

Commentary to the consolidated balance sheet of the Eurosystem as at 31 December 2020

Eurosystem balance sheet

The annual consolidated balance sheet of the Eurosystem comprises the assets and liabilities of euro area national central banks (NCBs) and the ECB held at the year-end vis-à-vis third parties.

Claims and liabilities between Eurosystem central banks (intra-Eurosystem claims and liabilities) are netted and are therefore not visible.

The content and format of the Eurosystem's annual consolidated balance sheet are set out in Annexes IV and VII to Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks ([ECB/2016/34](#)).

Financial developments in 2020



€2,306 billion
Increase in total assets
in 2020

In 2020 the **Eurosystem's total assets** increased by €2,306.2 billion to €6,977.7 billion (+49.4%), mainly because of an increase in Eurosystem refinancing operations, in particular due to allotments under the third series of targeted longer-term refinancing operations (TLTRO III), and purchases of securities under the asset purchase programme (APP)¹ and the new pandemic emergency purchase programme (PEPP)².

Chart 1 presents the main components of the Eurosystem's balance sheet from 2016 to 2020. The balance sheet expanded in the period 2016-2018, mostly owing to the net acquisition of securities under the APP. Net purchases under this programme ceased in December 2018 and resumed in November 2019. As a result, the size of the Eurosystem's balance sheet decreased slightly in 2019. In 2020 there was an increase in the size of the balance sheet, triggered mainly by the aforementioned monetary policy measures taken to address the impact of the coronavirus (COVID-19) pandemic.

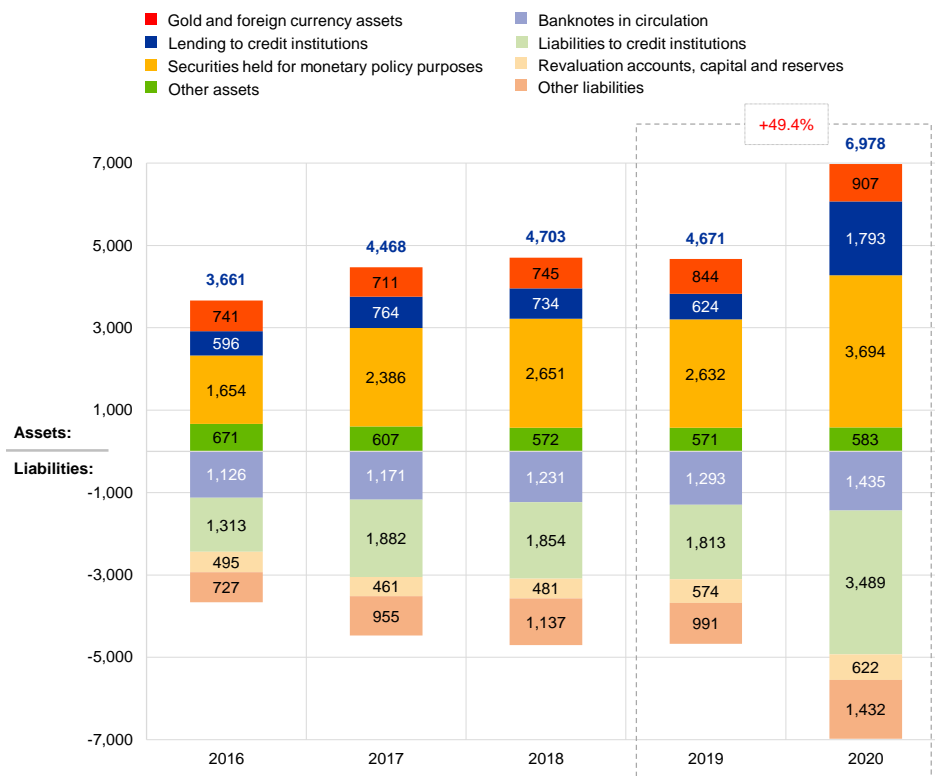
¹ The APP consists of the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), the public sector purchase programme (PSPP) and the corporate sector purchase programme (CSPP). Further details can be found on the ECB's website under "[Asset purchase programmes](#)".

² The PEPP is a temporary asset purchase programme of private and public sector securities initiated in March 2020 to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by COVID-19. Further details can be found on the ECB's website under "[Pandemic emergency purchase programme](#)".

Chart 1

Eurosystem balance sheet by component, 2016-2020

(EUR billions)



Source: Eurosystem.



