The role and effects of the Agreement on Net Financial Assets (ANFA) in the context of implementing monetary policy

Besides the joint tasks outlined in the Statute of the ESCB, national central banks (NCBs) of the Eurosystem may also perform functions autonomously based on national legislation. The difference between the single monetary policy and non-monetary policy tasks performed on the responsibility and liability of NCBs is unique to the European monetary union and cannot be compared with the institutional set-up of other currency areas.

A key factor determining how efficiently the single monetary policy is being conducted in the euro area is the banking sector's structural liquidity position vis-à-vis the Eurosystem. Monetary as well as non-monetary policy operations carried out by the NCBs are a source of central bank money. Both types of operation have an impact on the banking sector's liquidity position.

To ensure that the NCBs' non-monetary policy activities are compatible with the single monetary policy of the Eurosystem in this specific environment, the Eurosystem NCBs and the ECB signed the Agreement on Net Financial Assets (ANFA). Together with the monetary policy parameters laid down by the ECB Governing Council, ANFA governs the maximum permissible aggregate amount of non-monetary policy balance sheet activities (ie net financial assets; NFA) of the Eurosystem and allocates them among the NCBs. In the past, this ensured that the banking system had a structural liquidity deficit vis-à-vis the Eurosystem.

The Bundesbank always held a comparatively low volume of NFA not relating to monetary policy. At the end of 2015, the volume of non-monetary policy liability items even surpassed the volume of non-monetary policy asset items, which meant that, at -€50 billion, NFA were negative.

The ANFA is a useful tool to ensure that the operations conducted by the NCBs based on national legislation are compatible with the objectives of the Eurosystem in terms of its single monetary policy. The publication of ANFA by the ECB at the beginning of February 2016 is welcome as transparency promotes central banks' credibility and, by extension, confidence in their ability to fulfil their monetary policy tasks in a sustainable manner.

Specific features of monetary union and the need for an agreement on net financial assets not relating to monetary policy

The Agreement on Net Financial Assets[1] (ANFA), a contractual agreement among all Eurosystem national central banks (NCBs), was published by the ECB at the beginning of February 2016. The overarching aim of ANFA is to ensure that the NCBs' non-monetary policy activities are consistent with the single monetary policy of the Eurosystem. Distinguishing monetary policy tasks, which are carried out according to uniform Eurosystem rules, from non-monetary policy tasks, which comprise all other national tasks of any one NCB, is a unique feature of the European monetary union and cannot be compared with the institutional frameworks of other national currency areas. ANFA emerged from, and was further developed on the basis of a special legal and economic background.

National tasks carried out on NCBs' own responsibility and liability explicitly approved when monetary union was founded, …

When the European monetary union was founded, the member states decided to include only those NCB tasks and functions at the Community level which are essential to a single monetary policy across the entire euro area. This means that, besides the joint tasks outlined in the Statute of the ESCB, the NCBs may autonomously carry out national functions based on national legislation. These national functions can include, for example, on the assets side of the central bank's balance sheet, the purchase of non-monetary policy securities for general investment purposes or, on the liabilities side, the acceptance of government deposits or deposits from other central banks and international institutions.[2]

… yet must not compromise the implementation of monetary policy

However, according to Article 14.4 of the ESCB Statute, all functions that are not related to monetary policy must be consistent with the objectives and tasks of the ESCB.[3] If liquidity effects result from an NCB's operations conducted on its own responsibility and liability, they could negatively affect the liquidity position relevant from a monetary policy perspective.[4] For example, if the ECB Governing Council (by a two-thirds majority) deemed an operation conducted by an NCB on its own responsibility and liability to interfere with the Eurosystem's monetary policy stance, it would have to prohibit such activity under Article 14.4 of the ESCB Statute. In this context, ANFA can be interpreted as a voluntary, self-binding agreement among the Eurosystem central banks. The agreement works preventively as it generally makes ECB Governing Council decisions based on Article 14.4 of the ESCB Statute redundant by providing a framework for constraining the liquidity effect resulting from non-monetary policy activities. However, the option for the ECB Governing Council to intervene at all times pursuant to Article 14.4 of the ESCB Statute remains unaffected.

