EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

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European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 1 December 2015

L/MD/15/655

Re: Your letter (QZ-142)

Honourable Members of the European Parliament,

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 12 October 2015.

In January 2015 the Governing Council of the ECB decided to launch the expanded asset purchase programme (APP) with a view to providing additional monetary accommodation to address the heightened risks of a too prolonged period of low inflation, ensuring the fulfilment of the ECB’s mandate to maintain price stability. It was decided that the APP would include a broad range of private and public sector assets, encompassing the existing purchase programmes for asset-backed securities and covered bonds, as well as purchases in the secondary market of euro-denominated investment-grade securities issued by euro area governments, certain agencies and international or supranational institutions located in the euro area.

The private and public sector securities eligible for purchase under the APP include certain securities issued by some public sector non-financial corporations. As provided for in Article 3 of the relevant ECB decision (Decision ECB/2015/10) on the secondary market public sector asset purchase programme (PSPP), those public non-financial corporations must be located in the euro area, but their eligibility as issuers is not subject to any other geographical criteria. However, all entities eligible for the PSPP, including the aforementioned corporations, are clearly public sector entities (i.e. entities falling within the scope of Article 3 of Council Regulation (EC) No 3603/93 specifying definitions for the application of the prohibitions referred to in Articles 104 and 104b (1) of the Treaty), as there are certain characteristics which qualify them as such, in spite of having issued shares. For example, all eligible agencies have a rating similar to that of the relevant sovereign, owing to the support (whether explicit or implicit) provided by that sovereign.

Their inclusion is in line with the overall monetary policy objective, while at the same time taking appropriate account of considerations relating to the implementation of monetary policy and risk management. In part, it reflects the heterogeneous structure of the public sector across Member States. In some Member States, specific tasks are carried out by the government or public authorities, while in others, public corporations assume these roles, for example in the area of infrastructure (e.g. in the case of the Caisse Nationale des Autoroutes or ÖBB-Infrastruktur AG). Finally, the public non-financial corporations in question play an important role in supporting the local economy.

Given the public sector nature of their activities, public non-financial corporations are subject to the prohibition of monetary financing under Article 123 of the Treaty on the Functioning of the European Union, which means that purchases by central banks are restricted to the secondary market, allowing the formation of market prices in the markets for eligible securities. In addition, a blackout period is applied, as described in the relevant ECB decision (Decision ECB/2015/10). Indeed, the Eurosystem is committed to ensuring that purchases are conducted in a way that minimises any negative side effects for the functioning of markets. Given the relatively limited size, thus far, of purchases of public sector agencies' securities under the PSPP, these have not had a major impact on liquidity in the relevant market segment. Moreover, while Eurosystem purchases may only have a direct impact on the bond yields of PSPP-eligible public sector entities, the portfolio rebalancing effect that the Eurosystem relies on for its policy to be effective will ensure that other enterprises' bond yields also benefit from our purchases. Thus, there is no specific subsidy for PSPP-eligible issuers, but there is a positive impact on the economy as a whole.

Finally, as regards your question on including private sector assets in the APP, it should be noted that the APP already includes asset-backed securities and covered bonds issued by the private sector. The Governing Council will re-examine the degree of monetary policy accommodation in December, and it is willing and able to act using all of the instruments available within its mandate if this proves necessary in order to maintain an appropriate degree of monetary accommodation. In particular, it should be noted that the asset purchase programme provides sufficient flexibility in terms of adjusting its size, composition and duration.

Yours sincerely,

[signed]

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