



Dr. Philipp König, Research Associate
in the Department of Macroeconomics
at DIW Berlin

SEVEN QUESTIONS TO PHILIPP KÖNIG

»National central banks should become more transparent«

1. Dr. König, the Agreement on Net Financial Assets (ANFA) was drawn up to prevent conflict between the NCBs and the European Central Bank (ECB) over monetary policy. What exactly is the background to this agreement? ANFA limits the national central banks' purchases of financial assets and securities in order to ensure effective implementation of the single monetary policy in the euro area.
2. Up until the beginning of this year, ANFA was confidential. Why has it been published now? We can assume there are two reasons for this. The first reason is that there was a public debate which pointed out to the national central banks and the ECB that the Agreement existed but no-one knew about it. This was accompanied by the accusation that covert monetary financing could take place under this agreement. The second reason is that the ECB recently began to publish the minutes of its Governing Council meetings. In light of this, a decision was taken to make this agreement public in the interests of transparency.
3. What is this accusation of monetary financing about? Fundamentally, bond purchases conducted under ANFA are prohibited under Article 123 of the Treaty on the Functioning of the European Union which stipulates the prohibition of monetary financing. The ECB regularly reviews the assets acquired by the national central banks, checks whether these comply with the prohibition under Article 123, and publishes the results of these checks and assessments. The available data currently provides no evidence of a circumvention of Article 123 under ANFA.
4. But a circumvention can't be ruled out, can it? It can't be ruled out but we probably have to rely on the ECB's assessments. There are, for instance, certainly indications in the case of Ireland that purchases were made that are not compatible with Article 123. The ECB has however repeatedly pointed this out in its Annual Reports since 2013.
5. Do outsiders have the necessary information to be able to prove prohibited monetary financing? No, we don't. Monetary financing has taken place if a central bank grants credit to a government, and/or purchases government debt instruments on the primary market, that is, directly from the state. We don't know and we can't tell from the available data whether the national central banks purchase these government bonds on the primary market. We can see how the aggregate holdings of government bonds of the European System of Central Banks developed and we can see the development of those positions in the national central banks' balance sheets where government bonds are booked. But this information does not really enable us to conclude whether or not prohibited monetary financing is taking place. However, it's the ECB's job to check this and so we should trust it to conduct these assessments to the best of its knowledge and belief.
6. How can we be confident that the ECB is always truthful in its assessments? To date, there has been no reason to suppose that there is a deliberate cover-up in collaboration with national central banks. This would also require an official ECB-internal instruction to cover up findings, which is in fact relatively unlikely.
7. Is ANFA in its current form still in keeping with the times or is there a need for change? It's in keeping with the times in that it's difficult to imagine how the decentralized system of central banks in the euro area should be restructured and the national tasks of the national central banks reorganized. What is outdated is that it is extremely difficult to understand the motives and strategies behind the national central banks' bond and security purchases. Here, it would certainly be expedient for the national central banks in particular to increase their transparency.

Interview by Erich Wittenberg



DIW Berlin – Deutsches Institut
für Wirtschaftsforschung e.V.
Mohrenstraße 58, 10117 Berlin
T +49 30 897 89 -0
F +49 30 897 89 -200

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Press office

Renate Bogdanovic
Tel. +49-30-89789-249
presse@diw.de

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