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

Frankfurt, 19 July 2013

L/MD/13/459

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 28 May 2013.

Since your letter specifically refers to the role of monetary policy in the recovery of economic activity, please note that the ECB's primary objective is to maintain price stability in the euro area as a whole. Price stability is an essential condition for sustainable economic growth and job creation. The Governing Council's decisions on 2 May 2013 were fully consistent with the ECB's mandate.

Regarding your question on the expected benefits of the interest rate cuts in different parts of the euro area, we expect that the decisions taken on 2 May will positively affect funding conditions across the euro area. Banks that borrow at the ECB's main refinancing operations will benefit from lower policy rates. The accommodative stance of our monetary policy, together with the improvements in financial markets since last summer, should contribute to supporting prospects for an economic recovery later in the year and in 2014. At the same time, the remaining necessary balance sheet adjustments in the public and private sectors will continue to weigh on economic activity. Overall, euro area economic activity should stabilise and recover in the course of the year, albeit at a subdued pace and subject to downside risks.

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The Governing Council stressed that the ECB's monetary policy stance is geared towards maintaining the degree of monetary accommodation warranted by the outlook for price stability and promoting stable money market conditions. It reiterated that the monetary policy stance will remain accommodative for as long as needed. In this context, the Governing Council expects the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation is based on the overall subdued outlook for inflation extending into the medium term, given the broad-based weakness in the real economy and subdued monetary dynamics.

Regarding measures to support bank lending to small businesses and households, the ECB has already taken various steps to safeguard price stability and address financial market fragmentation. More specifically, the announcement of the OMT instrument has proven to be an efficient backstop against unwarranted fears of reversibility of monetary union. The announcement of the OMTs significantly contributed to a stabilisation of the situation, to receding redenomination risk and to an easier access to credit for borrowers.

Furthermore, as you mention in your letter, the Governing Council decided to start consultations with other European institutions to promote a functioning market for asset-backed securities collateralised by loans to non-financial corporations.

Beyond that, the European Commission and the European Investment Bank (EIB) are currently exploring joint risk-sharing instruments which would combine resources from the EU budget with the lending capacity of the EIB and European Investment Fund (EIF), as well as resources from national promotional banks to finance special activities in EU priority areas. The ECB welcomes these efforts, in particular in view of the transmission of monetary policy.

In the context of the global financial crisis, the ECB has taken unprecedented measures to safeguard price stability and reduce financial fragmentation. However, financial fragmentation cannot be tackled by the ECB alone. Governments need to do their part by addressing the root causes of the current crisis; this includes ensuring sustainable public debt levels, improving competitiveness, strengthening bank resilience and further improving the institutional setting of EMU. In particular, banking union is a crucial element for moving to overcome financial market fragmentation and therefore requires swift implementation.

Yours sincerely,
[signed]

Mario Draghi