



EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI

President

Mr Auke Zijlstra
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 9 January 2014

L/MD/14/14

Re: Your letter

Dear Mr Zijlstra,

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 4 December 2013.

The ECB takes its decisions on the basis of its own analysis. The ECB's monetary policy strategy provides an encompassing framework for assessing the medium-term outlook for price stability. It takes into account a broad set of information including economic, financial and monetary developments in the euro area.

With regard to our current assessment of price developments, annual inflation rates are expected to remain at around current levels in the coming months. Over the medium term, underlying price pressures in the euro area are expected to remain subdued. Risks to the outlook for price developments are broadly balanced over the medium term. This outlook is different from a deflationary scenario, which would be characterised by a broad-based and protracted fall of the price level that would then become entrenched in expectations. This is not something we see or expect to see at the euro area level. Longer-term inflation expectations in the euro area remain well anchored at levels in line with price stability. However, euro area inflation remains heterogeneous across member states. Very low or negative inflation rates for some countries reflect the necessary temporary adjustment and rebalancing processes.

In this context, let me remind you that the ECB's Governing Council has defined price stability as positive HICP inflation rates of below 2%. This implies that we see neither inflation above 2% nor deflation in the euro area as a whole as consistent with price stability. Moreover, in 2003 it was decided that the Governing Council would aim for inflation rates below, but close to, 2% in the medium term, in order to provide an adequate margin to avoid the risks of deflation.

Against this background, and in line with the ECB's mandate, the Governing Council announced on 4 July 2013 that it expected the key ECB interest rates to remain at present or lower levels for an extended period of time. Since then, we have continuously confirmed this forward guidance. We stand ready to use all available instruments to fulfil our mandate.

Yours sincerely,

[signed]

Mario Draghi