EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

COURTESY TRANSLATION

Christine LAGARDE
President

Mr Marco Zanni
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 21 April 2020

L/CL/20/98

Re: Your letter (QZ-007)

Honourable Member of the European Parliament, dear Mr Zanni,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 9 March 2020.

In accordance with Article 18 of the Statute of the European System of Central Banks and of the European Central Bank, open market operations – such as the purchase of debt instruments issued by both the public and private sector under the Asset Purchase Programme (APP) – are among the instruments the Eurosystem may use to carry out its task of defining and implementing monetary policy in the pursuit of its primary objective to maintain price stability.[1]

However, the Treaties limit the purchase of debt instruments issued by the public sector. Article 123 of the Treaty on the Functioning of the European Union (TFEU) prohibits the European Central Bank and the national central banks of Member States from purchasing debt instruments *directly* from European Union institutions, bodies, offices or agencies, as well as from the central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States.[2] A comparable legal prohibition does not exist for debt instruments issued by the private sector.

[1] See Consolidated version of the Treaty on the Functioning of the European Union Protocol (No 4) on the Statute of the European System of Central Banks and of the European Central Bank (OJ C 202, 7.6.2016, p. 230).

[2] See Consolidated version of the Treaty on the Functioning of the European Union (OJ C 326, 26.10.2012, p. 47).

The objective of Article 123 of the TFEU is to encourage the Member States to follow a sound budgetary policy, not allowing monetary financing of public deficits to lead to excessively high levels of debt or excessive Member State deficits.[3] The Treaties have been understood to mean that primary market purchase of government debt, i.e. the direct financing of governments, would undermine the capability of this objective to encourage such disciplined budgetary policy. This is why, under the Public Sector Purchase Programme (PSPP), which is part of the APP, Eurosystem central banks may only purchase debt instruments issued by the public sector *indirectly*, namely on the secondary market. It is not only debt instruments issued by central, regional or local governments of a Member State whose currency is the euro that are eligible under the PSPP: debt instruments issued by recognised agencies in the euro area, international organisations located in the euro area and multilateral development banks located in the euro area are also eligible.[4]

Article 123 of the TFEU is also the reason why the Corporate Sector Purchase Programme (CSPP), which is also part of the APP, makes the following distinction. Eurosystem central banks may generally purchase corporate bonds on the primary and secondary markets, whereas they may only purchase public sector corporate bonds on the secondary market.[5]

Yours sincerely,

[signed]

Christine Lagarde

[3] See Case C-62/14, Peter Gauweiler and Others v Deutscher Bundestag, EU:C:2015:400, 16 June 2015, paragraph 100.

[4] See Article 3 of Decision (EU) 2020/188 of the European Central Bank of 3 February 2020 on a secondary markets public sector asset purchase programme (OJ L 39, 12.2.2020, p.12). See ECB website https://www.ecb.europa.eu/paym/coll/standards/marketable/html/index.en.html for an overview of recognised agencies and supranational issuers.

[5] See Articles 1 to 3 of Decision (EU) 2016/948 of the European Central Bank of 1 June 2016 on the implementation of the corporate sector purchase programme (OJ L 157, 15.6.2016, p. 28). The CSPP defines public sector corporate bonds as corporate bonds issued by public undertakings of Member States within the meaning of Article 123 of the TFEU and Article 8 of Council Regulation (EC) No 3603/93 of 13 December 1993 specifying definitions for the application of the prohibitions referred to in Articles 104 and 104b(1) of the Treaty (OJ L 332, 31.12.1993, p. 1).