



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI
President

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

Frankfurt, 7 May 2015
L/MD/15/297

Re: Your letter (QZ-52)

Honourable Members of the European Parliament, dear Mr Valli, dear Mr Zanni,

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 23 March 2015.

According to Article 2(2) of Directive 2009/110/EC, “electronic money” (or e-money) means “electronically, including magnetically, stored monetary value as represented by a claim on the issuer which is issued on receipt of funds for the purpose of making payment transactions [...], and which is accepted by a natural or legal person other than the electronic money issuer”.

Credit institutions, as well as other financial and non-financial institutions, may issue e-money. At the end of 2014 the total issuance of electronic money by monetary financial institutions (MFIs) was €5.7 billion,¹ or approximately 0.06% of the euro area’s gross domestic product (GDP). Therefore, e-money is currently of very limited macroeconomic significance.

Your question highlights the quantitatively more significant concept of non-banknote MFI liabilities included in the ECB’s definition of euro area monetary aggregates. The main monetary aggregates are M1, M2 and M3.

¹ Please see the statistics on MFI balance sheets (March 2015), available on the ECB’s website at:
<http://sdw.ecb.europa.eu/reports.do?node=1000003509>

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The precise definitions and statistical methodology used to compile the aggregates are described in the ECB's Manual on MFI balance sheet statistics.² The broadest monetary aggregate, M3, is composed of currency in circulation (i.e. banknotes and coins, the most liquid component of M3) and certain MFI liabilities that are deemed to be sufficiently liquid and have enough price certainty to be considered money.³

At the end of 2014 M3 was estimated to amount to €10,306 billion⁴, or approximately 102% of the euro area GDP. Currency in circulation was 9.4% of M3, therefore 90.6% was the share of broad money created by MFIs.

The sectoral breakdown shows that 63.1% of M3 deposits were held by households, 20.6% by non-financial corporations, 10% by non-monetary financial corporations excluding insurance corporations and pension funds, 2.5% by insurance corporations and pension funds and 3.7% by other general government.

The ECB monitors monetary developments in the context of the two pillar strategy, namely as part of the monetary analysis pillar. To this end, the information contained in M3 (and in the narrower aggregates M1 and M2) is duly taken into account in formulating the ECB's monetary policy decisions.

Regarding purchases of government bonds by publicly owned commercial banks, these credit institutions are explicitly exempt from the monetary financing prohibition. According to Article 123(2) of the Treaty on the Functioning of the European Union (TFEU), publicly owned credit institutions must be given the same treatment as private credit institutions in the context of the supply of reserves/liquidity by central banks. Hence, publicly owned credit institutions are not prohibited from purchasing, either directly or indirectly, debt instruments of public sector entities.

Please note that the monetary financing prohibition laid down in Article 123 of the TFEU does not address the matter of what means are to be used to settle purchases of government bonds.

Finally, as stated in Article 128(1) of the TFEU, euro banknotes issued by the ECB and the national central banks are the only notes to have the status of legal tender within the European Union. For euro coins, the legal tender status is governed by the applicable law in the competence of the EU legislator (the European Parliament and Council, not the ECB) and the Member States.

² Available on the ECB's website at: <https://www.ecb.europa.eu/pub/pdf/other/manualmfibalancesheetstatistics201204en.pdf>

³ These comprise overnight deposits, deposits with an agreed maturity of up to two years, deposits redeemable at notice of up to three months, repurchase agreements, money market fund shares/units and debt securities issued with a maturity of up to two years. For further details, see the ECB's Manual on MFI balance sheet statistics.

⁴ Please see the press release entitled Monetary developments in the euro area (December 2014) and revised figures in Tables 5.1 and 5.2 in the Economic bulletin (Issue 2, 2015), available on the ECB's website at: <http://www.ecb.europa.eu/press/pdf/md/md1412.pdf> and <http://sdw.ecb.europa.eu/reports.do?node=100004823>, respectively.

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The concept of legal tender, however, refers to the right to settle payment obligations with a recognised medium of payment. Where a euro banknote is exchanged for euro coins (or for euro banknotes of smaller denominations), the concept of legal tender is, strictly speaking, not involved, as no payment obligation is settled. Hence, the exchange of a euro banknote for euro coins depends on the willingness of the contracting parties to conduct such a transaction.

Yours sincerely,

[signed]

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