Reasons for holding financial assets for non-monetary policy purposes before the introduction of the euro

When the monetary union was established in 1999, the Eurosystem boasted aggregate total assets of just under €700 billion. Just under three-quarters of this sum consisted of non-monetary policy assets (see the chart on page 86), which were allocated among the individual NCBs in varying amounts. The NCBs' official reserve assets (ie non-euro-denominated assets), which are held and administered by the Eurosystem on the basis of Union law, too, fall into the same category according to ANFA

1 See ECB, Agreement of 19 November 2014 on Net Financial Assets (https://www.ecb.europa.eu/ecb/legal/pdf/en_anfa_agreement_19nov2014_f_sign.pdf).
2 In addition, the Bundesbank carries out national functions which are not reflected in the balance sheet. These include market management operations for Federal securities as fiscal agent on behalf of the Federal Government.
3 See Article 14.4 of the ESCB Statute: "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."
4 The banking system's liquidity position is key to the implementation of monetary policy. See Deutsche Bundesbank, Structural liquidity position of the banking system, Monthly Report, June 2015, pp 36-37.

logic. At around €337 billion,[5] reserve assets back then represented the largest item on the aggregated balance sheet of the Eurosystem. In addition to the monetary policy operations for the euro area, which amounted to €185 billion at the time, euro-denominated securities held for non-monetary policy purposes made up a significant part of the Eurosystem's balance sheet. The historical reasons for maintaining such portfolios are outlined below.

The financial assets held by the NCBs prior to stage three of European Economic and Monetary Union (EMU)[6], which were denominated in legacy currencies, can be roughly broken down into three categories.

First, NCBs held securities which were closely linked to the monetary policy conducted in stage two of EMU. For the most part, these were securities held for monetary policy purposes in the form of both government bonds (denominated in the relevant national currency) and bonds held as foreign reserves denominated in the legacy currencies of the future euro-area member states (especially bonds denominated in Deutsche Mark and French Francs). Although the monetary policies of the member states began to be more closely coordinated as from stage two of EMU, they remained a national responsibility. These securities ceased to be national monetary policy instruments or foreign reserves upon the issuing country's entry into EMU. When EMU was first established, the Eurosystem did not require any securities to conduct its monetary policy as the original approach to monetary policy implementation was based solely on reverse refinancing operations. As a result, such securities were declared domestic, non-monetary policy assets when the single currency was introduced. Securities holdings, which were originally the result of a link to monetary policy prior to monetary union, amounted to around €22 billion. These holdings were recorded under what was then asset item 6 of the aggregated balance sheet of the Eurosystem, "Securities of euro-area residents denominated in euro".[7]

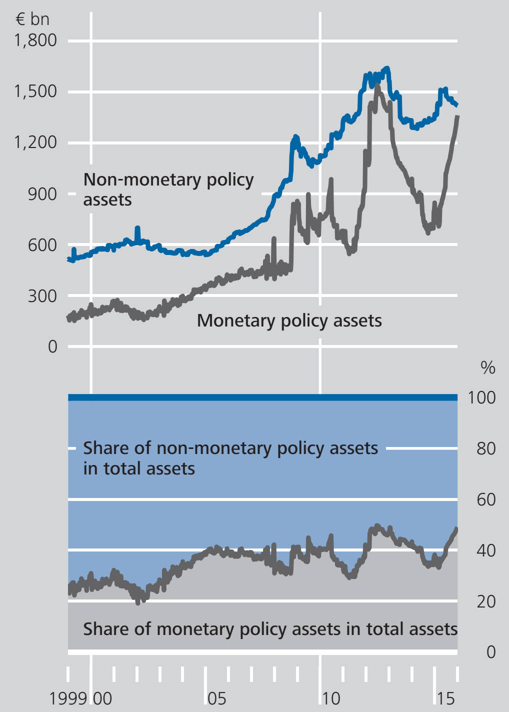
Second, a number of NCBs also reported domestic assets denominated in their national currency without a direct link to monetary policy. These assets were then used for securitised lending or market making purposes, amongst other things. In addition, some NCBs held portfolios for investment purposes prior to stage three of EMU; these were explicitly earmarked as counterparts to the capital, reserves and pension provisions. In the aggregated balance sheet of the Eurosystem, these portfolios, known as own funds portfolios, were included in other financial assets under what was then asset item 8 "Other assets".[8] Overall, other assets totalled €85 billion across the Eurosystem at the beginning of EMU, with financial assets constituting a substantial portion.

