EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI
President

Mr Brian Hayes
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 8 November 2017

L/MD/17/420

Re: Your letter (QZ-092)

Honourable Member of the European Parliament, dear Mr Hayes,

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 13 September 2017.

In its implementation of the public sector purchase programme (PSPP), the Eurosystem conducts purchases in a gradual and broad-based manner. In order to safeguard market functioning and price formation as well as to mitigate the risk of the Eurosystem becoming a dominant creditor of a euro area government, the PSPP issuer limit has been set at 33%.

The eligibility criteria and the issuer limit are outlined in the relevant PSPP decisions.[1] As long as bonds issued by an eligible issuer fall within the relevant eligible universe, they will be counted towards the respective issuer limit. This also applies to the Irish government bonds held by the Central Bank of Ireland as a result of the exchange transaction conducted between the latter and the National Treasury Management Agency in 2013, following the liquidation of the state-owned Irish Bank Resolution Corporation Limited. It is worth noting that only €3.5 billion of the total remaining bonds – a nominal outstanding amount of €16.5 billion – is currently included in the issuer limit calculation for Irish government bonds.[2] In addition, please

[1] See Decision 2015/774 of the European Central Bank of 4 March 2015 on a secondary markets public sector asset purchase programme (ECB/2015/10): https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2015_121_r_0007_en_txt.pdf and following amending decisions.

[2] The other €13 billion have maturities outside the range eligible for PSPP purchases, i.e. a minimum remaining maturity of 1 year and a maximum remaining maturity of 30 years at the time of their purchase. In order to facilitate smooth implementation, marketable debt instruments with a remaining maturity of 30 years and 364 days are eligible under the PSPP.

note that the issue share and issuer limits are applied consistently across all jurisdictions, which avoids any country being disadvantaged.

The PSPP is coordinated centrally by the ECB but implemented in a decentralised fashion, with purchases by national central banks (NCBs) following a specialisation scheme whereby each NCB restricts its activity to domestic bonds issued by central, regional and local governments and recognised agencies. If it is not possible to purchase the envisaged amount of bonds in a given country, the relevant NCB conducts "substitute purchases". Such purchases ensure a smooth implementation of the NCB's share of purchases throughout the life of the expanded asset purchase programme (APP). They take the form of purchases of bonds issued by international organisations and multilateral development banks located in the euro area, thereby complementing purchases of marketable debt instruments issued by central, regional and local governments or agencies of the respective country. Once a need for substitute purchases has been identified for a given NCB, the share of substitute purchases is calibrated to allow the Eurosystem to continue buying eligible marketable debt instruments issued by that country's government and agencies until the foreseen end date of the APP. As a result, no euro area country, including Ireland, will be at a disadvantage, as the design of the PSPP enables a continued market presence in the government bond market.

Finally, turning to the specific case of the government bonds held by the Central Bank of Ireland in relation to the liquidation of Irish Bank Resolution Corporation Limited, the ECB has stated in consecutive Annual Reports that these bond holdings give rise to persistent serious monetary financing concerns, and that a more ambitious sales schedule would mitigate these concerns.[3] Further disposals would also create more room for purchases of marketable debt instruments issued by the Irish government and debt agencies in the context of the PSPP.

Yours sincerely,
[signed]

Mario Draghi

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[3] See, for instance, Section 6.4 of Chapter 2 of the most recent ECB Annual Report, covering the year 2016: http://www.ecb.europa.eu/pub/annual/html/ar2016.en.html

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