



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI
President

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

Frankfurt, 6 January 2015

L/MD/15/2

Re: Your letter (QZ-41)

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

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 6 November 2014.

In the current weak economic environment, fiscal policies should support the economic recovery, while ensuring debt sustainability in compliance with the Stability and Growth Pact. All countries should use the available scope for a more growth-friendly composition of fiscal policies.

Turning to monetary policy, please note that the transmission of an expansionary monetary policy impulse is not instantaneous, but requires time. Nevertheless, we have already seen a significant improvement in private sector financing conditions and a turnaround in loan dynamics in the second quarter of 2014. Additionally, availability of funds is not the only factor driving bank lending behaviour; investment opportunities are of similar importance.

In the ECB's assessment, the current weakness in lending is due to low demand and, in the case of some euro area countries, also to supply constraints. Demand factors include the ongoing weakness in economic activity, the deleveraging by households and enterprises, and the high retained earnings and accumulated cash buffers of non-financial corporations. Supply factors include financial market fragmentation (although this is becoming less and less important), the risk perception of banks, as well as capital constraints faced by banks, particularly those in stressed countries.

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Finally, please note that the prohibition of monetary financing ensures budgetary discipline and, thus, contributes to the maintenance of price stability – the primary objective of the European System of Central Banks (ESCB). It also safeguards the independence of the ECB.

Yours sincerely,

[signed]

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