



EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI

President

Ms Mara Bizzotto

Mr Gianluca Buonanno

Members of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt, 20 April 2015

L/MD/15/259

Re: Your letter (QZ-25)

Honourable Members of the European Parliament, dear Ms Bizzotto, dear Mr Buonanno,

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 February 2015.

The ECB's expanded asset purchase programme works through a variety of channels, relying also on effective transmission through the euro area banking sector.

The sovereign yield curve constitutes the bedrock benchmark indicator for the pricing of a vast array of credit instruments and external financing tools for the private sector, such as bank loans, corporate loans and equity. Hence, the purchases will lead to a broader-based easing of the monetary policy stance, from which financing conditions for households and firms will benefit.

The reduction in government bond yields caused by the ECB's interventions set in motion a chain of propagation channels. These include the impact on the prices of a large variety of assets and loan contracts in the economy, as well as the reallocation of portfolios into a multitude of other assets not directly included in the purchase programme. These developments should also directly or indirectly encourage banks and investors to seek higher returns through lending to the real economy. The government bond purchases, for instance, increase the return on lending to the real economy relative to the return on investing in government bonds.

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Also, given that banks are among the largest holders of sovereign securities, the sale of assets or valuation gains on banks' balance sheets will increase their capacity to provide loans to the real economy.

Overall, our asset purchases will work through a number of channels lowering the price of credit throughout the euro area economy, even though intermediation in the euro area is more bank-based than market-based in comparison with other jurisdictions. The expanded asset purchase programme will thus support the economic recovery, contribute to a sustained return of inflation towards a level below, but close to, 2% over the medium term, and underpin the firm anchoring of inflation expectations.

Yours sincerely,
[signed]

Mario Draghi

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