Third, some NCBs held legacy positions in the form of long-term, marketable government

5 For the sake of simplicity, a broad definition of reserve assets is applied, comprising asset items 1 "Gold and gold receivables", 2 "Claims on non-euro-area residents denominated in foreign currency" and 3 "Claims on euro-area residents denominated in foreign currency". For an exact statistical definition of reserve assets, see ECB (2000), Statistical treatment of the Eurosystem's international reserves (https://www.ecb.europa.eu/pub/pdf/other/statintreservesen.pdf).
6 Beginning on 1 July 1990, EMU was implemented in three stages. See https://www.ecb.europa.eu/ecb/history/emu/html/index.en.html. At the beginning of stage three of EMU on 1 January 1999, the euro was adopted as the single currency and common monetary policy tasks conferred to the European System of Central Banks (ESCB).
7 See ECB, Consolidated opening financial statement of the Eurosystem as at 1 January 1999 (http://www.ecb.europa.eu/press/pdf/wfs/1999/fs990101en.pdf) as well as the corresponding notes (http://www.ecb.europa.eu/press/pr/date/1999/html/pr990105_1.en.html). Regarding asset item 6, it reads: "Partly related to previous monetary policy operations are also holdings of marketable securities issued by euro area residents and denominated in euro (asset item 6) which amounted to €21.6 billion". According to the balance sheet structure currently in place, this refers to asset item 7.2. The Bundesbank did not hold any such securities when it entered EMU; see the opening financial statement as at 1 January 1999 (http://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Annual_Report/1998_annual_report.html).
8 See ECB, op cit. The notes on asset item 8 state the following. "The position other assets is a collective item including, in particular, […] and other financial assets (eg equity shares, participating interests, investment portfolios related to central banks' own funds, pension funds and severance schemes or securities held due to statutory requirements) […]." According to the balance sheet structure currently in place, own funds portfolios are recorded under the "Financial assets" sub-item of asset item 11. The Bundesbank did not hold an own funds portfolio when it entered EMU.

Monetary policy and non-monetary policy assets of the Eurosystem

Weekly values



Source: ECB.
Deutsche Bundesbank

bonds which had arisen from the conversion of former claims on the public sector which were non-marketable or did not meet market requirements. The latter item was created as a result of the transition towards the requirements of Article 104 of the Maastricht Treaty (today Article 123 of the Treaty on the Functioning of the European Union (TFEU)), which in 1994 prohibited central bank lending to general government (ie the ban on the monetary financing of governments). Such bonds amounted to around €60 billion across the Eurosystem and were recorded under asset item 7 "General government debt in euro" in the aggregated balance sheet of the Eurosystem.[9] The relevant member states committed to gradually scale back this debt vis-à-vis their respective central banks by means of individually tailored reduction paths.

The historical background plays only a secondary role today given that the majority of Eurosystem central banks subsequently increased their non-monetary policy asset items, including for general investment and income purposes. Non-monetary policy asset items in the Eurosystem currently amount to around €1,400 billion, constituting a share of just over 50% in consolidated total assets (see the adjacent chart).

ANFA designed to safeguard monetary policy

ANFA allows the NCBs to manage their national portfolios autonomously. Ultimately, setting up such portfolios provides central bank money to the banking system (ie creates liquidity) as much as conducting monetary policy operations does. The liquidity management of the Eurosystem is not negatively affected as long as interest rates and, in particular, the liquidity conditions in the market can be adequately steered using the available monetary policy tools.[10] The liquidity provided in the context of non-monetary policy portfolios covers some of the euro-area banking system's liquidity needs and is correspondingly accounted for in the context of the volume-based calibration of monetary policy operations with limited tender allotments. However, as a rule, it is not merely securities transactions but all on-balance sheet non-monetary policy operations of a central bank that affect the liquidity position of the

9 See ECB, op cit. The notes on asset item 7 state the following. "General government debt denominated in euro shows outstanding non-marketable claims on euro area governments stemming from before 1 January 1994, from which date onwards EU NCBs could no longer provide credit facilities to governments or make direct purchases of debt instruments from governments. This debt will have to be redeemed by governments in due course." According to the balance sheet structure currently in place, this corresponds to asset item 8. When entering EMU, the Bundesbank had claims on the Federal Government worth around €4.4 billion, which were attributable to the currency reform in 1948. In conjunction with Article 104 of the Maastricht Treaty, it was agreed that equalisation claims would be redeemed in ten annual instalments from 2024 onwards (see also Deutsche Bundesbank, Equalisation claims from the currency reform of 1948, and the Fund for the Purchase of Equalisation Claims, Monthly Report, November 1995, pages 55-69).
10 Instruments for the conduct of open market operations aim to ensure an orderly functioning of the money market and to help banks meet their liquidity needs in a smooth and well-organised manner. See 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), recitals 9 and 13 (http://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2015_091_r_0002_en_txt.pdf).

banking sector. To prevent these operations from increasing the amount of liquidity in the market to an undesired extent from a monetary policy perspective, it is necessary to monitor any changes to non-monetary policy items.

