



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE

President

Mr Eugen Jurzyca
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 11 November 2022

L/CL/22/227

Re: Your letters (QZ-026 and QZ-027)

Honourable Member of the European Parliament, dear Mr Jurzyca,

Thank you for your letters, which were passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 19 September 2022.

In line with the action plan announced in July 2021, on 4 July 2022 we decided to take the following four measures: to decarbonise corporate bond holdings in the Eurosystem's monetary policy portfolio; to limit the share of assets issued by non-financial companies with a high carbon footprint that can be pledged as collateral by individual counterparties when borrowing from the Eurosystem; to introduce climate-related disclosure requirements for collateral; and to enhance our climate risk assessment and management.¹ Details on how our corporate bond holdings are gradually being decarbonised from 1 October were presented on 19 September 2022.²

These measures are fully in line with our primary objective of maintaining price stability. I would like to highlight two points in this respect.

First, the measures are necessary for the Eurosystem to manage, as effectively as possible, the climate-related financial risks to which it is exposed when implementing monetary policy, in pursuit of its primary objective of maintaining price stability. This is because physical and transition risks related to climate change can affect the value and risk profile of the assets held on the Eurosystem's balance sheet, and financial risk management

¹ See "ECB takes further steps to incorporate climate change into its monetary policy operations", *press release*, ECB, 4 July 2022, available at: <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220704~4f48a72462.en.html>.

² See "ECB provides details on how it aims to decarbonise its corporate bond holdings", *press release*, ECB, 19 September 2022, available at: <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220919~fae53c59bd.en.html>.

Address

European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal address

European Central Bank
60640 Frankfurt am Main
Germany

Tel: +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu

forms part of the pursuit of the Eurosystem's primary objective of maintaining price stability, irrespective of the nature of these risks.

Second, the tilting of the corporate bond holdings does not imply additional bond purchases. Rather, it means that, over time, bonds issued by companies with a better climate performance will constitute a larger share of the assets on the Eurosystem's balance sheet, while those issued by companies with a poorer climate performance will constitute a smaller share. This mechanism also sends a strong signal to companies and financial institutions to reduce their carbon emissions. However, the tilting will not affect the overall volume of corporate bond purchases judged adequate by the Governing Council to achieve the warranted monetary policy stance. This volume will continue to be determined solely by its role in achieving the ECB's inflation target³.

In addition, and without prejudice to our primary objective of maintaining price stability, the measures also serve our secondary objective – to support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.⁴ These objectives include a high level of protection and improvement of the quality of the environment.⁵

The recent extreme weather events in Europe and around the globe serve as a stark reminder of the risks arising from climate change. It is important that we continue to closely monitor the impact of climate change on overall inflation and on the relevant HICP components. Without action today, such pressures are likely to accelerate over the foreseeable horizon. It is worth keeping in mind that climate change affects the price stability outlook and the transmission of monetary policy not only through its impact on macroeconomic indicators, but also through financial stability risks.

Yours sincerely,

[signed]

Christine Lagarde

³ See the ECB's monetary policy strategy statement, in particular point 5, available at: https://www.ecb.europa.eu/home/search/review/html/ecb.strategyreview_monpol_strategy_statement.en.html. See also: *The ECB's new inflation target one year on*, available at: <https://www.ecb.europa.eu/press/blog/date/2022/html/ecb.blog220810~78357be60b.en.html>.

⁴ See Article 127(1) of the Treaty on the Functioning of the European Union, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012E%2FTXT>. See Article 3 of the Treaty on the European Union, in particular paragraph 3, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A12008M003>.

⁵ This includes the EU's binding climate neutrality objectives. See Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1), available at: <https://eur-lex.europa.eu/search.html?lang=de&text=2021%2F1119&qid=1666774687268&type=quick&scope=EURLEX&locale=en>, which establishes a binding objective of climate neutrality in the Union by 2050 in pursuit of the long-term temperature goal set out in the Paris Agreement. As the European Climate Law affects every conceivable aspect of economic policy in the Union, it forms part of the general economic policies in the Union, which the ECB is required to support.

Address

European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address

European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu