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European Central Bank

Evolution of the ECB's Asset Purchase Programme and euro area financial market developments
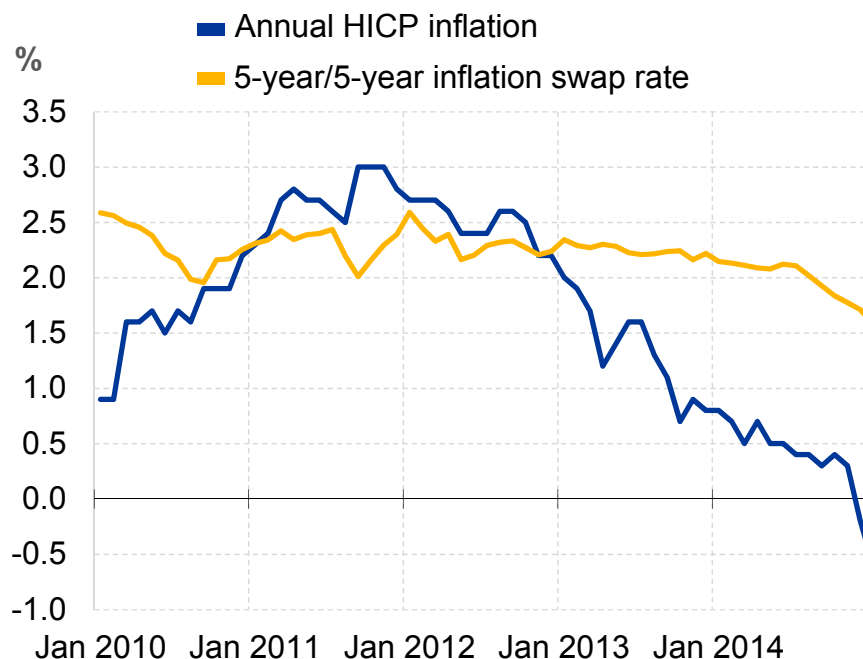
BIS High Level Conference
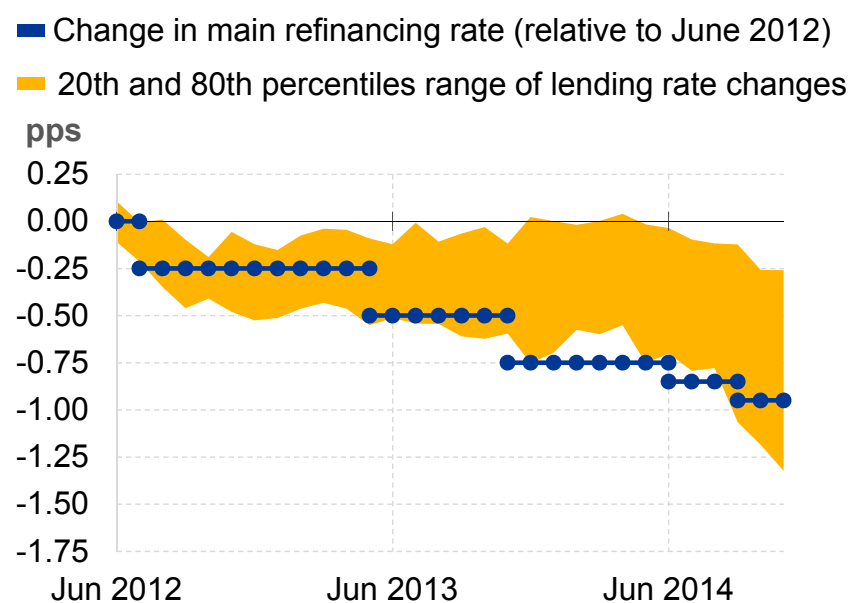
Mexico City 30-31 March 2017

Outline

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The expanded asset purchase programme (APP): why it was needed

Declines in both actual and expected euro area inflation

- Annual HICP inflation
- 5-year/5-year inflation swap rate

Sources: Thomson Reuters, SDW, and ECB calculations.

Impaired pass-through to lending rates

- Change in main refinancing rate (relative to June 2012)
- 20th and 80th percentiles range of lending rate changes

Notes: Lending rates refer to euro area monetary financial institutions' lending rates on loans of up to EUR 1 mn to non-financial corporations. Source: ECB calculations.

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President Draghi on the ECB's reaction function in 4/2014*

1) Unwarranted tightening of our monetary policy stance due to
   – renewed tensions in short-term money markets,
   – developments in global bond markets that unduly spill over, or
   – continued appreciation of the exchange rate
   ➔ *variety of more <u>conventional</u> measures*

2) Further impairments in the transmission of our [monetary policy] stance via bank lending channel
   ➔ *several forms, including an LTRO targeted towards encouraging bank lending or an   ABS purchase programme*

3) A worsening of the medium-term outlook for inflation due to a broad-based weakening of aggregate demand or a substantial positive supply shock
   ➔ *objective here would not be to defend the current stance, but rather to increase meaningfully the degree of monetary accommodation = the context of a more broad-based asset purchase programme*
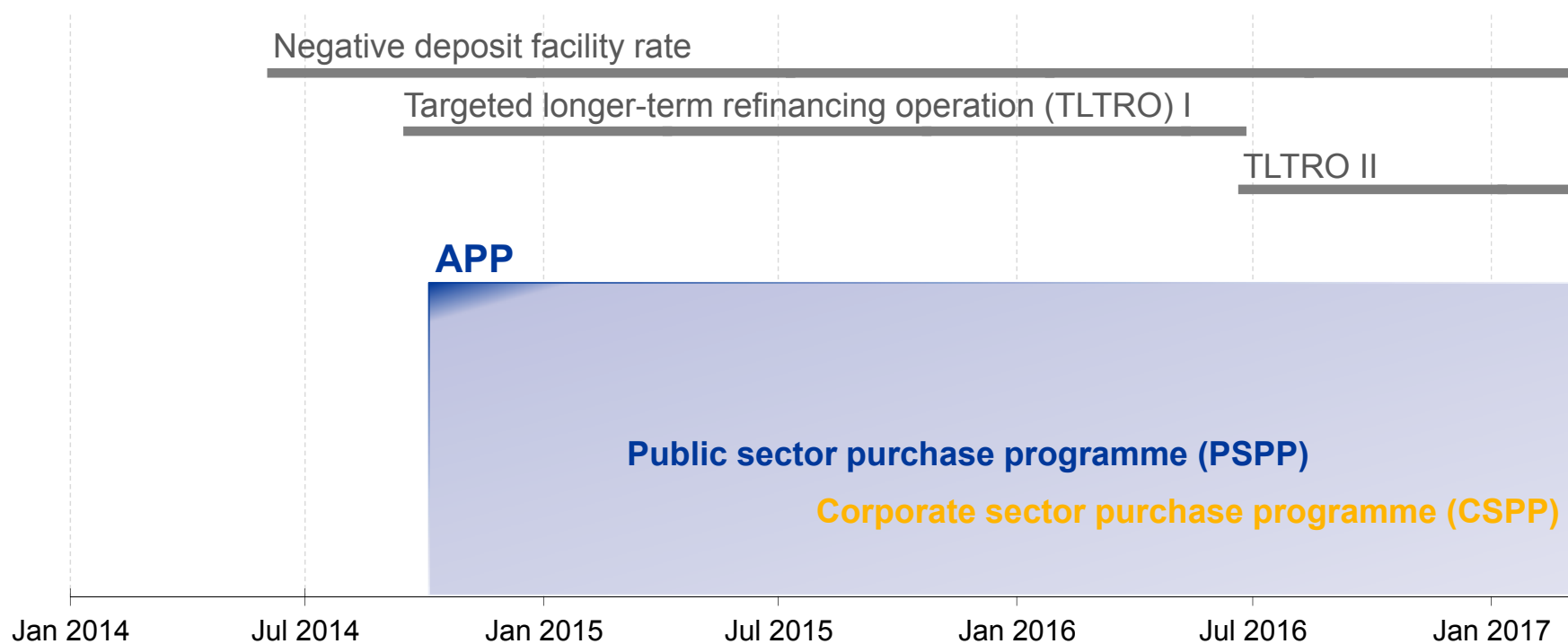
ECB policy rates and EONIA from 1999
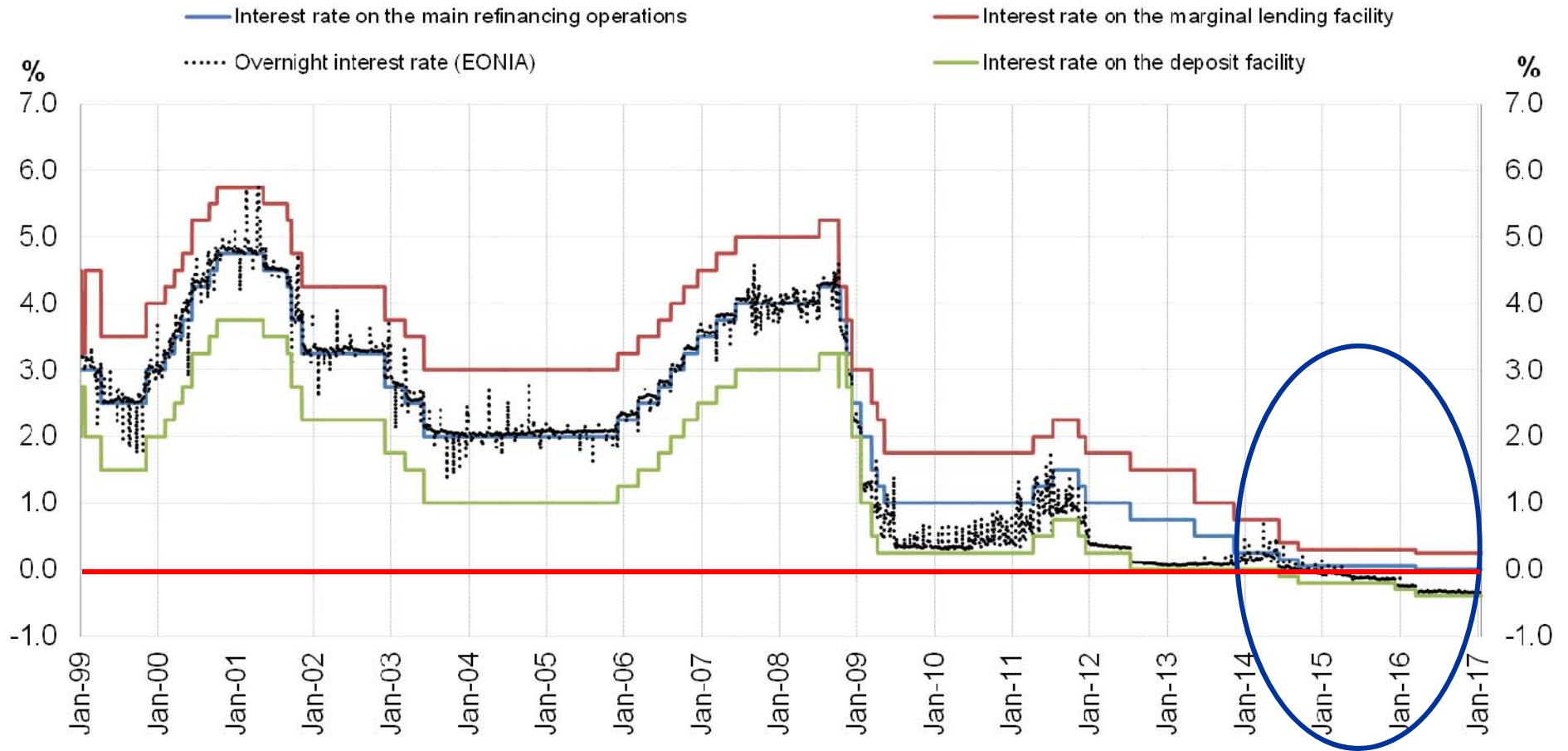
Source: ECB

