EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI

President

Mr Mario Borghezio
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 5 December 2013

L/MD/13/723

Re: Your letter

Dear Mr Borghezio,

Thank you for your letter, which was passed on to me by Ms Sharon Bowles, Chairwoman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 18 November 2013.

In early November, the ECB decided, inter alia, to lower the rate on the main refinancing operations (MRO) to 0.25%. This decision was taken against the background of further diminishing underlying price pressures over the medium term, starting from low annual inflation rates. Providing stimulus to banks was not part of the considerations behind our policy decision. Our policy decisions are taken in strict compliance with our mandate, which is to preserve price stability in the euro area. A rate reduction is appropriate when price stability is threatened by downside risks that could cause inflation to depart, in a sustained manner, from our aim to maintain it at around levels below, but close to, 2% over the medium term. It eases the borrowing conditions faced by households and companies in the euro area and hereby stimulates demand.

Regarding your question on the derivatives market, the cut in our MRO rate is unlikely to have a direct impact on the turnover of the derivatives market. The rate cut will mainly affect smaller banks which still have impaired market access and, therefore, a relatively high dependence on Eurosystem credit. While these banks generally play an important role in the supply of credit to the economy, they are not the most active banks on the derivatives markets.

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It is also worth noting that the rate cut does not in itself change the liquidity available to banks. In fact, the demand for Eurosystem refinancing has been steadily declining since September 2012 as market conditions began to normalise. Excess liquidity of the banking system (in the form of recourse to the Eurosystem deposit facility and reserve holdings above required reserves) has declined since January this year by some €650 billion to €150 billion. The recent rate cut has not reversed this trend.

Yours sincerely,

[signed]

Mario Draghi