EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI

President

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

Frankfurt am Main, 26 May 2014

L/MD/14/236

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 15 April 2014.

The European Central Bank (ECB) conducts monetary policy in the euro area with the primary objective of maintaining price stability over the medium term. The ECB has a number of instruments at its disposal to implement its desired monetary policy stance in the pursuit of its mandate. With regard to the possibility of asset purchases, Article 18.1 of the Statute of the European System of Central Banks and of the ECB empowers the Eurosystem to carry out transactions in financial markets by buying and selling eligible assets outright. Such transactions have been part of the Eurosystem toolkit since its beginning. They are defined in Section 3.2 of the General Documentation on Eurosystem monetary policy instruments and procedures.[1] Therefore, asset purchases, including in the context of possible large-scale asset purchase programmes often referred to as quantitative easing (QE), are part of the ECB's available monetary policy tools. The use of these tools is entirely at the discretion of the Governing Council in pursuing its primary objective of maintaining price stability over the medium term in the euro area.

If the Governing Council were to decide to conduct an asset purchase programme, particular care would be exercised in defining the operational modalities in order to comply with the monetary financing prohibition laid down in the Treaty. It prohibits the ECB and the national central banks from purchasing public debt instruments on the primary market. Moreover, purchases of these instruments on the secondary market,

[1] https://www.ecb.europa.eu/ecb/legal/pdf/02011o0014-20130103-en.pdf

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although allowed by the Treaty, must not be used to circumvent the objectives of the monetary financing prohibition.[2]

Turning to the matter of the sterilisation operations conducted as part of the Securities Markets Programme (SMP), let me first point out that these operations are undertaken to neutralise the impact of the central bank liquidity injected through the securities purchases on the monetary policy stance. The possibility of ending or suspending the sterilisation operations mentioned in your letter is indeed a decision at the discretion of the Governing Council. However, given the limited remaining maturity of the SMP portfolio, any such decision would merely impact the liquidity conditions in short-term money markets. It would thus be very different in nature from an asset purchase programme. An asset purchase programme would aim at providing a generalised easing of the monetary policy stance in order to address downside risks to price stability, thereby supporting the fulfilment of the ECB's primary objective.

Finally, let me underline that the ECB's primary objective of maintaining price stability over the medium term has been the ultimate guide for all measures taken by the ECB since the beginning of monetary union. The non-standard measures taken by the Governing Council in various phases aimed at repairing the monetary policy transmission mechanism and, hence, ultimately at fulfilling the ECB's mandate. Non-standard measures have countered and, if necessary, will continue to counter the uneven transmission of monetary policy actions across critical segments of the credit market, which otherwise would interfere with the intended stance of monetary policy. Two examples of such actions are the shift to applying a fixed rate full allotment policy for the allocation of liquidity to banks in standard monetary policy operations and the decision to grant liquidity over longer horizons than had been usual before the crisis. These measures were taken in 2008-09 in order to counter the fragmentation of the interbank money market. They mitigated liquidity risks in the banking system, thereby supporting the continued provision of financing to the economy.

Yours sincerely,

[signed]

Mario Draghi

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[2] Clarification of this point is provided in Council Regulation (EC) No 3603/93.