53%

Share in total assets of securities held for monetary policy purposes



€1,062 billion

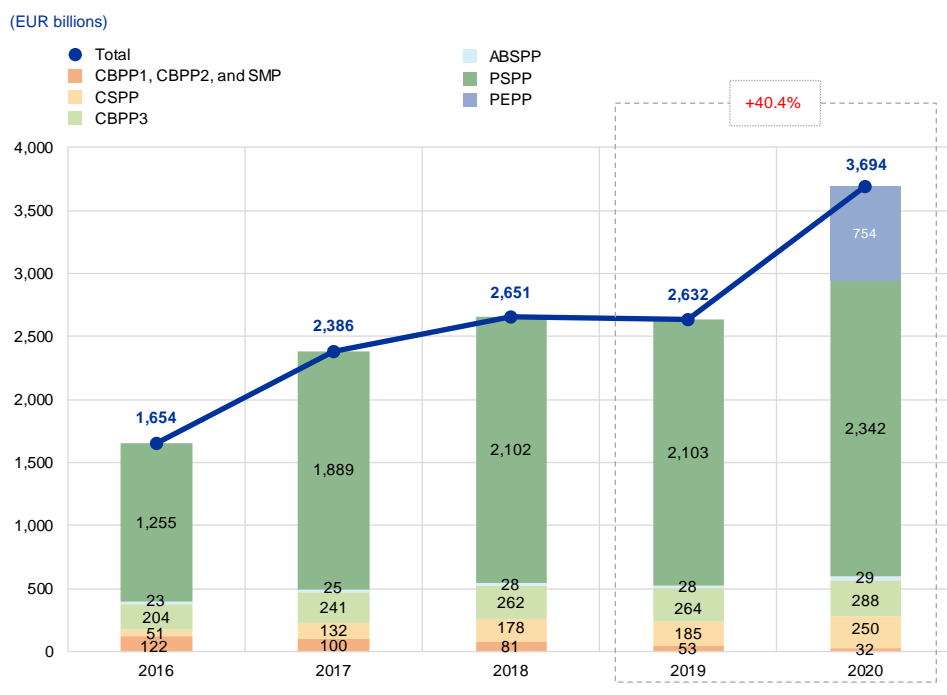
Increase in securities held for monetary policy purposes

Euro-denominated securities held for monetary policy purposes (asset item 7.1) constituted 52.9% of the Eurosystem's total assets as at the end of 2020. Under this balance sheet item the Eurosystem holds securities acquired under the APP, the PEPP and the terminated purchase programmes, i.e. the Securities Markets Programme (SMP) and the first two covered bond purchase programmes (CBPP1 and CBPP2).

In 2020 securities held for monetary policy purposes by the Eurosystem increased by €1,062.5 billion to €3,694.5 billion (Chart 2), with PEPP purchases accounting for 70.9% (or €753.7 billion) of this increase. Securities holdings under the APP increased by €329.5 billion to €2,908.9 billion. Securities held under the SMP and the first two covered bond purchase programmes (CBPP1 and CBPP2) declined by €19.2 billion and €1.5 billion, respectively, owing to redemptions.

Chart 2

Securities held for monetary policy purposes, 2016-2020



Source: Eurosystem.

Impairment tests of securities held for monetary policy purposes are conducted on an annual basis and are approved by the Governing Council. As a result of the impairment tests conducted at the end of 2020, the Governing Council decided that all future cash flows on these securities are expected to be received, and therefore no impairment losses were recognised. The provision for losses on monetary policy operations that existed at the end of 2019 was fully released in 2020, following the sale of the related CSCP securities during the year.

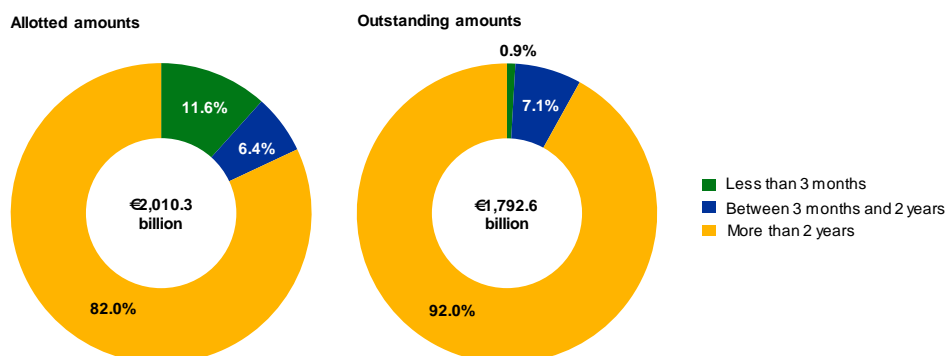
€1,169 billion
Increase in Eurosystem
refinancing operations

Lending to credit institutions (asset item 5)³ increased by €1,169 billion to €1,793.2 billion. The increase is mainly attributable to allotments under TLTRO III (€1,648.3 billion) and the new pandemic emergency longer-term refinancing operations (PELTROs) (€26.6 billion), which were partially offset by repayments under TLTRO II (€495 billion). Chart 3 shows a residual maturity breakdown of **longer-term refinancing operations** (asset item 5.2) as at 31 December 2020. The outstanding amounts are lower than the allotted amounts owing to early repayments.