The APP in context – a timeline of non-standard measures

List of non-standard measures including DFR cut to negative territory

Negative deposit facility rate

Targeted longer-term refinancing operation (TLTRO) I

TLTRO II

APP

Public sector purchase programme (PSPP)

Corporate sector purchase programme (CSPP)

| Jan 2014 | Jul 2014 | Jan 2015 | Jul 2015 | Jan 2016 | Jul 2016 | Jan 2017 |

Source: ECB.

Outline

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APP ohjelman pääpiirteet

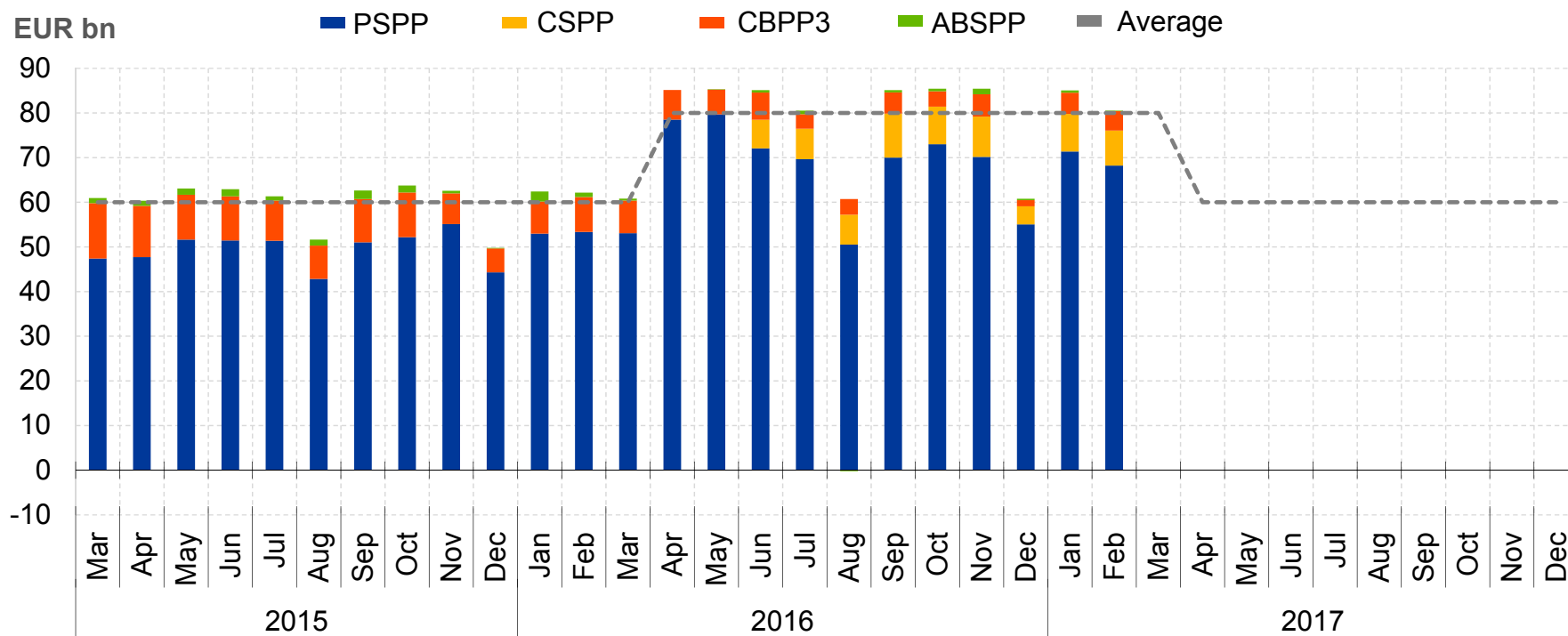|	ABSPP	CBPP3	PSPP	CSPP
Eligible Universe	Mon. pol. eligible ABS (subject to DD assessment)	Mon. pol. eligible CBs for own use & multi-cedulas	Mon. pol. eligible central govt. bonds, agencies and EU supranationals	Non-financial and financial corporate securities (excluding unsecured bank bonds)
Minimum rating	CQS3	CQS3	CQS3	CQS3
Maturity	All	All	2-30 years	6 months – 30 years
Issue Limit	70%*	70%*/**	33%/50%*/**/***	33%/70%*
Issuer limit	No	Yes**	33%/50%**	Yes*
Purchases	1^{ary} & 2^{ary} market	1^{ary} & 2^{ary} market	**2^{ary} market (black-out periods for prim. market and progr. reviews)**	1^{ary} & 2^{ary} Market (no 1^{ary} for public sector corporates)
Implementation	**2 EAMs; 2 IAMs**	Decentralised	Decentralised	Decentralised
Securities lending	Authorised	Yes	Yes	Yes