As a result, a more comprehensive view of liquidity effects from non-monetary policy activities developed in the early years of monetary union. In 2002, ie three years into monetary union, the ECB Governing Council decided that it would be beneficial if not only securities items denominated in euro but all non-monetary policy balance sheet items of NCBs were to be coordinated more closely in future. Hence, in order to safeguard monetary policy effectively, the Eurosystem NCBs and the ECB concluded the Agreement on Net Financial Assets (ANFA) at the beginning of 2003.

The role of ANFA in the context of implementing monetary policy

Structural liquidity deficit as the starting point for the Eurosystem's implementation of monetary policy

A central bank is able to manage short-term interest rates in the market by offering commercial banks monetary policy loans at a certain interest rate (ie the policy rate). The Eurosystem refers to such credit operations as liquidity-providing or refinancing operations. The commercial banks have a particular interest in making use of such operations whenever the banking system has what is called a structural liquidity deficit vis-à-vis the Eurosystem.[11] Together, central bank reserves and banknotes are what is known as central bank money. Banknotes in circulation generally contribute to the banking system's demand for liquidity. Cash withdrawals by bank customers force the commercial banks to obtain new cash from the central bank, which reduces their central bank reserves. Moreover, the minimum reserve requirement determined by the Eurosystem creates a demand for liquidity by the banking system.

The implementation of monetary policy is essentially to be achieved by means of a structural liquidity deficit.[12] A central bank can maintain an existing structural liquidity deficit by limiting the volume of non-monetary policy asset items on its balance sheet. Banknotes in circulation on the liabilities side represent a key determinant of the length of a central bank's balance sheet as well as its growth over time. The volume of liquidity-providing monetary policy operations correspondingly changes on the assets side.[13] If NCBs' holdings of non-monetary policy securities had increased excessively in the past, a structural liquidity surplus could have arisen in the euro area. Although the Eurosystem would be able even in such an environment to create a structural liquidity deficit by increasing minimum reserves or conducting structural liquidity-absorbing operations (eg by issuing central bank bonds), this would increase the shared costs of the single monetary policy, while only the NCBs would benefit from the additional income from the national portfolios.

Size of necessary structural liquidity deficit determined based on monetary policy considerations

A structural liquidity deficit makes it easier to steer short-term interest rates in monetary policy terms as it forces banks to turn to central bank funding. The exact size of the structural liquidity deficit needed to make this happen is determined for the euro area by the ECB Governing Council based on monetary policy con-

11 The banking system's structural liquidity position vis-à-vis the Eurosystem can be calculated based on the central bank balance sheet. Whenever the volume of liquidity-absorbing factors (eg banknotes in circulation or minimum reserves) outweighs the volume of liquidity-providing factors (ie autonomous factors and monetary policy securities portfolios), the banking system faces a structural liquidity deficit, which is then covered by the provision of monetary policy refinancing operations. See Deutsche Bundesbank, Structural liquidity position of the banking system, Monthly Report, June 2015, pp 36-37.
12 See Agreement of 19 November 2014 on Net Financial Assets. Preamble (1) states the following: "The implementation of the single monetary policy is more efficiently achieved if the euro area banking sector has a liquidity deficit vis-à-vis the Eurosystem. A liquidity deficit allows for the continuous provision of liquidity by way of Eurosystem monetary policy operations."
13 See U Bindseil (2004), Monetary policy implementation, Oxford University Press, pp 49 ff. as well as D Gros and F Schobert (1999), Excess foreign exchange reserves and overcapitalisation in the Eurosystem, IFO Schnelldienst 19/99, pp 25-35.

siderations.[14] As a general rule, central banks can cover a liquidity deficit in the banking system by means of various monetary policy operations. As an alternative to liquidity-providing reverse operations, a central bank can also supply liquidity and reduce the liquidity deficit by buying longer-term securities outright. For example, the US Federal Reserve System has, in the past, actively managed the banking system's structural liquidity position by buying and selling central government bonds on a daily basis.[15] In principle, it would also be possible for the Eurosystem to manage the liquidity deficit using structural monetary policy operations such as conducting structural longer-term reverse operations or buying securities outright. However, for its part, the Eurosystem has not made use of this option.

