



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE
President

Mr Domènec Ruiz Devesa
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 15 May 2020

L/CL/20/135

Re: Your letter (QZ-017)

Honourable Member of the European Parliament, dear Mr Ruiz Devesa,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 20 March 2020.

The Governing Council of the European Central Bank (ECB) is fully committed to doing everything necessary within its mandate to support all citizens of the euro area through this extremely challenging time. This applies equally to households, firms, banks and governments.

The euro area is facing an economic contraction of a magnitude and speed that are unprecedented in peacetime. Measures to contain the spread of the coronavirus (COVID-19) have largely halted economic activity in all the countries of the euro area and across the globe. In fact, the latest economic indicators and survey results indicate a sharp contraction in economic growth and a profound deterioration in labour market conditions. Moreover, inflation has declined as a result of the sharp fall in oil prices and slightly lower HICP inflation excluding energy and food.

In this environment, our decisive and targeted policy measures taken since early March have provided crucial support to the euro area economy, notably to those sectors most exposed to the crisis. These measures support ample liquidity conditions, protect the smooth flow of credit to households and businesses, and preserve favourable financing conditions for all sectors and countries.

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Since the end of March we have been conducting purchases under our new pandemic emergency purchase programme (PEPP), which has an overall envelope of €750 billion, to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus pandemic.¹ These purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. We will conduct net asset purchases under the PEPP until the Governing Council judges that the coronavirus crisis phase is over, but in any case until the end of this year. Together with the temporary envelope of additional net asset purchases of €120 billion that was added to our regular Asset Purchase Programme (APP), this amounts to 7.3% of the euro area's gross domestic product. Moreover, the PEPP includes a waiver of the eligibility requirements for securities issued by the Greek government, and the minimum remaining maturity of euro area government bonds and bills eligible for purchase under the PEPP has been reduced to 70 days.

In addition, in order to protect the continued flow of credit to the real economy, the Governing Council decided on 12 March 2020 and again on 30 April to apply considerably more favourable terms to all TLTRO III operations outstanding during the period from June 2020 to June 2021.² We also decided to offer new long-term refinancing operations, which will provide new lines of funding to banks at attractive conditions, supporting them in the current phase of heightened uncertainty. Complementing our TLTRO III programme, we also decided to launch a series of pandemic emergency longer-term refinancing operations (PELTROs), providing an additional source of longer-term funding for banks, which is especially valuable for smaller banks and banks that focus on lending to sectors not covered by the TLTRO programme. To facilitate the availability of eligible collateral for Eurosystem counterparties to participate in liquidity-providing operations, the Governing Council introduced a set of targeted collateral measures. We have also adopted temporary measures to mitigate the effect on collateral availability of possible rating downgrades resulting from the economic fallout from the coronavirus pandemic.³

These measures form a powerful package and are providing crucial support to the euro area economy, notably to those sectors most exposed to the crisis. At the same time, as the economic situation is evolving rapidly and financial markets remain volatile, we are constantly monitoring the situation and evaluating our measures whether they are still calibrated and sized appropriately. We therefore stand ready to make further adjustments to these measures if we see that the scale of the stimulus is falling short of what is needed. In particular, we are fully prepared to increase the size of our asset purchase programmes and adjust their composition, by as much as necessary and for as long as needed.

¹ See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html and <https://www.ecb.europa.eu/press/blog/date/2020/html/ecb.blog200319~11f421e25e.en.html>

² See <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200312~8d3aec3ff2.en.html> and <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200430~fa46f38486.en.html>

³ See <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200407~2472a8ccda.en.html> and https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200422_1~95e0f62a2b.en.html

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The activation of any new instruments always depends on our assessment of the risks to price stability and our judgment of the effectiveness of those instruments in ensuring the convergence of inflation to levels that are below, but close to, 2% in the medium term. The Governing Council has not discussed the proposals you mention. In many cases, such proposals do not fully address the associated operational, accounting and legal complexities nor provide a comprehensive cost-benefit analysis of the full economic and monetary impact.

Yours sincerely,

[signed]

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