

Interaction between euro-denominated payment systems and ECB monetary policy: challenges for the single currency

Background

Monetary policy and payment systems are closely intertwined. Indeed, the central bank is dependent on a secure and efficient payment system that is a prerequisite for a smooth transmission of monetary policy stimuli and the preservation of financial stability. In the recent years, payment systems have undergone significant changes with financial innovation and regulatory frameworks leading to a concentration of payments performed by Central Counterparty Clearing Houses (CCPs). As a consequence, the safety and soundness of CCPs has become a major concern for central bankers and supervisors. An additional issue in the case of the ECB is that a large part of euro-denominated transactions are cleared through CCPs located in the UK which poses challenges to the supervisory framework because of Brexit. Against this background, the [European Market Infrastructure Regulation II legislative proposal](#) seeks to ensure a more efficient oversight of CCPs of systemic relevance with a particular focus on those located outside the euro area. In the meantime, the ECB has asked to be conferred powers to regulate CCPs.

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For the February 2018 session of the Monetary Dialogue, the Committee on Economic and Monetary Affairs (ECON) of the European Parliament has asked monetary experts to analyse the challenges for the single currency stemming from the interactions between euro-denominated payment systems and ECB monetary policy. References to the relevant in-depth analyses are provided below.



In-depth analyses of the September 2018 Monetary Dialogue

[Note on the interactions between payment systems and monetary policy](#) by Francesco PAPADIA (Bruegel)

This paper analyses the interactions between, on one hand, monetary policy and financial stability responsibilities of the ECB and, on the other hand, Post-Trading Financial Market Infrastructures. Its basic conclusion is that Payment Systems are critical for monetary policy while (CCPs are critical for financial stability. However, in stressed conditions CCPs can be the source of risks also for monetary policy.

[Brexit, financial stability and the supervision of clearing systems](#) by Andromachi GEORGOSOULI (Queen Mary University of London)

This paper examines the evolution of the supervisory framework of third-country CCPs in the EU making special reference to risks associated with the imminent withdrawal of the United Kingdom from the European Union (Brexit). Its key finding is that the proposed reform is in principle in the right direction but there are still challenges ahead and a more comprehensive package of measures will be required to address them.

[The euro-area denominated payment systems and the conduct of monetary policy: Some considerations ahead of Brexit](#) by Corrado MACCHIARELLI, Mara MONTI (London School of Economics)

The framework for euro-denominated payment systems has undergone significant changes in recent years leading to a concentration of payments performed by Central Counterparty Clearing Houses. As it stands, a large part of euro-denominated transactions, derivatives in particular, are cleared through CCPs located in the UK which poses challenges to the current supervisory framework because of the UK leaving the EU. Against this background, this note discusses the extent to which the current set-up bears risks, including for the conduct of the ECB monetary policy.

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