Paradigm shift in monetary policy currently leading to management of a maximum permissible liquidity surplus

In the light of the large volumes of securities purchased for monetary policy purposes under the expanded asset purchase programme (APP), the Eurosystem's monetary policy has brought about a new state of affairs with respect to the banking system's liquidity position – instead of the previous structural liquidity deficit, the banking system is running a structural liquidity surplus. Targeted longer-term refinancing operations (TLTRO), which have a maturity of up to four years, have also supplied abundant liquidity and significantly expanded the Eurosystem's consolidated balance sheet. These non-standard monetary policy measures are designed to influence price developments via various monetary transmission channels.[16]

Even against this backdrop, it is still necessary to limit the provision of liquidity from non-monetary policy operations. While ANFA's former objective was, first and foremost, to maintain a structural liquidity deficit, its role in the current environment is to regulate the maximum permissible liquidity surplus determined based on monetary policy considerations.[17] This ensures that the operational monetary policy objectives set by the ECB Governing Council relating to the balance sheet are achieved using monetary policy tools – and not via the non-monetary policy activities of the NCBs.

ANFA's effects and calibration mechanism

In order to ensure, in the specific context of EMU, the compatibility of the NCBs' non-monetary policy activities with the Eurosystem's single monetary policy, various rules were adopted.

ANFA sets ceiling for non-monetary policy NFA in the Eurosystem, …

ANFA imposes a general ceiling on the non-monetary policy balance sheet activities of NCBs in the Eurosystem. The NFA resulting from such activities comprise all of the Eurosystem's non-monetary policy asset items less its non-monetary policy liability items, with focus being placed on the aggregated liquidity effects for the single currency area that arise from these items.

… while individual transactions carried out by NCBs are governed by a separate guideline

By contrast, individual transactions or types of transaction are governed not by ANFA but rather, *inter alia*, by the ECB Guideline on domestic – that is to say, euro-denominated – asset and liability management operations by the NCBs (DALM Guideline).[18] The DALM Guideline

14 See Agreement of 19 November 2014 on Net Financial Assets, Preamble (2): "The liquidity deficit needs to be preserved at a level that is sufficient to efficiently implement monetary policy and the Governing Council is competent to determine this level."
15 By contrast, the Bundesbank used to largely avoid building up a fairly substantial stock of long-term sovereign bonds so as to stifle any suspicions that it might be funding government budget deficits.
16 For information on the transmission channels for non-standard measures, see ECB Economic Bulletin, Issue 7, 2015, Box 1.
17 See Agreement of 19 November 2014 on Net Financial Assets, Preamble (12): "If monetary policy operations are conducted with the explicit intention to actively create a liquidity surplus situation, the Governing Council may consider setting a Eurosystem maximum liquidity surplus to be used as the basis for the annual calibration exercise."
18 See ECB, Guideline of the European Central Bank of 20 February 2014 on domestic asset and liability management operations by the national central banks, Preamble (1): "[…] when carrying out operations in domestic assets and liabilities on their own initiative, such operations should not interfere with the single monetary policy" (https://www.ecb.europa.eu/ecb/legal/pdf/en_ecb_2014_9__f_sign.pdf).

outlines various reporting and approval requirements for certain euro-denominated, non-monetary policy transactions conducted by the NCBs. The information generated in this manner is intended to make it easier for the Eurosystem to manage the banking sector's liquidity position, which, in turn, is key to the volume-based calibration of short-term monetary policy operations with limited tender allotments.[19] Furthermore, prior approval must be granted by the ECB in the case of non-monetary policy transactions to be conducted by NCBs with a net liquidity effect exceeding €200 million within one business day (see Article 7 (1) in conjunction with Article 8 and Annex I of the DALM Guideline). In addition, this guideline contains provisions stipulating that the remuneration of government deposits held with NCBs must be based on comparable market rates. One of the aims of this is to create incentives for the public sector to invest these funds in the market, thereby streamlining the Eurosystem's liquidity management.

Annual ANFA calibration

ANFA governs, together with the monetary policy parameters laid down by the ECB Governing Council, the maximum permissible aggregate amount of NFA held in the Eurosystem and distributes it to the NCBs. The annual distribution process (known as the calibration) involves two steps.[20]

First, the aggregate amount of available NFA is defined and distributed to the NCBs in proportion to their shares in the ECB's capital key. These distributed amounts are known as an NCB's NFA entitlements. Second, the NCBs provide information regarding the extent to which they plan to utilise this leeway, as there may be both central banks that plan to hold more NFA in the next year than the entitlements distributed to them and those that plan to hold less than their entitlements. What therefore takes place, up to certain limits, is a temporary reallocation of unused leeway for holding NFA to those NCBs that wish to hold disproportionately high levels of NFA as measured by the ECB capital key. Should a central bank that has not made full use of its entitlement wish to use it in subsequent years, it is able to do so under ANFA's calibration mechanism. Additionally, a certain buffer remains for those NCBs that do not plan to use their full entitlements. This serves as a safety net in the event that expected holdings of NFA do turn out to be higher over the course of the year, which can, for instance, arise as a result of developments on the liability side of the central bank balance sheet that cannot be directly controlled.

