



EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Mr Francisco Sosa Wagner
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 21 February 2012

L/MD/12/121

Re.: Your letters

Dear Mr Sosa Wagner,

Thank you for your letters passed on to me by Ms. Sharon Bowles, Chair of the Economic and Monetary Affairs Committee, and accompanied by covering letters dated 18 January 2012. For reasons of synergy and clarity, I would like to provide you with a single answer on the questions that you raise in both letters.

The 3-year funds provide banks with an insurance against the risk of facing a lack of liquidity. The liquidity supplied facilitates refinancing loans to the economy, also at medium term maturities, which cannot easily be (re)financed currently on impaired markets. This helps preventing a potentially major funding constraint for the banking system, which could have very adverse consequences for credit supply and therefore for the economy.

The large amounts that banks have placed on the ECB's deposit facility are not a meaningful indicator for the impact of the 3-year refinancing operation on the credit provided by banks to the economy. The increase merely reflects a balance sheet identity, with the increase in ECB's refinancing operations on the asset side of Eurosystem's balance sheet being necessarily reflected in bank's holdings of liquidity on the liabilities side. What is important for the ECB to monitor and analyse is the extent to which the liquidity provided by the central bank circulates among banks. There are indications that it does to some extent: overall, the banks that have borrowed liquidity from the ECB are not the same as those that are using the deposit facility of the ECB.

The decisions on how to use the liquidity are fully up to the individual banks themselves; it is their business decision. The ECB deposit facility is a monetary policy instrument open to all eligible counterparties.

Finally, as to the idea that the ECB would provide funding to other institutions, the actions of the ECB are bound by the Treaty on the Functioning of the European Union. The ECB conducts its refinancing

operations through tenders which are open to a very wide range of eligible counterparties. This includes the EIB which has access to our facilities on the same terms and conditions as other counterparties to the extent that it acts as a credit institution.

Yours sincerely,

[signed]

Mario Draghi