EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

COURTESY TRANSLATION

Mario DRAGHI
President

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

Frankfurt, 1 September 2015

L/MD/15/497

Re: Your letter (QZ-102)

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 22 June 2015.

The objective of the credit easing package announced in the summer of 2014, and of the targeted longer-term refinancing operations (TLTROs) in particular, is to enhance the transmission of monetary policy, including by supporting bank lending to the real economy, and to reinforce the accommodative monetary policy stance in order to fulfil the ECB's mandated primary objective of achieving price stability in the medium term. There is evidence that these measures are delivering tangible effects by easing financing conditions for firms and households in the euro area.

The TLTROs are delivering in line with the ECB's intentions and expectations. Indeed, total gross take-up in the four TLTROs conducted so far has amounted to EUR 384 billion and is widely distributed across banks. Moreover, take-up has been tilted towards countries where impairments in the monetary policy transmission mechanism have been most pervasive, even though there was an increase in participation by banks in other countries in the last operation.

Bank lending rates have eased considerably since the announcement of the TLTROs in June 2014. For example, the composite lending rate to euro area non-financial corporations (NFCs) fell by 67 basis points between end-May 2014 and end-May 2015. Among the largest euro area countries, the decrease was most significant in Italy and Spain (107 and 91 basis points respectively) and amounted to 47 basis points in Germany and 39 basis points in France. Moreover, there is increasing evidence that TLTRO borrowers in particular have become more forthcoming in their lending behaviour (as regards both improvements in volumes and reductions in rates) than their peers. According to banks' responses to the recent bank lending survey, the main effect of the TLTROs on credit supply is an easing of credit terms and conditions, rather than a change in credit standards.[1]

At the euro area level, the supply of loans to NFCs has continued to recover gradually, with the annual rate of change increasing to 0.1% in May 2015, up from the trough of -3.2% in February 2014. Regarding loans to households, the euro area annual growth rate increased to 1.4% in May 2015, up from the trough of 0.2% in January 2014. Although there are still sizeable cross-country differences, considerable improvements for these two indicators have been observed in most euro area countries, including Italy.

It should be kept in mind that even when successful in delivering the intended easing of bank funding conditions, the effectiveness of the TLTROs in terms of delivering positive net lending flows depends critically on the strength of loan demand and the significance of possible credit supply constraints, related, for example, to banks' capital positions. For both of these factors, the role of the TLTROs can only be marginal and indirect, at best. In this respect, the ECB's assessment is that the recovering but still weak growth of bank lending to NFCs and households is linked to a combination of improving, although still subdued, loan demand and gradually receding credit supply constraints, which remain relatively more present in some euro area countries.

Yours sincerely,

[signed]

Mario Draghi

[1] The data for the second quarter of 2015 are reported in the July 2015 bank lending survey, available on the ECB's website at: https://www.ecb.europa.eu/stats/pdf/blssurvey_201507.pdf?134deac7d316e522a6484f524c54539d

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