* Specific conditions for programme countries apply
** Combined Eurosystem holdings from monetary policy and investment portfolios
*** *"Subject to a case-by-case verification that this would not create a situation whereby the Eurosystem would have blocking minority power, in which case the issue share limit would remain at 25%."*

How the APP has evolved over time

APP monthly net purchases, by programme

The key channels of the APP

Direct pass-through	Portfolio rebalancing	Signalling
	PSPP	
CSPP		
CBPP3		
ABSPP		

- **Objectives:**
  - **Improving broader financing conditions by reducing sovereign yields**
  - **Rebalancing into private-sector assets**
  - **Eurosystem balance sheet expansion**
  - **Market neutrality as an important principle**

Key sovereign and corporate bond yields in the euro area

Legend: 10-year Bund yield; Yield, euro area investment-grade non-financial corporates
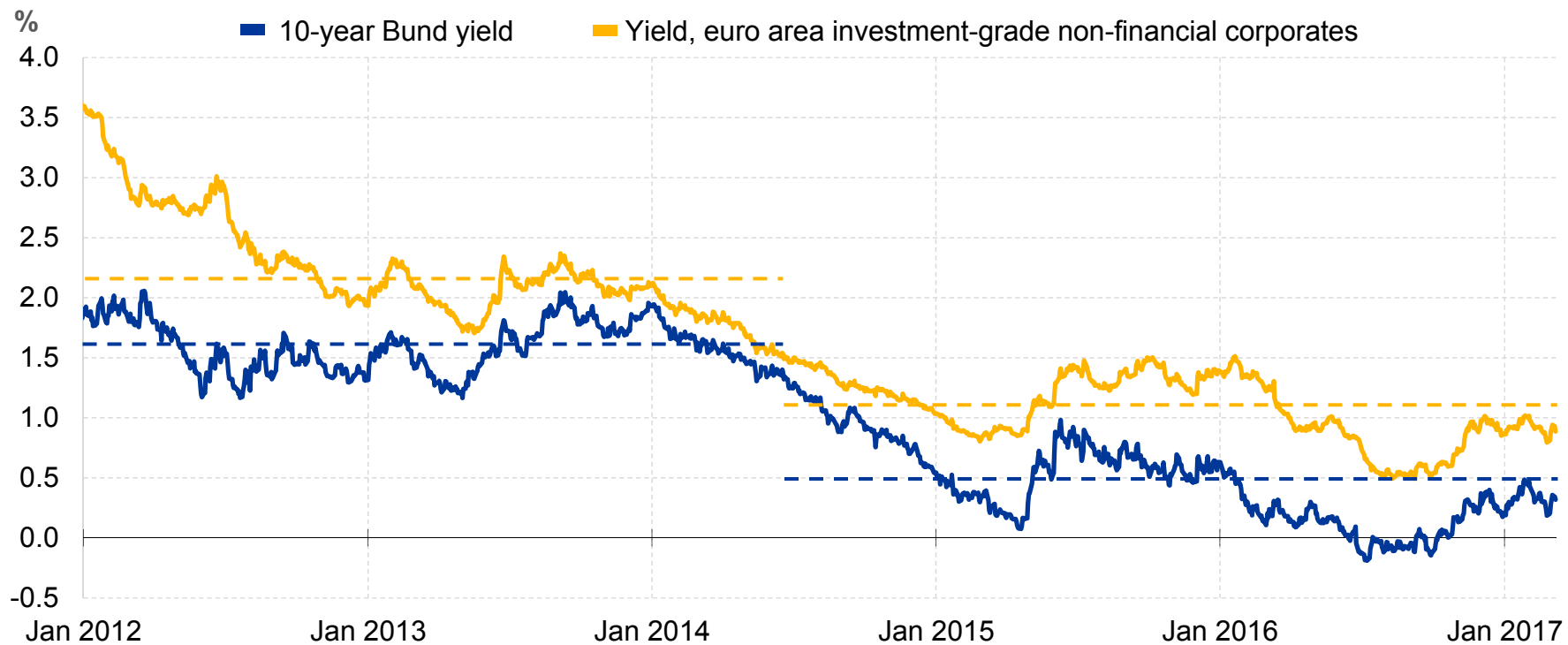
Sources: Markit iBoxx, Bloomberg, and ECB calculations.

