

## **Clarification on assets held by national central banks for non-monetary policy purposes**

A number of news articles have recently appeared in the foreign press regarding the investment portfolios of some national central banks (NCBs) in the euro area, including the Bank of Italy. They allege that during the financial crisis these banks significantly stepped up their purchases of financial assets, especially of government bonds, printing money beyond the limits set by the ECB for monetary policy purposes. According to these sources, the purchases were made – under the NCB's Agreement on Net Financial Assets (ANFA) – without the necessary balance sheet disclosure and in violation of the ban on monetary financing.

On 10 December 2015 the ECB published a [note](#) on its website in the form of a Q&A, clarifying several aspects of ANFA (see the box below), from which it emerges clearly that the reports in the foreign press are without foundation: there is no interference in monetary policy on the part of the Eurosystem's NCBs, no monetary financing of public debt and no lack of transparency.

### **How did ANFA come to exist?**

When the currency union was founded governments decided to mutualise only those central bank functions and tasks that are necessary to conduct a single monetary policy for the whole euro area. At the same time, they decided to keep national central banks (NCBs) as independent institutions that can continue to perform certain national tasks that do not interfere with a single monetary policy. This is in line with the key European legal principle of subsidiarity, under which decisions should be taken at the most local possible level.

This decision is enshrined in Article 14.4 in the Statute of the European System of Central Banks (ESCB) and of the ECB:

“National central banks may perform functions other than those specified in this Statute unless the Governing Council finds, by a majority of two thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB. Such functions shall be performed on the responsibility and liability of national central banks and shall not be regarded as being part of the functions of the ESCB.”

In other words: national central banks are financially independent institutions that also fulfil national tasks as well as the Eurosystem's primary role of maintaining price stability. ANFA was signed

precisely to set limits to the amounts that NCBs could use each year to perform their tasks, including their investment portfolios, without interfering with monetary policy.

### **Does ANFA allow uncontrolled money creation?**

No, the Governing Council of the ECB is in full control of the size of the Eurosystem balance sheet. The maximum amount of net financial assets in the Eurosystem is decided beforehand by the Governing Council. There is no such thing as “money printing by NCBs” outside of the Eurosystem framework. In any case, the Governing Council ensures that all Eurosystem operations are performed according to the Statute, and especially to Articles 123 and 124 of the Treaty which forbid monetary financing.

### **Why was it not made public?**

Some NCBs publish more detailed information about their non-monetary policy portfolios, like the NCBs of Belgium and Finland, and all of them publish balance sheet information on their websites, through which you can track the overall size of non-monetary policy portfolios. Additionally, the Eurosystem has published a [guideline](#) on how NCBs must manage domestic asset and liability operations in line with the objectives set out in national and European law. ANFA itself is an internal technical document, which does not contain data on portfolios. The agreement describes the mechanism used to ensure that total net financial assets do not exceed a level at which they would interfere with monetary policy.

### **Why doesn't the ECB decide on these investments?**

The Governing Council sets the ceiling on net financial assets according to its monetary policy decisions and to the development of specific liability items on the Eurosystem's balance sheet, such as demand for banknotes and deposits of banks with the central bank as determined by required reserves.

The decisions on non-monetary policy portfolios are decentralised, but there are important safeguards: first, the investment decisions taken by NCBs are controlled under their domestic risk management and auditing procedures; second, monetary financing concerns are assessed by the Governing Council; third, information on portfolios is available to the ECB.

So while the Governing Council maintains full control over the overall size of the Eurosystem balance sheet, it is not for the ECB to intervene in these operations based on national tasks unless they interfere with the objectives and tasks of the European System of Central Banks.

### **Could the Governing Council stop Eurosystem non-monetary policy activities altogether?**

The Governing Council of the ECB sets the framework for all investments of national central banks, to ensure that they do not interfere with Eurosystem tasks and that they are not in contradiction with the monetary financing prohibition. Generally constraining investment operations by NCBs beyond these two issues would require legislation.

The presence of (mostly public) securities portfolios unrelated to monetary policy on the Bank of Italy's balance sheet and on those of the majority of other Eurosystem NCBs is nothing new. A large portion of the Bank of Italy's financial portfolio comprises investments of its capital and pension fund, securities originating from the conversion of the Treasury's current account in 1993, and those acquired subsequently as investments of the balances arising from the State Treasury service provided by the Bank.

Within this legal framework the Bank of Italy's investment activity is oriented towards the pursuit of long-term profitability with a view to safeguarding its future capital base, including in potentially adverse scenarios.

Balance sheet reporting has always been transparent. Data on the Bank's holdings are readily available in the *Management Report and Annual Accounts* section of the Annual Report, where every year the total amount of the financial portfolio is published, together with a breakdown of its main components (see Table 16.4 of the *2014 Annual Report*, reproduced below). This shows that the financial portfolio is invested mainly in bonds, 'especially Italian and other euro-area government securities', which in compliance with the ban on the monetary financing of member states and euro-area public institutions are not purchased on the primary market.

### **COMPOSITION OF THE FINANCIAL PORTFOLIO**

*(millions of euros)*

	<b>31.12.2014</b>	<b>31.12.2013</b>
Government securities	122,544	117,380
Other bonds	3,182	2,953
Equity shares and other participating interests	6,707	6,246
ETFs and shares/units of UCITS	2,987	3,302
<b>Total</b>	<b>135,420</b>	<b>129,881</b>

More detailed information (asset type, movements, holding intention, currency, etc.) can be found in the *Notes on the items of the balance sheet* (Tables 16.12, 16.13, 16.14 in the [2014 Annual Report](#)).

Finally, regarding the allegedly marked increase in government securities purchases, among which Italian securities, by the Bank of Italy during the financial crisis, the balance sheet data show that the rate of expansion of the financial portfolio held practically constant before and after the financial crisis. As to the increase in the size of the balance sheet, in the five years 2004-09 the value of government securities held by the Bank rose by €33 billion (from €58 billion to €91 billion), comparable to the pace of growth observed for the period 2009-14 (from €91 billion to €123 billion). In fact, looking at the performance of the securities portfolios as a proportion of total assets, their share has actually diminished (from 30% in 2009 to 23% in 2014).

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