



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE
President

Mr Bas Eickhout
Ms Henrike Hahn
Mr Rasmus Andresen
Mr Ernest Urtasun
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 23 June 2023

L/CL/23/134

Re: Your letter (QZ-013)

Honourable Members of the European Parliament, dear Mr Eickhout, Ms Hahn, Mr Andresen and Mr Urtasun,

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 11 May 2023.

As recently highlighted in my reply to a letter (QZ-011) from Ms Manon Aubry, MEP,¹ the modalities of all our monetary policy instruments – including the interest rate on the deposit facility – are geared towards pursuing our mandate of price stability in the euro area. The primacy of this objective means that it is pursued also if it results, temporarily, in increased financial gains for commercial banks, a worsening of the financial results of the ECB and the national central banks (NCBs), or lower or no profit distribution by the NCBs to euro area governments.

It should be noted that the current reduction in Eurosystem net income follows a lengthy period in which Eurosystem central banks registered relatively large profits – approximately €300 billion before tax and general provisions over the last ten years alone. In line with principles of prudent financial risk management, the Eurosystem used part of the profits received over this period to build up financial buffers (such as general provisions and reserves) in preparation for future financial losses, which started to materialise in 2022. At the

¹ See *Letter from the ECB President to Ms Manon Aubry, MEP, on monetary policy*, ECB, 5 May 2023, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter230505_aubry_1~702967ad65.en.pdf.

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

same time, as the main shareholders in euro area NCBs, euro area countries also benefited from the distribution of large central bank profits.

As to the suggestion of limiting either the amount each commercial bank can hold in the deposit facility or the remuneration of amounts placed in that facility, with a view to reducing Eurosystem losses, note that our monetary policy rates serve to influence short-term money market rates and, thereby, financial conditions more broadly, also through the rate of interest we pay on banks' excess liquidity. In the current environment of high excess liquidity, the ECB deposit facility rate is the anchor for short-term money market rates. This mechanism, in turn, constitutes the first stage of monetary policy transmission, allowing the ECB to set the stance of monetary policy in a way that ensures that inflation will return to our 2% medium-term target in a timely manner.

From a monetary policy perspective, the interest income that commercial banks are currently receiving on their reserves is a side effect of the higher policy interest rates needed to achieve price stability. The amount of reserves is already on a declining path as a result of TLTRO reimbursements and the run-down of the APP portfolio. In addition, a full assessment of the overall impact of rate hikes on banks' financial results would also need to take other factors into account. For example, under current conditions, banks may be experiencing valuation losses in their securities portfolios, higher funding costs and lower lending volumes.

Yours sincerely,

[signed]

Christine Lagarde

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