ECB-PUBLIC

COURTESY TRANSLATION

Mario DRAGHI
President

Mr Miguel Viegas
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 14 June 2019

L/MD/19/211

Re: Your letter (QZ-028)

Honourable Member of the European Parliament, dear Mr Viegas,

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 12 April 2019.

By providing additional monetary policy accommodation, negative deposit rates and the ECB's non-standard measures more generally have fostered the supply of credit and lowered bank lending rates. From May 2014 to April 2019 lending rates for euro area households and non-financial corporations declined significantly, by around 115 and 130 basis points respectively. Moreover, loan growth for non-financial corporations and households has recovered significantly since the ECB introduced its non-standard monetary policy measures. Annual rates of growth are now significantly higher than in mid-2014, reflecting the pass-through of the ECB's monetary policy measures: between May 2014 and April 2019 the annual rate of growth in loans increased from -3.0% to 3.9% for non-financial corporations and from -0.1% to +3.4% for households. Overall, considering all measures taken by the ECB between June 2014 and those decided upon in March 2019, ECB staff estimate the impact on euro area real GDP growth and euro area inflation to be – in both cases – around 1.9 percentage points in cumulative terms for the period between 2016 and 2020.[1]

[1] For more details, see the article entitled "Taking stock of the Eurosystem's asset purchase programme after the end of net asset purchases" in the March 2019 issue of the ECB's Economic Bulletin, available at https://www.ecb.europa.eu/pub/economic-bulletin/articles/2019/html/ecb.ebart201902_01~3049319b8d.en.html.

The overall effect of our monetary policy on bank profitability has so far been broadly neutral. The negative impact on banks' net interest margins has been offset by an improvement in the economic outlook that has led to an increase in the total volume of loans and, moreover, improved credit quality, which has reduced provisioning costs.[2] At the same time, the ECB carefully monitors the overall effects of negative rates on the banking sector, in particular as the balance of their effects depends on the length of their application.

As I said in the introductory statement to the ECB's press conference on 6 June 2019, "The Governing Council also assessed that, at this point in time, the positive contribution of negative interest rates to the accommodative monetary policy stance and to the sustained convergence of inflation is not undermined by possible side effects on bank-based intermediation. However, we will continue to monitor carefully the bank-based transmission channel of monetary policy and the case for mitigating measures."[3]

Yours sincerely,

[signed]
Mario Draghi

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[2] See Altavilla, C., Boucinha, M. and Peydró, J.-L., "Monetary policy and bank profitability in a low interest rate environment", *Working Paper Series*, No 2105, ECB, 2017, available at https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2105.en.pdf.

[3] The introductory statement of the press conference of 6 June 2019 is available at https://www.ecb.europa.eu/press/pressconf/2019/html/ecb.is190606~32b6221806.en.html.

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