³ More information about lending can be found on the ECB's website under "[Open market operations](#)".

Chart 3

Residual maturity breakdown of longer-term refinancing operations



Source: Eurosystem.



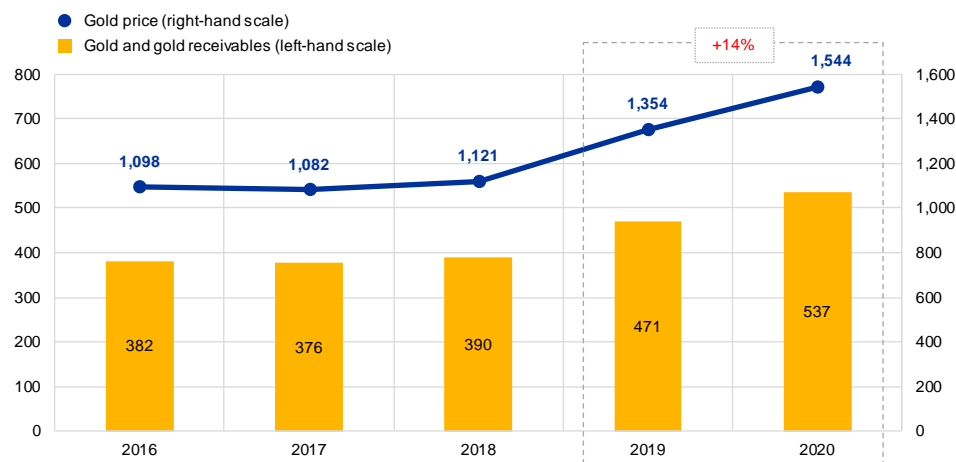
€37 billion
Gold and gold receivables in 2020

In 2020 the value of the **Eurosystem's gold and gold receivables** (asset item 1) increased by €65.8 billion to €36.5 billion (Chart 4), primarily reflecting the rise in the market price of gold in euro terms and hence a corresponding increase in the revaluation accounts.

Chart 4

Gold holdings and gold prices, 2016-2020

(left-hand scale: EUR billions; right-hand scale: EUR per fine ounce of gold)



Source: Eurosystem.



The value of the Eurosystem's net foreign currency holdings increased on account of customer and portfolio transactions

The **net position of the Eurosystem in foreign currency** (asset items 2 and 3 minus liability items 7, 8 and 9) rose in euro terms by €3.6 billion to €304.1 billion. An increase of €22.5 billion due to customer and portfolio transactions was largely offset by the negative effects of the revaluation of assets and liabilities as a result of the appreciation of the euro against the main foreign currencies. The Eurosystem's foreign currency holdings comprise mainly US dollars, special drawing rights and Japanese yen.

**9%**

Appreciation of the euro against the US dollar in 2020

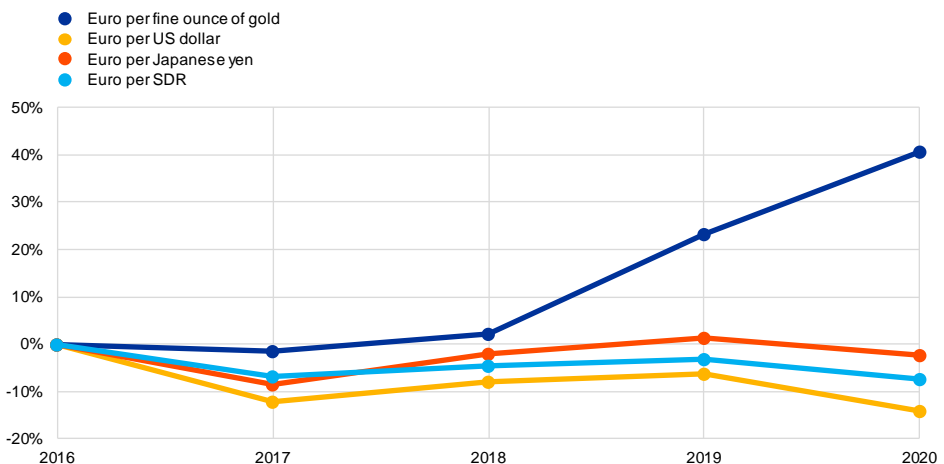
In line with the Eurosystem's harmonised accounting rules, gold, foreign exchange and financial instruments (other than securities classified as held-to-maturity, non-marketable securities, and securities held for monetary policy purposes) are revalued at market rates and prices. The gold price and the principal exchange rates used for the revaluation of year-end balances and those of the previous year-end were as follows:

