EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Christine LAGARDE
President

Mr Engin Eroglu
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 4 February 2022

L/CL/22/20

Re: Your letter (QZ-055)

Honourable Member of the European Parliament, dear Mr Eroglu,

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 17 December 2021.

As explained in my reply to your previous letter[1], securities held under the Eurosystem's monetary policy purchase programmes, including those under the Pandemic Emergency Purchase Programme (PEPP), are – in line with the established rules – valued at amortised cost (subject to impairment), as opposed to being marked to market. Consequently, in the absence of sales, the fluctuation in market value brought about by an interest rate rise of the magnitude you allude to in your letter would not result in any interest rate related losses being recognised by the Eurosystem in the foreseeable future. As recently announced, net purchases under the PEPP will continue until March 2022, after which date the ECB intends to reinvest the principal payments from maturing securities until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

For as long as the securities held under the PEPP are kept on the balance sheet, the Eurosystem is effectively going to earn the yield-to-maturity at which they were acquired. I would like to stress the fact that the stand-alone return profile of the PEPP is not as relevant as the interest rate sensitivity of our entire balance sheet, that is, the interest rate risk arising from maturity and yield mismatches between assets and liabilities. In this sense, you are correct in recognising that one should look holistically at all of our programmes and I would like to assure you that we look not only at all the purchase programmes but also at our refinancing and investment

[1] See "Letter from the ECB President to Mr Engin Eroglu, MEP, on monetary policy", ECB, 17 September 2021, available on the ECB's website at: https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter210917_Eroglu~52bae20e2f.en.pdf.

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operations, as well as at our liabilities such as the deposit facility and excess reserves. In this respect, I would like to refer you to the analysis that our staff recently published under the Workstream on monetary-fiscal interactions as part of the ECB's monetary policy strategy review.[2] Section 3.3.2.1 of the publication, and in particular Box 15, discusses issues related to those you raise. They illustrate the kind of analysis that our staff perform on a regular basis to assess the medium-to-long term interest sensitivity of our balance sheet, given the applicable accounting treatment of various asset and liability items.

Furthermore, we are perfectly aware of our fiduciary duty in administering public resources and we are committed to preserving our financial independence. We closely monitor the risks on our balance sheets and manage them to ensure they are proportionate and necessary to meeting our mandate. Beyond our ex ante risk control frameworks, which govern our asset purchases and refinancing operations, the ECB and the national central banks of the Eurosystem maintain financial buffers to cater for the financial risks that remain ex post.

Finally, let me stress once again that our decisions on interest rates are solely guided by our price stability mandate as laid down in the Treaty on the Functioning of the European Union.

Yours sincerely,

[signed]

Christine Lagarde

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[2] Workstream on monetary-fiscal policy interactions, "Monetary-fiscal interactions in the euro area", *Occasional Paper Series*, No 273, ECB, September 2021, available on the ECB's website at: https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op273~fae24ce432.en.pdf.

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