

Mr Roberts Zīle
Member of the European Parliament
European Parliament
60 Rue Wiertz
B-1047 Brussels

Frankfurt/Main, 1 August 2012

L/MD/12/537

Re: Your Letter

Dear Mr Zīle,

Thank you for your letter passed on to me by Ms. Sharon Bowles, Chairwoman of the Committee on Economic and Monetary Affairs, with a cover letter dated 4 June 2012.

As regards the provision of foreign currency swaps to central banks, the ECB has made a distinction between globally and systemically important currencies and others. As regards the former, swaps have been agreed with a number of central banks in G-10 countries aimed at ensuring an orderly functioning of the global financial system. This was also a consideration for the swap agreement with Sveriges Riksbank in 2007.

Liquidity provision to ERM II countries is guided by the agreements of the ERM II framework, taking into account, among other things, exchange rate movements inside the multilaterally agreed fluctuation bands. The provision of a swap line to Danmarks Nationalbank in October 2008 should be seen in this light. It should be noted in this regard that Latvia maintains a unilateral narrow fluctuation band (of $\pm 1\%$ around the central rate) inside the standard multilateral fluctuation band of the ERM II (of $\pm 15\%$ around the central rate). This unilateral band is based on a commitment by the Latvian authorities and does not place any obligations on the ECB.

While fully respecting its mandate for the euro area as laid down in the Treaty, the ECB has nonetheless been able to provide important support to Latvia and other central and eastern European countries. Indeed, already at an early stage of the financial crisis the ECB moved to a policy of unlimited liquidity provision

(against a widened range of collateral) to banks established in the euro area. This policy contributed to the provision of euro liquidity in the central and eastern European region, benefiting also Latvia.

Finally, I would like to note that the steep output contraction in Latvia was first and foremost the result of the need to correct unsustainable macroeconomic imbalances built up during the preceding years. Latvia has been able to adjust these imbalances in a remarkable way, supported also by the existing international and European framework designed to assist countries experiencing a balance of payments crisis.

Yours sincerely,

[signed]

Mario Draghi