Ultimately arising from these two steps are the definitive NFA ceilings, which the NCBs are not allowed to exceed on an annual average. The calibration mechanism for NFA outlined above and the resulting setting of ceilings are intended to ensure that the NCBs' autonomy over their balance sheets – with respect to non-monetary policy operations – is not constrained beyond what can be justified by monetary policy considerations. At the same time, however, it is ensured that NFA do not, on aggregate, exceed the permissible aggregate amount determined based on monetary policy considerations.

Changes in NFA held by the Bundesbank

Generally speaking, the Bundesbank has comparatively small holdings of NFA, …

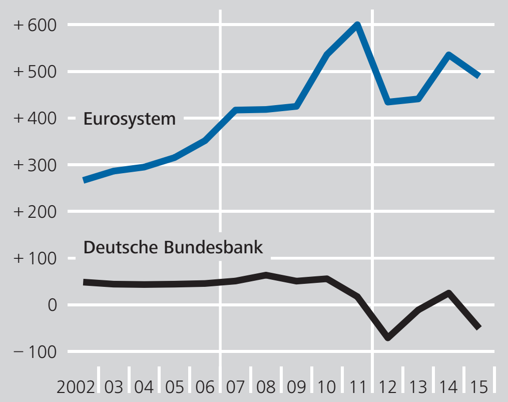
In the past, the Bundesbank held comparatively small quantities of NFA, which helped maintain a sufficient structural liquidity deficit for monetary policy purposes. The NFA held by the Bundesbank were broadly stable in the period from 2002 to 2010 and stood at an average of €46 billion (see the chart on page 90). Starting in

19 Such a method of liquidity management in the Eurosystem is of particular relevance with respect to calculating the benchmark allotment amount in main refinancing operations. See https://www.ecb.europa.eu/mopo/implement/omo/pdf/How_to_calculate_the_benchmark.pdf. This applies especially in an environment in which liquidity is allocated in limited volumes instead of on a fixed-rate full allotment basis. This was the case in the Eurosystem until October 2008.

20 See Agreement of 19 November 2014 on Net Financial Assets, Article 2 in conjunction with Annex II.

Net financial assets of the Deutsche Bundesbank and the Eurosystem

€ billion



Sources: ECB and Bundesbank calculations.
Deutsche Bundesbank

2011, the NFA held by the Bundesbank then fell considerably, ultimately reaching a negative average value of -€17 billion in 2015. As at the reporting date of 31 December 2015, their value stood at -€50 billion.

By comparison, the NFA held by the Eurosystem (including the Bundesbank) rose continuously between 2002 and 2011 from €267 billion to €600 billion. Thereafter, holdings slumped once again but still amounted to €490 billion at the end of 2015.

