EUROPEAN CENTRAL BANK

EUROSYSTEM

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Mario DRAGHI
President

Mr Nikolaos Chountis
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

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Re: Your letter (QZ-029)

Honourable Member of the European Parliament, dear Mr Chountis,

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 15 April 2019.

By providing additional monetary policy accommodation, the ECB's non-standard measures have fostered the supply of credit and lowered bank lending rates across the euro area.

From May 2014 to March 2019, lending rates for euro area households and non-financial corporations (NFCs) declined significantly, by around 110 and 130 basis points, respectively. The reduction in bank lending rates for loans to NFCs and small firms – assuming that very small loans of up to €0.25 million are primarily granted to small firms – was more pronounced in those euro area countries that were most exposed to the crisis. For instance, while bank lending rates for NFCs have declined since May 2014 by about 100 basis points in Germany and 60 basis points in France, they have fallen by about 170 basis points in Spain and 200 basis points in Italy. This relatively stronger benefit of declining lending rates also applies to very small loans to firms in euro area countries which were more affected by the crisis. In fact, the decline in lending rates on very small loans since May 2014 has amounted to around 140 basis points in Germany and 120 basis points in France, but around 300 basis points in Spain and 230 basis points in Italy.

Moreover, lending to NFCs and households has recovered significantly since the ECB introduced its non-standard monetary policy measures. The annual rates of growth are significantly higher than those observed in mid-2014, reflecting the pass-through of the ECB's monetary policy measures: between May 2014 and

March 2019, the annual growth rate of loans to NFCs increased from -2.9% to +3.5%, and that of loans to households from -0.1% to +3.2%. While lending to NFCs has benefited from the ECB's monetary policy measures across euro area countries and heterogeneity in NFC loan growth has narrowed, it is still present. In the current environment, however, this heterogeneity seems to be related to cross-country differences in the demand for loans, rather than pervasive restrictions in supply. This is corroborated by evidence from the euro area bank lending survey, which indicates that credit supply conditions are favourable across euro area countries.

Finally, owing to positive spillovers from the asset purchase programme (APP), significant improvements in financing conditions were also observed in countries whose debt instruments were not eligible under the programme. In this respect, while it is difficult to disentangle the effects of the APP, we see that NFC loan growth in Greece has turned positive again (annual growth rate of 1.7% in March 2019, compared with -4.5% in May 2014) and lending rates have declined by around 200 basis points since May 2014.

Overall, our non-standard measures have contributed to a more uniform transmission of monetary policy to bank lending rates across euro area countries and firm sizes.

Considering all the ECB measures taken between June 2014 and June 2018, ECB staff estimate the impact on euro area real GDP growth and inflation to be – in both cases – around 1.9 percentage points in cumulative terms for the period between 2016 and 2020.[1] Moreover, taking into account both financial and macroeconomic effects, ECB research finds that lower-income households have been among the main beneficiaries of the ECB's non-standard monetary policy measures, through their positive impact on growth and employment creation.[2]

The country allocation of the cumulative net purchases under the APP is published by the ECB on its website, which contains information on all its purchase programmes.[3] Purchases of securities under the public sector purchase programme across eligible jurisdictions are guided, on a stock basis, by the respective national central banks' subscription to the ECB capital key, which reflects the respective country's share in the total population and gross domestic product of the EU (these two determinants have equal weighting).[4] Although allocating purchases of public sector securities according to the capital key does not take into account a Member State's position in the business cycle or its yield spreads, data on credit volumes and lending rates, as shown above, reveal that the countries that were most exposed to the crisis have seen the largest improvements. For the private sector programmes, on the other hand, market capitalisation is the guiding

[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#toc1).

[2] See, for instance, Lenza, M. and Slacalek, J. (2018), "How does monetary policy affect income and wealth inequality? Evidence from quantitative easing in the euro area", *Working Paper Series*, No 2190, ECB, October (available at https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2190.en.pdf).

[3] See https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html

[4] See https://www.ecb.europa.eu/ecb/orga/capital/html/index.en.html

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address
European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website:www.ecb.europa.eu

principle. Additional information on the various asset purchase programmes can be found in the ECB Economic Bulletin article referenced in footnote 1, while the ECB regularly updates the data on the purchase programme volumes on its website.

Yours sincerely,

[signed]
Mario Draghi