Eurosystem APP securities lending framework and implementation status

- Aimed at supporting bond and repo market liquidity

- Implemented in a decentralised manner

- APP holdings available for lending against other securities

- As of 15 December 2016, PSPP holdings also available for lending against cash collateral

Overview of lending channels (March 2017)

Central bank	Bilateral	Agency	ICSD opportunity	Fails mitigation	Cash collateral
AT	-	Yes	-	Yes	-
BE	Yes	-	-	Yes	Yes
CY	-	-	-	Yes	-
DE	Yes	-	Yes	Yes	Yes
EE	Yes	-	-	-	-
ES	Yes	-	-	Yes	Yes
FI	Yes	-	-	Yes	-
FR	Yes	-	Yes	Yes	Yes
GR	-	-	Yes	Yes	-
IE	Yes	-	-	Yes	Yes
IT	-	-	Yes	Yes	-
LT	-	Yes	-	Yes	-
LU	-	-	-	-	-
LV	-	-	-	Yes	-
MT	Yes	-	-	-	-
NL	Yes	-	-	Yes	Yes
PT	-	-	Yes	Yes	-
SI	-	Yes	-	Yes	-
SK	-	Yes	Yes	Yes	-
ECB	-	Yes	-	Yes	Yes

Source: ECB and websites of national central banks. Eurosystem central banks with at least one strategic/discretionary SL programme highlighted in grey.

Repo rates continue to be governed by supply-demand imbalances in the market for collateral

