



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Fabio De Masi

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 13 December 2024

L/CL/24/207

Re: Your letters (QZ-008 and QZ-009)

Honourable Member of the European Parliament, dear Mr De Masi,

Thank you for your letters, which were passed on to me by Ms Aurore Lalucq, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 5 November 2024.

The national central bank (NCB) bonds to which you refer in your letter, and which were on the Eurosystem's balance sheet during the early years of the ECB, were legacy instruments issued by the respective NCBs before they joined the Eurosystem. These bonds remained on the liability side of the Eurosystem's balance sheet until maturity. They were issued under national monetary policies by the respective NCBs before the adoption of the euro and were therefore unrelated to ECB monetary policy.

ECB long-maturity bonds do not exist as an instrument. The ECB does have a number of instruments available for liquidity absorption purposes, such as collecting fixed-term deposits (used between 2010 and 2014) and issuing transferable securities in the form of short-term "ECB debt certificates" (an instrument that has not yet been used). These instruments are available for use if there is a monetary policy justification.¹ If

¹ See, in particular, Article 13 of Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (General Documentation Guideline) ([ECB/2014/60](#)).

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issued, ECB debt certificates would be risk-free and the ECB would apply no valuation haircut for accepting them as eligible collateral in its monetary policy operations.²

Regarding your question about the proposal from a 2023 paper for the Eurosystem to permanently hold government bonds on its balance sheet and to issue its own debt instruments to banks³, let me stress that the primary monetary policy instrument consists of setting the three key ECB interest rates. The use of additional instruments such as asset purchases depends on the specific context but is always grounded in our price stability mandate. Asset purchases are one of the instruments in our toolkit that can contribute to the appropriate monetary policy stance when the economy is at or close to the effective lower bound on nominal interest rates. Moreover, such purchases can support the effective transmission of monetary policy throughout the euro area, provided the necessary conditions are fulfilled. However, the proposal mentioned in the paper lacks a substantive monetary policy rationale and would permanently increase the Eurosystem's market footprint. Importantly, it is not compatible with the monetary financing prohibition laid down in Article 123(1) of the Treaty on the Functioning of the European Union.

To achieve sound and sustainable public finances, governments should fully and transparently implement the EU's revised economic governance framework without delay. This would also contribute to reducing differences in long-term interest rates across euro area countries. In addition, the success of Next Generation EU has demonstrated the benefits of collective European action by enhancing euro area resilience and fostering capital market integration.

Yours sincerely,

[Signed]

Christine Lagarde

² The ECB does not use the concept of risk weight in its monetary policy framework. Instead, it uses valuation haircuts to mitigate risks associated with accepting assets to adequately collateralise Eurosystem credit operations. Risk weights are typically related to capital requirement regulations for commercial banks. See Article 1 of Guideline (EU) 2024/1164 of the European Central Bank of 8 February 2024 amending Guideline (EU) 2016/65 on the valuation haircuts applied in the implementation of the Eurosystem monetary policy framework (ECB/2015/35) (ECB/2024/5) ([OJ L, 2024/1164, 26.4.2024](#)).

³ See Wyplosz, C., "[Big central banks and big public debts: The next challenges](#)", *Monetary Dialogue Papers*, Economic Governance and EMU Scrutiny Unit (EGOV), European Parliament, September 2023.

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