



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Mr Burkhard Balz

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt, 17 February 2016

L/MD/16/88

**Re: Your letter**

Honourable Member of the European Parliament, dear Mr Balz,

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 11 January 2016.

Following a unanimous decision by the Eurosystem central banks, the Agreement on Net Financial Assets (ANFA) was published on the ECB website together with an accompanying explanatory document.<sup>1</sup> In short, ANFA is an agreement between the national central banks (NCBs) of the euro area and the European Central Bank (ECB). It sets rules and limits for holdings of financial assets which are related to national tasks of the NCBs. While ANFA was previously a classified document, its publication shows the ECB's commitment to greater transparency. This should address all concerns expressed by you in this regard.

ANFA's purpose is to limit the amount of Eurosystem NCBs' net financial assets (NFA), i.e. their non-monetary policy assets net of related liabilities. Such a limit ensures that the Eurosystem's single monetary policy can be implemented efficiently. As regards NCBs' non-monetary policy portfolios and their funding, it is important to understand that there is a minimum amount of central bank money that is strictly needed for the functioning of the euro area economy.<sup>2</sup> This minimum amount corresponds to the demand for banknotes by the public and the amount of central bank money needed by the banking system to fulfil its reserve requirements.

<sup>1</sup> Available at [https://www.ecb.europa.eu/explainers/tell-me-more/html/anfa\\_qa.en.html](https://www.ecb.europa.eu/explainers/tell-me-more/html/anfa_qa.en.html).

<sup>2</sup> See also the answer to the question: "Why do national central banks hold any financial assets that are not related to monetary policy" in the Q&A document referred to in footnote 1.

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The ECB's Governing Council decides which part of this demand for central bank money is to be provided through monetary policy operations in order to implement its monetary policy stance. Only the remainder may be provided by NFA. Therefore, the provision of central bank money by NCBs – their NFA – is strictly limited at all times. In this way ANFA guarantees the primacy of the Eurosystem's single monetary policy over national tasks conducted by the NCBs.

I would like to point out that the components of aggregate Eurosystem NFA are disclosed on a weekly basis in the consolidated Eurosystem balance sheet,<sup>3</sup> on which both the assets and liabilities related to monetary policy and non-monetary policy are clearly separated. This information on the amount of central bank money provided through non-monetary policy operations, which has been provided since the euro came into existence in 1999, should also clarify the misunderstanding that "ANFA solely relates to government bonds". Moreover, for the Eurosystem as a whole, public information on the composition of monetary and non-monetary policy portfolios is available in the aggregate balance sheet of euro area monetary financial institutions.<sup>4</sup> This shows that the Eurosystem holds a variety of assets, of which euro area government bonds form only a part.

Let me emphasise again that the NCBs manage non-monetary policy portfolios under their own responsibility and liability, as a national task outside the tasks of the ESCB, as stipulated in Article 14.4 of the Statute of the ESCB and the ECB. This provision explicitly states that the responsibility and liability for these portfolios lie entirely with the NCBs. As the risks of these activities are not shared, gains are not shared either. Moreover, as these portfolios relate to national tasks, the NCBs decide what information they publish regarding their portfolios, following national and European rules. Most NCBs disclose detailed information on the composition of their portfolios – such as a breakdown of their assets into government and non-government debt – in their annual reports, in other publications or on their websites. Just like other investors, NCBs do not disclose information that could allow others to make inferences about their future investment behaviour.

Having addressed your concerns about the confidentiality of ANFA and the composition of the related portfolio, let me take this opportunity to assure you that the ECB closely monitors, pursuant to Article 271(d) of the Treaty on the Functioning of the European Union (TFEU), whether NCBs comply with the prohibition of monetary financing, i.e. Article 123 of the TFEU, and do not circumvent it. To that end, NCBs are required to inform the ECB about their asset holdings and operations. The ECB monitors NCBs' purchases of euro area government debt, and in particular that they do not buy euro area government debt in the primary market. The main results of these checks and assessments are published in the ECB Annual Report.<sup>5</sup>

<sup>3</sup> The weekly financial statements of the Eurosystem are published on a Tuesday on the ECB's website at <https://www.ecb.europa.eu/press/pr/wfs/2016/html/index.en.html>

<sup>4</sup> The aggregated balance sheet of euro area monetary financial institutions is accessible on the ECB's website at <http://sdw.ecb.europa.eu/reports.do?node=100000137>

<sup>5</sup> See also the answers to the questions related to the monitoring of the monetary financing prohibition in the Q&A document referred to in footnote 1.

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I trust that the recent publication of ANFA, the accompanying explanation and my answers to your questions dispel any doubts regarding the Eurosystem's ability to ensure that non-monetary policy operations of NCBs do not interfere with the Eurosystem's single monetary policy, and that all operations of the NCBs and the ECB comply with the prohibition of monetary financing.

Yours sincerely,

[signed]

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