EUROPEAN CENTRAL BANK

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Mario DRAGHI
President

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

Frankfurt, 23 June 2017

L/MD/17/251

Re: Your letter (QZ-040)

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 31 May 2017.

With regard to your question on whether the European Central Bank (ECB) has concluded its own debt sustainability analysis (DSA) and, if so, what the main conclusions were, please be informed that the ECB staff is not currently in a position to complete a fully-fledged DSA analysis of Greece's public debt. Indeed, while we take note of the Eurogroup discussion, which we see as a first step towards securing debt sustainability, the level of detail on the debt measures referred to in the Eurogroup statement of 15 June 2017 is still insufficient to properly assess both their quantitative effect and the timing of their impact on the dynamics of Greece's public debt under a number of scenarios. As a consequence, until sufficient detail has been provided on the debt measures, serious concerns persist regarding the sustainability of Greece's public debt, to which I also referred in my recent reply to MEP Mr Kouloglou.[1]

Regarding your question on the potential effect of Greece becoming eligible for the ECB's public sector purchase programme (PSPP) on Greece's costs of borrowing, let me first stress that the Governing Council will decide independently on whether and how to conduct purchases of Greek sovereign debt securities under

[1] See https://www.ecb.europa.eu/pub/pdf/other/160217letter_kouloglou.en.pdf

the PSPP on the basis of both debt sustainability (once finalisation of the DSA is possible) and other risk management considerations. Let me remind you that the PSPP, which is part of the expanded asset purchase programme, is a monetary policy measure that addresses the risks of a too long period of low inflation in the euro area. However, the programme has not been designed to target yield developments in individual euro area countries.

Regarding your final question on the borrowing rate at which Greece could tap the markets without aggravating its debt prospects, kindly note that this does not depend only on the future interest rate, but also on its differential with the expected nominal growth rate for Greece. An improvement in growth prospects for the Greek economy would create the capacity to absorb a higher borrowing rate without having any detrimental effects on debt sustainability.

Finally, in the case of Greece, it is essential that the transmission of monetary policy is further reactivated by implementing a strategy that leads to a strengthening of banks' balance sheets (e.g. via the reduction of non-performing loans and other measures required by the current adjustment programme and the SSM targets for non-performing loans). This is an important path towards a durable reduction in the spread between Greek and euro area lending rates and will support the expansion of credit to the Greek economy.

Yours sincerely,
[signed]

Mario Draghi