

Press release

21 July 2022

The Transmission Protection Instrument

The Governing Council today approved the Transmission Protection Instrument (TPI). The Governing Council assessed that the establishment of the TPI is necessary to support the effective transmission of monetary policy. In particular, as the Governing Council continues normalising monetary policy, the TPI will ensure that the monetary policy stance is transmitted smoothly across all euro area countries. The singleness of the Governing Council's monetary policy is a precondition for the ECB to be able to deliver on its price stability mandate.

The TPI will be an addition to our toolkit and can be activated to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area. By safeguarding the transmission mechanism, the TPI will allow the Governing Council to more effectively deliver on its price stability mandate.

Subject to fulfilling established criteria, the Eurosystem will be able to make secondary market purchases of securities issued in jurisdictions experiencing a deterioration in financing conditions not warranted by country-specific fundamentals, to counter risks to the transmission mechanism to the extent necessary. The scale of TPI purchases would depend on the severity of the risks facing monetary policy transmission. Purchases are not restricted ex ante.

Purchase parameters

TPI purchases would be focused on public sector securities (marketable debt securities issued by central and regional governments as well as agencies, as defined by the ECB) with a remaining maturity of between one and ten years. Purchases of private sector securities could be considered, if appropriate.

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Eligibility

The Governing Council will consider a cumulative list of criteria to assess whether the jurisdictions in which the Eurosystem may conduct purchases under the TPI pursue sound and sustainable fiscal and macroeconomic policies. These criteria will be an input into the Governing Council's decision-making and will be dynamically adjusted to the unfolding risks and conditions to be addressed.

In particular, the criteria include: (1) compliance with the EU fiscal framework: not being subject to an excessive deficit procedure (EDP), or not being assessed as having failed to take effective action in response to an EU Council recommendation under Article 126(7) of the Treaty on the Functioning of the European Union (TFEU); (2) absence of severe macroeconomic imbalances: not being subject to an excessive imbalance procedure (EIP) or not being assessed as having failed to take the recommended corrective action related to an EU Council recommendation under Article 121(4) TFEU; (3) fiscal sustainability: in ascertaining that the trajectory of public debt is sustainable, the Governing Council will take into account, where available, the debt sustainability analyses by the European Commission, the European Stability Mechanism, the International Monetary Fund and other institutions, together with the ECB's internal analysis; (4) sound and sustainable macroeconomic policies: complying with the commitments submitted in the recovery and resilience plans for the Recovery and Resilience Facility and with the European Commission's country-specific recommendations in the fiscal sphere under the European Semester.

Activation

A decision by the Governing Council to activate the TPI will be based on a comprehensive assessment of market and transmission indicators, an evaluation of the eligibility criteria and a judgement that the activation of purchases under the TPI is proportionate to the achievement of the ECB's primary objective.

Purchases would be terminated either upon a durable improvement in transmission, or based on an assessment that persistent tensions are due to country fundamentals.

Creditor treatment

The Eurosystem accepts the same (*pari passu*) treatment as private or other creditors with respect to bonds issued by euro area governments and purchased by the Eurosystem under the TPI, in accordance with the terms of such bonds.

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Relation to the monetary policy stance

In order to avoid potential interference with the appropriate monetary policy stance, should the TPI be activated, the Governing Council will address the implications of the TPI purchases for the scale of the aggregate Eurosystem monetary policy debt security portfolio and the amount of excess liquidity. Purchases under the TPI would be conducted such that they cause no persistent impact on the overall Eurosystem balance sheet and hence on the monetary policy stance.

PEPP reinvestment flexibility

PEPP reinvestment flexibility will continue to be the first line of defence to counter risks to the transmission mechanism related to the pandemic.

Outright Monetary Transactions (OMT)

The OMT is part of the Eurosystem's toolkit. The Governing Council retains discretion to conduct the OMT for countries that fulfil the requisite criteria for the OMT.

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