



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE

President

Mr Markus Ferber
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 10 February 2023

L/CL/23/29

Re: Your letter (QZ-038)

Honourable Member of the European Parliament, dear Mr Ferber,

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 13 December 2022.

The ECB's primary objective is to maintain price stability. In pursuing this objective, one of the monetary policy instruments that the ECB employs is open market operations in the form of asset purchase programmes. Market neutrality has served and continues to serve the ECB as an operational tool in the implementation of these programmes. However, as detailed in my previous letter,¹ there are valid reasons why the ECB may need to deviate from an entirely market-neutral approach under certain circumstances. One prominent reason that has justified deviations relates to risk considerations. The ECB has established risk control frameworks to protect its balance sheet from financial risks arising from outright purchases of assets in the pursuit of its monetary policy objectives. These frameworks consist of, among other things, credit assessment and due diligence procedures that can – subject to the principle of proportionality – lead to the limiting or suspension of purchases of certain securities, thereby resulting in a deviation from market neutrality.

It is important to bear in mind that the measures the ECB takes to incorporate climate change into its monetary policy in pursuit of its primary price stability objective are, first and foremost, necessary for the Eurosystem to effectively manage the climate-related financial risks to which it is exposed when holding certain assets, in

¹ See *Letter from the ECB President to Mr Markus Ferber, MEP, on climate change*, ECB, 11 November 2022, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter221111_ferber_1~1feffc15f9.en.pdf?30f53ff43764ad3cb8f28492b0d3abf0.

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particular corporate bonds. The ECB's adoption of measures designed to circumscribe the risk of financial losses forms part of the definition and implementation of monetary policy, pursuant to which the Eurosystem may conduct credit operations with lending based on adequate collateral.²

These measures, which are taken in pursuit of the Eurosystem's primary objective of maintaining price stability, also serve its secondary objective. Without prejudice to the objective of price stability, the Eurosystem must support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.³ These objectives include a high level of protection and improvement of the quality of the environment. In this respect, the adoption of Regulation (EU) 2021/1119 of the European Parliament and of the Council⁴ (the "European Climate Law") in June 2021 has been an important factor that the ECB has taken into account in its decision-making. The European Climate Law sets out the binding objective of climate neutrality in the Union by 2050 in pursuit of the long-term temperature goal set out in the Paris Agreement. As this law affects every conceivable aspect of economic policy in the Union, as also reflected in the reference to the required "collective effort of all sectors of the economy" in Recital 25, it forms part of general economic policies in the Union.⁵ The Eurosystem's actions are therefore fully within its mandate, not only because they fall within its primary mandate, but also because the Eurosystem is required to support such general economic policies, with a view to contributing to the achievement of the Union's objectives under Article 3 of the Treaty on European Union.

The ECB is independent and has discretion to use its instruments as necessary to carry out its tasks and fulfil its mandate. Accountability is the necessary counterpart to that independence, and the ECB has always been open in explaining its decisions and underlying reasoning to EU citizens and their elected representatives, the Members of the European Parliament. On this basis, citizens can then assess the ECB's performance against its objectives – as discussed above. The current accountability practices in place between the ECB and the European Parliament have evolved over time beyond the requirements set out in the Treaty. The flexibility that has characterised this accountability framework has allowed us to continuously improve and deepen our relationship, in line with the demand for democratic scrutiny. The ECB has been receptive to requests made by the European Parliament to improve these accountability practices, building on the existing framework. For example, in line with the call made by the European Parliament in its resolution of 10 February 2021,⁶ the

² As reflected in Article 18.1 of the Statute of the European System of Central Banks and the European Central Bank (hereinafter the "Statute of the ESCB").

³ Articles 127(1) and 282(2) of the Treaty on the Functioning of the European Union, as reflected in Article 2 of the Statute of the ESCB.

⁴ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ("European Climate Law") (OJ L 243, 9.7.2021, p. 1).

⁵ Moreover, the fact that the European Climate Law sets out the Union's climate neutrality objective in such clear, unambiguous and quantifiable terms provides a clear distinction from the Union's other policy areas.

⁶ See Paragraph 43, European Parliament resolution of 10 February 2021 on the European Central Bank – annual report 2020 (2020/2123(INI)), available at: https://www.europarl.europa.eu/doceo/document/TA-9-2021-0039_EN.html.

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latest ECB Annual Report included an additional chapter summarising the ECB's approach to environmental, social and governance sustainability topics.⁷ Moreover, following a request by the Parliament, since 2016 the ECB has provided detailed feedback on the content of the European Parliament's resolutions on the ECB Annual Report. The latest feedback statement includes paragraphs on climate change considerations that discuss, among other things, the allocation of purchases under the corporate sector purchase programme.⁸ Finally, I would also like to mention that the ECB has interacted closely with the Committee on Economic and Monetary Affairs in the context of the strategy review, during which issues related to climate change were discussed. Following the conclusion of the review, the European Parliament expressed its support for the ECB's climate change action plan.

To conclude, and as I have mentioned in previous hearings in the European Parliament, I am committed to further reflecting with you and your fellow Members of the European Parliament on how we can develop and improve our relationship, in full respect of the Treaties.

Yours sincerely,

[signed]

Christine Lagarde

⁷ See "Annual Report 2021", ECB, April 2022, available at: <https://www.ecb.europa.eu/pub/annual/html/ecb.ar2021~14d7439b2d.en.html>.

⁸ See, for example, "Feedback on the input provided by the European Parliament as part of its resolution on the ECB Annual Report 2020", 28 April 2022, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.20220428_feedback_on_the_input_provided_by_the_european_parliament-e2638b53e0.en.pdf.

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