… which fluctuate primarily due to transactions on liability side

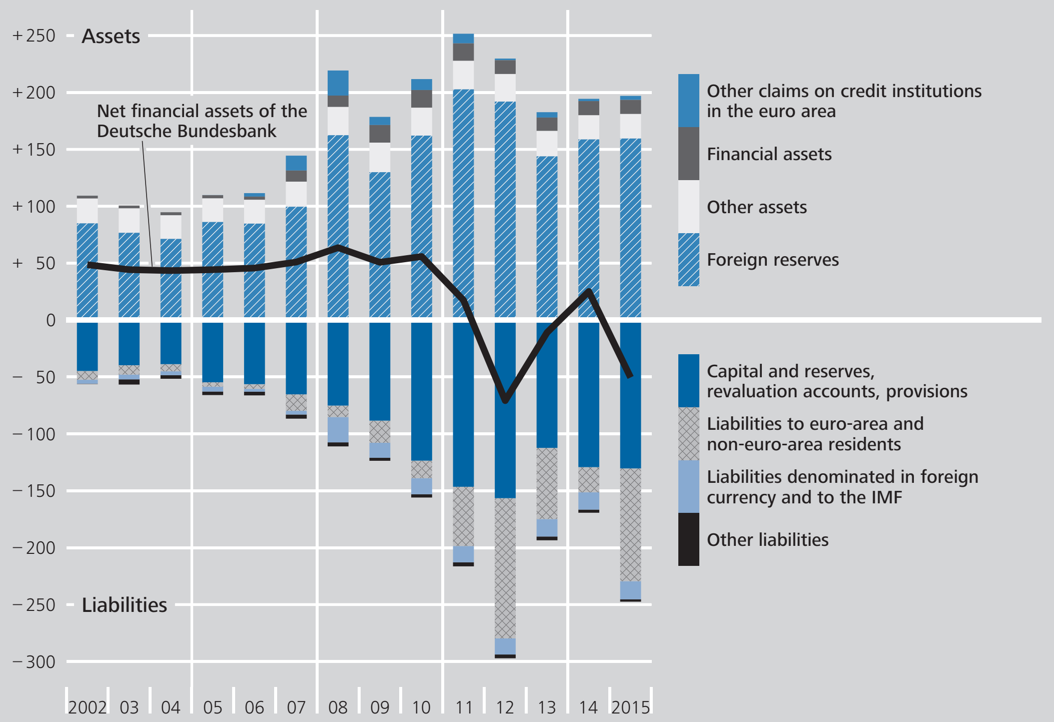
Taking a look at the asset and liability positions of the Bundesbank's balance sheet provides a more detailed insight into the changes in its NFA (see chart on page 91). The negative quantity of NFA held by the Bundesbank at the end of 2015 was largely attributable to developments on the liability side, which are beyond its direct control. These include changes in the euro-denominated deposits of non-euro-area institutions and central banks as well as in government deposits and the deposits of other financial intermediaries in the euro area. For example, the euro-denominated deposits of non-euro-area institutions and central banks[21] doubled over the course of 2015 to €27 billion. This development was accompanied by a continuous rise in government deposits and the deposits of other financial intermediaries,[22] the volume of which stood at €72 billion as at 31 December 2015. This increase resulted primarily from higher deposits made by the Federal Government, the Financial Market Stabilisation Agency and the European Stability Mechanism.

The largest item comprising NFA on the asset side of the Bundesbank's balance sheet in 2015 was reserve assets (€160 billion), consisting of gold,[23] foreign exchange reserves and claims on the International Monetary Fund.[24] On the liability side, these asset items were offset to a large extent by revaluation accounts[25] amounting to €106 billion. If, for instance, there is a change in the price of gold (and thus in the value of the Bundesbank's gold holdings), the revaluation accounts are also adjusted, which means that such valuation adjustments have no effect on the total volume of NFA. Additionally, the Bundesbank's assets include a non-monetary policy euro portfolio,[26] which, at amortised cost, totalled €12.3 billion as at 31 December 2015. Of these, German Pfandbriefe accounted for €9.6 billion and French covered bonds for €2.7 billion. These securities constitute a counterpart to the capital, statutory reserves, provisions for general risks and long-term provisions for pension commitments and healthcare subsidy commitments for civil servants.[27] Apart from that, the Bundesbank holds no further euro-denominated securities for investment purposes.[28]

21 See Deutsche Bundesbank, Annual Report 2015, Balance sheet of the Deutsche Bundesbank as at 31 December 2015, liability item 5 "Liabilities to non-euro-area residents denominated in euro".
22 See Deutsche Bundesbank, op cit, liability item 4 "Liabilities to other euro-area residents denominated in euro".
23 See Deutsche Bundesbank, op cit, asset item 1 "Gold and gold receivables".
24 See Deutsche Bundesbank, op cit, asset item 2 "Claims on non-euro-area residents denominated in foreign currency".
25 See Deutsche Bundesbank, op cit, liability item 13 "Revaluation accounts".
26 See Deutsche Bundesbank, op cit, asset item 11 "Other assets", sub-item 11.3 "Other financial assets".
27 See Deutsche Bundesbank, op cit, liability items 12 "Provisions" and 14 "Capital and reserves".
28 See Deutsche Bundesbank, op cit, asset item 7 "Securities of euro-area residents denominated in euro", sub-item 7.2 "Other securities".

Components and structure of the Deutsche Bundesbank's net financial assets on the asset and liability side of the balance sheet

€ billion



Deutsche Bundesbank

Comparatively speaking, the non-monetary policy securities portfolios of other Eurosystem NCBs tend to be larger in scope and therefore also have a greater impact on changes in these central banks' NFA.

