markets Programme (SMP), the two three-year long term refinancing operations (LTROs) and the Outright Monetary Transactions (OMTs), which primarily aim at removing impairments to the monetary transmission mechanism, or overcoming bottlenecks in the funding of the real economy, notably in the countries under strain. In addition, also with a view to alleviating banks' liquidity and funding situation, the Governing Council decided in December 2012 to continue conducting all refinancing operations as fixed rate tender procedures with full allotment, at least until July 2013.

Such exceptional policy actions have significantly contributed to improving the euro area banks' funding and liquidity situation. This is confirmed by a wealth of evidence, as underlined particularly clearly by the euro area bank lending survey. Notably, the three-year LTROs and the announcement of OMTs have contributed to a more favourable financial market environment, whereby the narrowing of sovereign spreads, declining credit default swap premia and abating tail risk perceptions have spilled over favourably to the main financial market segments for firms and banks, especially in the stressed euro area countries. This environment allowed many banks, particularly banks in southern European countries given their situation on average, to repay in part their liquidity drawn from the three-year LTROs. All these developments reflect improvements in financial market confidence over the last few months and receding financial market fragmentation. At the same time, impairments in the monetary policy transmission process

persist and improvements in bank funding conditions have, admittedly, not yet been fully translated into improvements in lending conditions in the real economy.

With regard to your second question, I would like to emphasise the role and restrictions of monetary policy. Let me stress that, throughout the crisis, the ECB has taken forceful action and has introduced exceptional measures to provide liquidity support to strained banks and to alleviate their financing. The evidence presented above confirms the success of these measures. At the same time, the mandate of the ECB has remained the same: preserving medium-term price stability in the euro area as a whole.

In order to ensure an adequate transmission of monetary policy to the financing conditions in the euro area, it is essential that governments strengthen the resilience of banks where needed and intensify their efforts in the field of structural reforms to ensure the sustainability of public finances and foster growth and job creation. Ultimately, monetary policy cannot itself resolve the underlying structural problems which gave rise to serious imbalances in the first instance. In this respect, it needs to be acknowledged that the downturn during the crisis has been especially strong and persistent in those euro area countries in which the surge in debt financing and hence in leverage had been particularly intense in the pre-crisis period.

Governments have started the long-overdue process of structural reform and past policy action is bearing fruit. However, the process of adjustment is not yet complete. There is therefore a need to continue with the comprehensive reform effort in a determined manner. Such reforms should be ambitious and broad-ranging, encompassing product markets, including network industries, labour markets and the modernisation of public administration. By fostering a dynamic economic environment, these reforms will improve the adjustment capacities of the euro area countries and help countries in their efforts to regain competitiveness, set the foundations for sustainable growth and support the return of macroeconomic confidence.

Yours sincerely,

[signed]

Mario Draghi