



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Christine LAGARDE
President

Ms Aurore Lalucq
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 26 March 2021

L/CL/21/41

Re: Your letter (QZ-007)

Honourable Member of the European Parliament, dear Ms Lalucq,

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 19 January 2021.

Regarding your first question, let me first explain that the new temporary pandemic emergency purchase programme (PEPP) pursues a public interest objective and was established in response to a specific, extraordinary and acute economic crisis, which could jeopardise the objective of price stability and the proper functioning of the monetary policy transmission mechanism.¹ Consequently, the PEPP includes all the asset classes that are also eligible under the asset purchase programme (APP)² and is designed in a broad and flexible way to achieve its monetary policy aim. The purchases under the PEPP, which has an overall envelope of €1,850 billion, are separate from, and in addition to, purchases carried out under the APP. They will be conducted until at least the end of March 2022 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over. Purchases under the PEPP are conducted in a flexible manner, allowing for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions.

¹ See Decision (EU) 2020/440 of the European Central Bank of 24 March 2020 on a temporary pandemic emergency purchase programme (ECB/2020/17), (OJ L 91, 25.3.2020, p. 1), available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020D0440>.

² This includes government bonds, supranational, sub-sovereign and agency (SSA) bonds, covered bonds, non-financial corporate bonds and asset-backed securities.

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In the specific case of the corporate sector purchase programme (CSPP) and PEPP, the eligibility of assets for purchase is guided by our monetary policy objective, subject to appropriate financial risk management considerations. To ensure the effectiveness of monetary policy, the range of securities that are eligible under these programmes is deliberately broad. Purchases are guided by a benchmark that proportionately reflects the nominal value of eligible bonds in the CSPP-eligible universe. The ECB and the national central banks publish lists of corporate and government securities held by the Eurosystem under the APP and PEPP, which include the names of the issuers of the respective securities.³

Regarding your second question, when evaluating possible monetary policy actions, we always look closely at financial stability considerations, among other factors. In its biannual Financial Stability Review⁴ and other reports, the ECB actively monitors and reports on risks for banks and non-bank financial institutions, as well as on recent developments in financial markets. Let me reassure you that this equips us to recognise changes in financial stability risks. Should such risks, which may be associated with our accommodative monetary policy, materialise in the medium term, the ECB and national competent authorities could deploy macroprudential policies to address them. Such macroprudential instruments should contribute to increasing the resilience of borrowers and banks and to helping prevent a further build-up of vulnerabilities. In this context, let me also highlight the ECB's essential contribution, through its banking supervision arm, to ensuring the safety and soundness of the banking system.

Regarding your third question, let me reassure you that climate change is very relevant to our mandate. The scale and irreversibility of the related consequences call for immediate action from all stakeholders, each within their own areas of competence. Through its asset purchases, the ECB has been keeping favourable financing conditions in the wake of the pandemic, creating an environment that is generally supportive to investments, including in green and energy-efficient technologies. The ECB already regularly purchases green bonds under the APP and PEPP, thereby supporting the corporate and public sectors' increasing efforts to adopt more energy-efficient technologies and reduce their carbon footprints, and setting incentives to reorient the projects they finance towards renewable resources. The Next Generation EU (NGEU) programme includes a strong green component and is expected to be partly funded through green bond issuance. As the green bond segment grows and develops throughout more sectors, including through the Commission's NGEU green bond issuance, this growth will be proportionally reflected in Eurosystem purchases. Moreover, the ECB has decided to set up a climate change centre to bring together the climate-related work performed across the bank, ranging from monetary policy to prudential functions.⁵ Finally, let me reiterate that the ongoing strategy review provides

³ For more information on corporate securities holdings, see "List of corporate bond securities held under the CSPP/PEPP (end of week)", available at: <https://www.ecb.europa.eu/mopo/implement/app/html/index.en.html#cspp>.

⁴ For more information, see "Financial Stability Review, November 2020", ECB, available at: <https://www.ecb.europa.eu/pub/financial-stability/fsr/html/ecb.fsr202011~b7be9ae1f1.en.html>.

⁵ See "ECB sets up climate change centre", *press release*, ECB, 25 January 2021, available at: https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210125_1~3fc4ebb4c6.en.html.

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an opportunity to further reflect on how environmental sustainability considerations are relevant in the pursuit of the ECB's mandate.

Yours sincerely,

[signed]

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