EUROPEAN CENTRAL BANK

EUROSYSTEM

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Mario DRAGHI
President

Mr Bernard Monot
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 31 May 2016

L/MD/16/259

Re: Your letters (QZ-049 and QZ-050)

Honourable Member of the European Parliament, dear Mr Monot,

Thank you for your letters, which were passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 29 April 2016.

Regarding your question on the compatibility of our asset purchases with the European Central Bank's macroeconomic objectives, our asset purchase programme (APP) aims to further enhance the transmission of monetary policy, facilitate credit provision to the euro area economy, ease the borrowing conditions of households and firms and thereby contribute to returning inflation rates to levels closer to 2%, in line with the ECB's primary objective of maintaining price stability. In fact, we have good evidence that the monetary policy accommodation provided by our APP has already been effective in supporting the euro area recovery and has prevented deflation. Our new corporate sector purchase programme (CSPP), which starts in June 2016, aims to further strengthen the pass-through of the Eurosystem's asset purchases to the financing conditions of the real economy, and, in combination with other non-standard measures, will provide further monetary policy accommodation and thereby help inflation rates return to levels below, but close to, 2% in the medium term.

As regards your question on the possible financial stability implications of our purchases, as you pointed out, "portfolio rebalancing" towards a broad set of asset classes across the financial system is indeed a key channel through which our asset purchases ease financing conditions for the euro area economy in a broad-based manner, which supports the economic recovery and price stability. Of course, we are mindful of the potential unintended side effects our monetary policy measures may have on financial stability, and we have certainly taken great care to calibrate them precisely to minimise such effects. For the time being, we have little indication that generalised financial imbalances are emerging in the euro area. While overall asset price valuations have increased over the past year, particularly in the fixed-income market, a broad-based stretch in euro area asset valuations is not evident. Moreover, asset-price developments have not been accompanied by elevated credit growth. This notwithstanding, we are constantly monitoring a wide range of asset prices relative to some fundamental benchmarks to detect early signs or risks of instability. Should financial stability risks emerge, macroprudential policy instruments are available and most suited to address them.

Yours sincerely,
[signed]

Mario Draghi

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