CARMIGNAC

Mr Mario Draghi
President
European Central Bank
Kaiserstrasse 29
60311 Frankfurt

Germany

Paris, 17 April 2014

Dear President Draghi,

On two previous occasions, I felt the need to congratulate you for an exemplary first year in office. Today, it can safely be said that in just two and a half years at the helm, you have made the ECB the key institution in the European construction process. You have prevented the euro area from imploding and allowed its most vulnerable members to re-enter the bond market.

The record is plain to see. In January 2012, yields on Italian and Spanish 10-year government debt were close to 7% and 5%, respectively. They have now been halved. Even better, because you made your support for these states contingent on their adoption of a code of good conduct – the Fiscal Compact – it took only minimal ECB involvement to get results. Renewed investor confidence was enough to get the markets working the way they are supposed to.

So these are impressive achievements. But will they really fit the bill? Unfortunately, the answer is no. The two countries I mentioned are expected to produce growth of less than 1% and have **an inflation rate barely above zero**. This means they will be shouldering an even heavier debt burden this year, with debt service still outstripping nominal growth by a sizeable margin. True, the ECB can only go so far in stimulating member state economies. Yet its duty is to gauge the recessive impact of any fiscal consolidation and structural reform programmes. It is therefore **imperative that** the European Central Bank counterbalance the inevitable hardships with a resolutely accommodative monetary policy geared to weakening the euro. This would help European companies move back up the competitive ladder and push inflation up into the vicinity of 2%.

What decisive steps will be required to make that happen ? I would suggest (1) a zero interest-rate policy, engineered through a token 0.25% cut in your benchmark interest rate; (2) a sovereign bond buyback programme of €50 billion a month, with the breakdown based on the relative economic weight of the various member states. These purchases would amount to 6% of eurozone GDP a year, and it goes without saying that they should not be sterilised.

The higher confidence in the European construction process you have brought about has to be consolidated. At this stage, Machiavelli needs to morph into Super Mario – an equally stellar role when the task at hand is to keep deflation from clogging up Europe's intricate economic plumbing.

That, in any case, is my hope, and I have no doubt that you can and will do whatever it takes.

Respectfully yours,

Edouard Carmignac

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