



EUROPEAN CENTRAL BANK
EUROSYSTEM

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Mario DRAGHI
President

Mr Nikolaos Chountis
Member of the European Parliament
European Parliament
60, rue Wiertz
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Frankfurt, 31 May 2016

L/MD/16/260

Re: Your letter (QZ-052)

Honourable Member of the European Parliament, dear Mr Chountis,

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 29 April 2016.

Regarding your question on the eligibility of sovereign bonds in the public sector purchase programme (PSPP) when they are issued by Member States under an economic adjustment programme, let me recall that the PSPP is a monetary policy measure designed to address the risks to the achievement of the European Central Bank's price stability objective. It is aimed at further enhancing the transmission of monetary policy and easing monetary and financial conditions, thereby supporting aggregate consumption and investment spending in the euro area and ultimately contributing to a return of inflation rates to levels below, but close to, 2% over the medium term. The PSPP contains a number of safeguards to ensure that the purchases are proportionate to their aims and that the related financial risks are duly taken into account in its design and are contained through risk management.

Under the PSPP, purchases of debt securities are thus subject to eligibility criteria requiring, notably, that the issuer or guarantor comply with the Eurosystem's minimum credit quality requirement of at least Credit

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Quality Step 3 in the Eurosystem's harmonised rating scale.¹ Debt securities issued by an issuer that does not fulfil the Eurosystem's minimum credit quality requirement may be purchased only exceptionally and provided that certain safeguards are in place to mitigate potential financial risks associated with such purchases.

Article 4(2) of the ECB's PSPP Decision limits the period of PSPP purchases of debt securities issued or fully guaranteed by central governments of euro area Member States under a financial assistance programme to two months after a positive outcome of each programme review, unless there are "exceptional circumstances" (justifying a suspension of purchases before or a continuation of purchases after such period and until the start of the next review). This provision serves the objective of ensuring that purchases under the PSPP are proportionate to the monetary policy aims pursued by the programme and that the related financial risks are contained through adequate risk management measures, thereby safeguarding the integrity, sustainability and effectiveness of the programme.

As regards the notion of "exceptional circumstances" (justifying a suspension of purchases before or a continuation of purchases after such period and until the start of the next review), it is for the ECB's Governing Council to determine whether such circumstances are present. Such circumstances may for instance relate to the duration of a programme review: the two-month period reflects a "regular" review cycle, with discussions on a new review usually starting around two months after the previous review has been concluded – there might, however, be circumstances affecting such "regular" review cycles. Article 4(2) therefore provides for some flexibility and enables the Governing Council to deviate from the two-month period in exceptional circumstances. There might also be other exceptional circumstances which cannot be foreseen now and which will be assessed by the Governing Council whenever they might arise.

Yours sincerely,

[signed]

Mario Draghi

¹ On this general eligibility criterion, applicable to PSPP purchases under Article 3 of Decision (EU) 2015/774 of the European Central Bank of 4 March 2015 on a secondary markets public sector asset purchase programme (ECB/2015/10), as amended (OJ L 121, 14.5.2015, p. 20) ("PSPP Decision"), see in particular articles 59 and 71 of Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (recast), as amended (OJ L 91, 2.4.2015, p. 3).