



EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI

President

Mr Luke Ming Flanagan
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 20 April 2015

L/MD/15/252

Re: Your letters (QZ-44 and QZ-45)

Honourable Member of the European Parliament, dear Mr Flanagan,

Thank you for your letters, which were passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 9 March 2015.

The role of the Governing Council of the European Central Bank (ECB) in monitoring the provision of emergency liquidity assistance (ELA) to Irish credit institutions was described in detail in a letter of reply which I sent to your colleague Mr Matt Carthy, MEP on 17 February 2015.¹

The main points of that letter can be summarised as follows. Responsibility for ELA lies with the national central bank. The role of the Governing Council of the ECB as regards the provision of ELA is to ensure that such operations do not interfere with the integrity of monetary policy within the Eurosystem, including the primary objective of maintaining price stability and the prohibition of monetary financing. Due to the fact that ELA alleviates liquidity shortages, rather than providing solvency, a key requirement in this context was whether recipient credit institutions remained solvent. The four points set out by Mr Trichet aimed at ensuring the Governing Council of the ECB's confidence in the solvency of Irish credit institutions, including by making funds available for these institutions to restore their capital bases and by demonstrating the government's commitment to reforms designed to stimulate economic growth.

¹ I refer you to the section entitled "On the provision of emergency liquidity assistance to Irish credit institutions and the role of the Governing Council of the ECB". The letter is available on ECB's website at http://www.ecb.europa.eu/pub/pdf/other/150218letter_carthy.en.pdf

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

The competence of the Governing Council of the ECB to assess (not object to) the provision of ELA by national central banks derives from Article 14.4 of the Statute of the ESCB, not from Article 25.1, which details the ECB's competence to give advice or be consulted on issues relating to prudential supervision.

The key reason for the Central Bank of Ireland's commitment to sell the long-term bonds used for the recapitalisation of the Irish Bank Resolution Corporation (IBRC) is to ensure compliance with the prohibition on monetary financing of governments as laid down in Article 123 of the Treaty on the Functioning of the European Union. The reduction of IBRC-related assets by the Central Bank of Ireland is a step in the direction of the necessary full disposal of these assets. However, a more ambitious sales schedule, in particular for the long-duration floating rate notes, would further mitigate the persisting serious monetary financing concerns.

Yours sincerely,

[signed]

Mario Draghi

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