As previously outlined, the NFA held by the Bundesbank are currently being heavily influenced by deposit business and, to this extent, cannot be precisely controlled. If monetary policy were to normalise, possibly bringing with it improvements in the conditions for investing on the money market, it could be expected that non-bank deposits held with the Bundesbank, which are quite high at times, would likely go back down. Viewed purely with respect to the balance sheet, this would result in the NFA held by the Bundesbank rising, with the potential for values to once again venture into positive territory in the future.

Non-monetary policy securities portfolios of the NCBs and the prohibition of monetary financing of governments

The recent public debate on holdings of non-monetary policy securities saw the Eurosystem central banks lambasted by some quarters owing to a lack of transparency. For instance, non-monetary policy securities purchases (particularly of domestic government bonds) made by the individual NCBs were linked to monetary financing, which is prohibited by the European

Treaties[29] – with emphasis on the extent to which such portfolios grew as the European sovereign debt crisis unfolded.

As a matter of fact, NCBs do report on the type and composition of their non-monetary policy securities portfolios with varying degrees of detail. Transparency has logical limits – for example, allowing a false impression to arise that individual issuers enjoy a special amount of trust from central banks would be undesirable if some of the securities that they issue are also held by central banks. On the flip side, the public is justified in scrutinising the balance sheets and financial statements of Eurosystem central banks and in calling for more detailed explanations in areas where clarity and transparency may be in short supply. This is perfectly legitimate and a sign of a functioning democratic polity. For its part, the ECB monitors and regularly reports on compliance with the prohibition of monetary financing.[30]

The debate on non-monetary policy bond purchases by NCBs, which has garnered a comparatively high amount of attention in Germany, illustrates once again that, the greater their scope and the lower the transparency perceived by third parties with respect to the motives and objectives behind specific securities purchases, the greater the level of detail that needs to be provided by central banks in a monetary union when purchasing government bonds.

Despite all of the objectively justified criticism and the public debate on appropriate monetary policy measures to be undertaken by the Eurosystem and on the non-monetary policy activities of the NCBs, there should nevertheless be a consensus that the Eurosystem, like any other central bank, needs to be able to acquire assets – including credit claims and securities – in order to influence the liquidity needs of the banking system and achieve monetary policy objectives above and beyond these needs, as necessary.

Conclusion

ANFA as a useful voluntary self-limitation measure to safeguard monetary policy

ANFA is a contractual agreement between the central banks of the Eurosystem – that is, the NCBs and the ECB. It is a self-limitation measure that serves to ensure the efficient implementation of monetary policy. ANFA takes into account a unique feature of European monetary union: the fact that the NCBs continue to perform tasks at the national level. In the light of the primacy of monetary policy, ANFA is a useful tool to ensure that the operations conducted by the NCBs based on national legislation are compatible with the objectives of the Eurosystem in terms of its single monetary policy. Irrespective of this contractual agreement, the ECB Governing Council has the right, at any time, to object to NCBs performing national functions if the Governing Council determines that these are incompatible with the objectives and tasks of the Eurosystem.

ANFA publication as a further stage of increased transparency

The decision to publish ANFA demonstrates the determination of Eurosystem central banks to be more transparent about their actions. Within the scope of the autonomy that they have been granted over their balance sheets, the Eurosystem NCBs are themselves able to decide to what extent they wish to publish details on the composition of their non-monetary policy assets and liabilities. In this regard, it is worth considering what can be published in the interest of transparency without revealing confiden-

29 Pursuant to Article 123 of the TFEU, the ECB and the NCBs are not permitted to buy sovereign bonds on the primary market. Furthermore, as also clarified in Council Regulation (EC) No 3603/93, purchases of sovereign bonds on the secondary market may not be used to circumvent the objectives of this ban, and the acquisition of sovereign bonds on the secondary market may not, in practice, have the same effect as the direct acquisition of sovereign bonds on the primary market. For more information, see also ECJ, case C-62/14, Gauweiler, paragraphs 97 ff. The objective of the prohibition of monetary financing is, in particular, to encourage member states to pursue a sound fiscal policy.
30 See ECB, Annual Report 2014, Section 2.6.4: "The ECB also monitors the EU central banks' secondary market purchases of debt instruments issued by the domestic public sector, the public sector of other Member States and EU institutions and bodies. […] The monitoring exercise conducted for 2014 confirms that the provisions of Articles 123 and 124 of the Treaty and the related Council Regulations were in general respected."

tial information regarding business policy issues such as future investment behaviour. Provided this is guaranteed, the Bundesbank will strive to provide maximum transparency in its annual reports and other publications – because transparency promotes central banks' credibility and, by extension, trust in their ability to fulfil their monetary policy tasks in a sustainable manner.