Exchange rates	2020	2019
US dollars per euro	1.2271	1.1234
Japanese yen per euro	126.49	121.94
Euro per SDR	1.1786	1.2339
Euro per fine ounce of gold	1,543.884	1,354.104

Chart 5 below shows the gold price and main foreign currency rate movements against the euro during the period 2016-2020.

Chart 5**Main foreign exchange rates and gold price, 2016-2020**

(percentage changes vis-à-vis 2016, year-end data)



Source: Eurosystem.

**11%**

Increase in banknotes in circulation in 2020

In 2020 **banknotes in circulation**⁴ (liability item 1) increased by €141.8 billion to €1,434.5 billion. The amount of euro banknotes in circulation has grown strongly since the euro was introduced in 2002 and intensified during the COVID-19 pandemic in 2020. This is not unusual in times of crisis.⁵

Base money, which in addition to banknotes in circulation includes **current accounts** (liability item 2.1) and the **deposit facility** (liability item 2.2), increased by €1,817.8 billion to €4,923.9 billion in 2020. This was mainly due to the Eurosystem's refinancing operations and monetary policy securities purchases. The current

⁴ Information on the development of banknotes in circulation since 2002, broken down by denomination, can be found on the ECB's website under "[Banknotes and coins circulation](#)".

⁵ More information can be found in the article entitled "[The paradox of banknotes: understanding the demand for cash beyond transactional use](#)", *Economic Bulletin*, Issue 2, ECB, 2021.

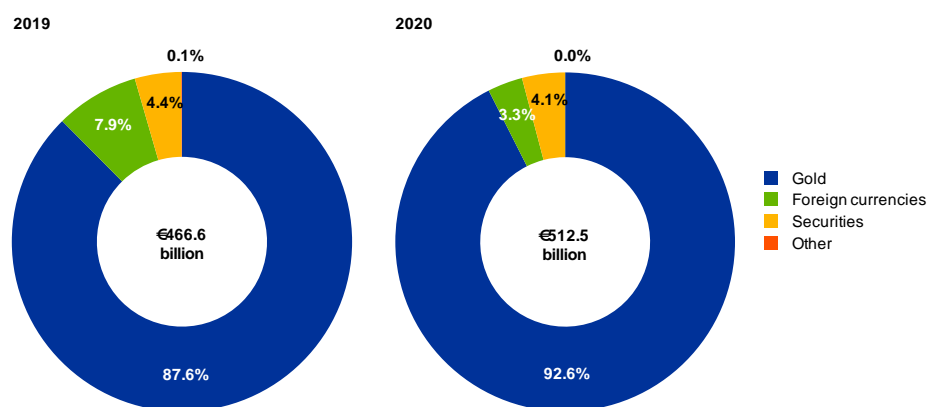
accounts increase was further influenced by the two-tier system⁶ introduced in October 2019.

The €299.4 billion increase in **liabilities to other euro area residents denominated in euro** (liability item 5) to €611.1 billion primarily reflects a change in liabilities to general government.

Revaluation accounts (liability item 11) rose by €45.9 billion to €512.5 billion in 2020, primarily reflecting an increase in the revaluation accounts for gold that exceeded the aforementioned negative foreign exchange rate revaluation effects and other revaluation effects (Chart 6).

Chart 6

Breakdown of revaluation accounts into gold, foreign currencies, securities and other, 2019-2020



Source: Eurosystem.

Capital and reserves (liability item 12) increased by €2.1 billion to €109.6 billion in 2020. Some Eurosystem central banks maintain **provisions** (part of liability item 10) for risks that have not materialised.⁷ These provisions stood at €110 billion at the end of 2020, compared to €100.3 billion at the end of 2019.

⁶ More information on the two-tier system can be found on the ECB's website under "[Two-tier system for remunerating excess reserve holdings](#)".

⁷ The creation of these provisions is subject to the legal frameworks of the individual central banks. Provisions related to Eurosystem monetary policy operations are not included.