EUROPEAN CENTRAL BANK

EUROSYSTEM

**ECB-PUBLIC**

*COURTESY TRANSLATION*

Mario DRAGHI
President

Mr Marco Zanni and Mr Marco Valli
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

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**Re: Your letter (QZ-156)**

Honourable Members of the European Parliament, dear Mr Zanni, dear Mr Valli,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 21 October 2015.

The non-standard monetary policy measures of the European Central Bank (ECB) have been effective in easing financial conditions and are working their way through to the real economy, buttressing the demand for and the availability of credit for the euro area private sector.[1] For instance, banks in vulnerable countries which participated in at least one of the first four targeted longer-term refinancing operations (TLTROs) have lowered their lending rates by more than non-participating banks, while being more forthcoming in their lending behaviour.

The TLTROs, along with the other standard and non-standard measures introduced by the ECB since June 2014, and the expanded asset purchase programme (APP) in particular, have precipitated a substantial compression of medium and long-term yields on a number of financial assets, including bank funding instruments. In the period after the announcement of the credit easing package in June 2014, the reduction in borrowing costs was larger in vulnerable countries than in less vulnerable countries, suggesting that both the TLTROs and the APP have supported credit flows to the private sector and aligned the price of such credit with the intended stance of monetary policy.

[1] See, for instance, the article entitled "The transmission of the ECB's recent non-standard monetary policy measures", *Economic Bulletin*, Issue 7, ECB, November 2015, available at http://www.ecb.europa.eu/pub/pdf/ecbu/eb201507.en.pdf.

However, more recently, concerns over growth prospects in emerging markets and possible repercussions for the euro area economy from developments in financial and commodity markets have risen. As outlined by Mr Nowotny in his 15 October 2015 remarks at the conference on European Economic Integration mentioned in your letter, the Governing Council of the ECB will thoroughly assess the strength and persistence of the factors that are slowing the return of inflation to levels below, but close to, 2% and will re-examine the degree of monetary policy accommodation at its December monetary policy meeting. If it were to conclude that the ECB's medium-term price stability objective is at risk, it would act by using all the instruments available within its mandate to ensure that an appropriate degree of monetary accommodation is maintained.

In this context, the APP is considered to be a particularly powerful and flexible instrument. In fact, the ECB has always stated that purchases would run beyond the end of September 2016 if the Governing Council does not see a sustained adjustment in the path of inflation that is consistent with the ECB's aim of achieving inflation rates below, but close to, 2% over the medium term. If needed, other monetary policy instruments could also be activated to strengthen the impact of the purchase programme.

While the ECB's monetary policy is focused on maintaining price stability over the medium term and its accommodative stance supports economic activity, other policy areas must contribute decisively. In particular, as the ECB has long argued, further structural and fiscal policy measures are needed to lift structural economic growth to a higher level. The swift and effective implementation of structural reforms not only leads to higher sustainable growth, but also raises expectations of permanently higher incomes in future, encouraging households to expand consumption and firms to increase investment today. Fiscal policy measures support the economic recovery by making the composition of fiscal policies more growth-friendly, while remaining in compliance with the EU's fiscal rules.

In conclusion, let me repeat once again that the ECB's monetary policy aims at maintaining inflation below, but close to, 2% over the medium term. Inflation in this context refers to headline inflation as measured by the Harmonised Index of Consumer Prices (HICP). In setting monetary policy, the Governing Council takes into account a broad set of economic and monetary indicators to assess the medium-term inflation outlook. Measures of core inflation, such as the HICP excluding energy and food, form an integral part of the Governing Council's price stability assessment. Indeed, measures of underlying inflation can provide information about the trend dynamics of inflation and help to gauge domestic price pressures. Nevertheless, such measures are not insulated from developments in external factors, such as energy price dynamics, as these can influence measures of core inflation via indirect and second round effects.

Yours sincerely,

[signed]

Mario Draghi

**Address**
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

**Postal Address**
European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website:www.ecb.europa.eu