EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI
President

Members of GUE/NGL
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 13 April 2015

L/MD/15/223

Re: Your letter (QZ-26)

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 16 February 2015.

On 4 February, the Governing Council of the European Central Bank (ECB) decided to lift the so-called "waiver", which allowed marketable debt instruments issued or guaranteed by the Hellenic Republic to be used in Eurosystem monetary policy operations even though they did not fulfil minimum credit rating requirements. This decision was based on the fact that it was no longer possible to assume a successful conclusion of the programme review. It was fully in line with existing Eurosystem rules and solely reflected monetary policy considerations. The liquidity needs of counterparties that do not have sufficient alternative collateral can be satisfied by the relevant national central bank providing emergency liquidity assistance (ELA) within the existing Eurosystem rules.

As regards the capital position of a central bank, the ECB is of the opinion that, for reasons of credibility and financial independence, the capital of an ESCB central bank should not fall below its statutory level – or even become negative – for a prolonged period of time. The same holds true where losses exceeding the level of capital and the reserves would be carried over as separate balance sheet items and thereby would technically not affect the size of capital and reserves.[1] Nonetheless, a central bank – unlike a private company – may function unabatedly facing a negative equity position, as evidenced by several real-world examples. This is due to its guaranteed future stream of income related to the provision of central bank money ('seigniorage').

[1] See also ECB Convergence Report 2014, page 25.

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

As regards the interaction between fiscal consolidation and the monetary policy transmission channels, unsustainable fiscal positions led, in the past, to very high sovereign bond yields that impaired the transmission process of monetary policy. Fiscal consolidation has therefore clearly made a positive contribution to the transmission process of monetary policy, notwithstanding any possible adverse short-term impacts of fiscal consolidation on growth. Let me also add that fiscal consolidation supports confidence and thereby the economic recovery. A more growth-friendly composition of fiscal policies would contribute further to that recovery.

Finally, please note that any form of mutualisation of debt issuance at European level, as alluded to by you, would need to be decided by the appropriate political institutions at European level, weighing all the benefits and costs.

Yours sincerely,
[signed]

Mario Draghi

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