EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI
President

Mr David Coburn
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 23 January 2018

L/MD/18/24

Re: Your letters (QZ-105 and QZ-106)

Honourable Member of the European Parliament, dear Mr Coburn,

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 27 November 2017.

On 14 December 2017 the Governing Council confirmed that from January 2018 it intends to continue to make net asset purchases under the asset purchase programme (APP), at a monthly pace of €30 billion, until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

The unconventional measures taken by the ECB in recent years have had a beneficial effect on economic growth and inflation, operating via financial markets. In particular, evidence shows that the non-standard policy measures have considerably eased the financing conditions of the private sector[1], with a substantial mitigation of the former asymmetries in the pass-through of policy rates to lending rates. Since the announcement of the ECB's non-standard monetary policy measures in June 2014 and their further amendment over the last three and a half years, the composite lending rates for loans to euro area non-financial corporations (NFCs) and households have decreased by significantly more than market reference rates. The reduction in bank lending rates on NFC loans since mid-2014 has been particularly strong in the countries which were most affected by the crisis. As a consequence, the dispersion of composite lending

[1] For a recent comprehensive assessment of the ECB's non-standard measures, see the article entitled "Impact of the ECB's non-standard measures on financing conditions: taking stock of recent evidence", *Economic Bulletin*, Issue 2, ECB, 2017, available at: https://www.ecb.europa.eu/pub/pdf/other/eb201702_focus03.en.pdf.

rates across euro area countries has declined substantially since mid-2014. When taking a longer-term perspective since August 2008, the reduction in composite bank lending rates for loans to NFCs has been similar across countries, reflecting a broadly homogeneous transmission of the ECB's monetary policy.

Looking at differences across firm sizes, there is evidence that the spread between interest rates charged on small loans (up to €0.25 million) and those charged on large loans (above €1 million) in the euro area has narrowed considerably since May 2014 and stood close to its historical low in October 2017. This indicates that small and medium-sized enterprises have generally benefited to a greater extent from the decline in bank lending rates than large companies. Lending rates applied to small loans were at broadly similar levels in the countries most affected by the crisis and the other euro area countries in October 2017, while the difference between the two groups was around 170 basis points in May 2014.

Therefore, I would like to remark that the transmission of monetary policy has improved substantially and is now broadly homogeneous across countries, firm sizes and also sectors, leading to very favourable financing conditions across the euro area. The considerable improvement in bank lending conditions and, more generally, in the availability of external financing is also confirmed by the euro area bank lending survey and the Survey on the Access to Finance of Enterprises.[2] Moreover, while purchases under the APP have been effective in easing financing conditions at large and supporting the recovery in the origination of loans to firms and households, they have not led to statistically significant euro exchange rate movements.[3] Such movements remain a side-effect of policy and are neither its main transmission channel, nor its objective.

Finally, turning to energy prices and the inflation profile, the recent December 2017 Eurosystem staff macroeconomic projections see HICP (Harmonised Index of Consumer Prices) energy inflation rising only very modestly over the forecast horizon, reflecting mainly the assumed pattern of the oil price futures curve. By comparing the paths of HICP inflation and HICP inflation excluding energy, those projections reveal that energy inflation only slightly pushes up the projected HICP inflation in 2018 and does not contribute to a higher overall inflation in 2019 and 2020.[4] Along with this relatively reduced direct influence of energy inflation on HICP inflation over the projection horizon, the indirect and second-round effects of energy inflation are also expected to be quite limited in the near future.

Yours sincerely,

[signed]

Mario Draghi

2 See http://www.ecb.europa.eu/stats/ecb_surveys/html/index.en.html.

3 See "The Eurosystem's bond purchases and the exchange rate of the euro", *Monthly Report*, Deutsche Bundesbank, January 2017.

4 Projections of oil prices over such a long horizon are necessarily subject to some uncertainty, and this should be borne in mind when interpreting them. For more details, see Table 1 in the article entitled "December 2017 Eurosystem staff macroeconomic projections for the euro area", available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.projections201712_eurosystemstaff.en.pdf.

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