



EUROPEAN CENTRAL BANK  
EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI  
President

Mr Matt Carthy  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt, 29 August 2016  
L/MD/16/392

**Re: Your letter (QZ-075)**

Honourable Member of the European Parliament, dear Mr Carthy,

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 27 July 2016.

The ECB continuously monitors relevant developments across a wide range of areas in the context of its financial stability analysis to identify possible sources of risk and vulnerability for financial stability in the euro area. As the June 2005 Financial Stability Review (FSR) stated: “...*financial stability is expectations-based, dynamic, and dependent on many parts of the system working reasonably well. What might represent stability at one point in time might be more stable or less stable on another occasion, depending on other aspects of the economic system, such as technological, political, and social developments*”.<sup>1</sup> Political uncertainty has undoubtedly been an important trigger of financial and economic stress in the euro area over the past few years, and the recent events following the UK referendum on EU membership provide a telling example of the effects that political developments can have on the euro area financial markets.

In accordance with the ECB’s wide-ranging approach to financial stability surveillance, considerations about institutional and political factors, both inside and outside the euro area, are regularly included in the set of information which feeds into the ECB’s financial stability assessment. The monitoring and appraisal of such factors is common practice among many other institutions which perform similar analyses, such as the Bank

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<sup>1</sup> See Special Feature A on “Assessing Financial Stability: Conceptual Boundaries and Challenges” in ECB Financial Stability Review, June 2005, p. 122, accessible on the ECB website at: <http://www.ecb.europa.eu/pub/pdf/other/financialstabilityreview200506en.pdf>

**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](http://www.ecb.europa.eu)

of England, the International Monetary Fund and the Organisation for Economic Co-operation and Development.

As regards risks stemming from inside the euro area, past ECB analyses have focused in particular on possible interlinkages between institutional and political factors, the vulnerability of public finances, the financial sector and economic growth. Many of the recent editions of the FSR have included evaluations of these issues.<sup>2</sup> In the specific case of the May 2016 FSR you mentioned in your letter, the Review discusses debt sustainability challenges stemming from low nominal growth and heightened political uncertainty as being among the possible sources of risk. Political uncertainty was identified as potentially giving rise to such challenges, especially if it were to translate into a substantial abatement, or even reversal, of the effort in making much needed fiscal and structural reforms. These reforms, the ECB has argued on many occasions, are vital to ensure sustainable growth and job creation, resilience to economic shocks and long-term debt sustainability, to the benefit of both financial and price stability in the euro area. For this reason, the analysis contained in the Review did not single out any specific country, but rather looked at developments in all euro area countries and also discussed political risks at supranational levels.

Finally, concerning the timing of the publication of the FSR, I would reiterate that the ECB is an independent institution and that in its communications it takes no account of election timetables. The FSR is published at the end of May and November every year, a practice that started in 2013.

Yours sincerely,

[signed]

Mario Draghi

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<sup>2</sup> e.g. the December 2011, June 2012, May 2013, November 2013, November 2014, May 2015 and November 2015 editions. They are available on the ECB's website at <https://www.ecb.europa.eu/pub/fsr/html/index.en.html>

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