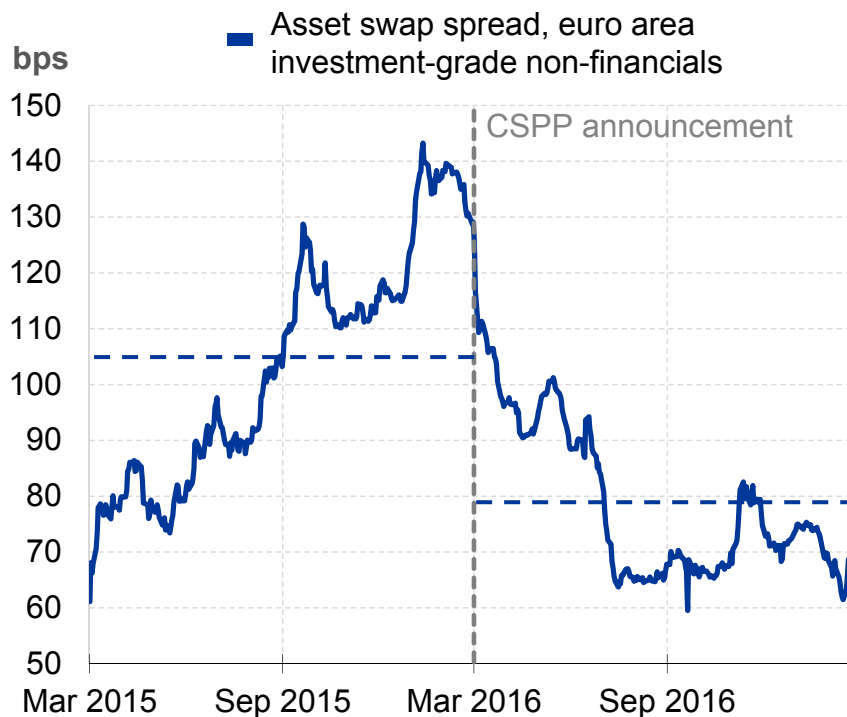## One-day settlement repo rate and volume by jurisdiction
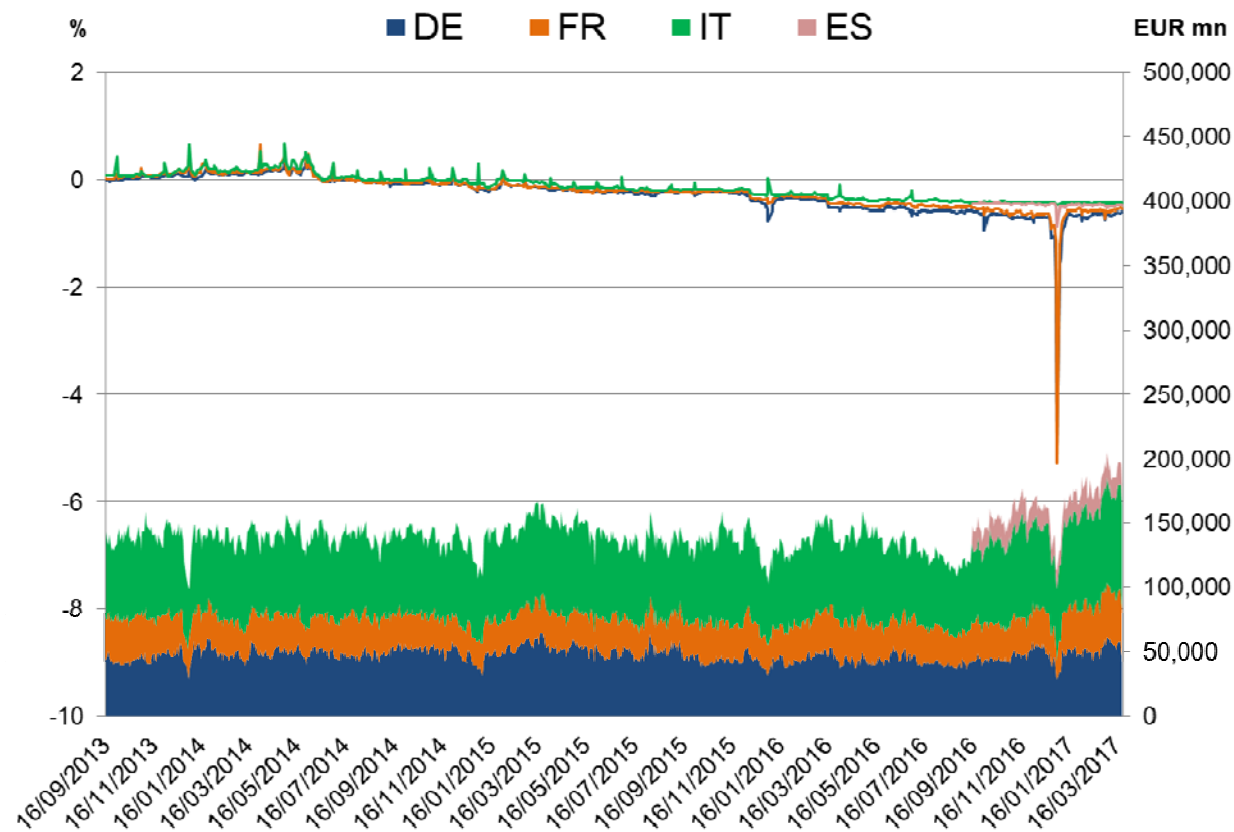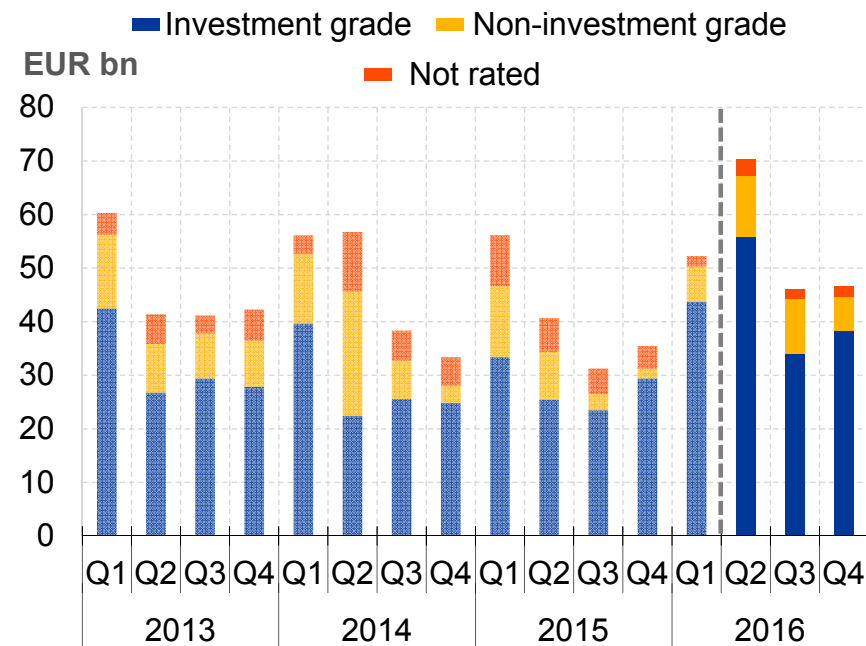

Source: Bloomberg.

- **Implementation** has proved **smooth** so far
- **Progress achieved** on the objective of **further strengthening the direct pass-through to the real economy**

Corporate bond spreads

bps

Asset swap spread, euro area investment-grade non-financials

CSPP announcement

Mar 2015   Sep 2015   Mar 2016   Sep 2016

Source: Markit iBoxx and ECB calculations.

Corporate bond issuance

EUR bn

■ Investment grade   ■ Non-investment grade
■ Not rated

Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4 | Q1 Q2 Q3 Q4
2013   2014   2015   2016

Notes: Issuance refers to euro-denominated bonds issued by non-financial corporations incorporated in the euro area. Source: Dealogic and ECB calculations.

Outline

The expanded asset purchase programme (APP): why it was needed, how it happened, what it achieved

Broad-based decline in lending rates

Legend: Euro area · Germany · France · Italy · Spain · Cross-country dispersion
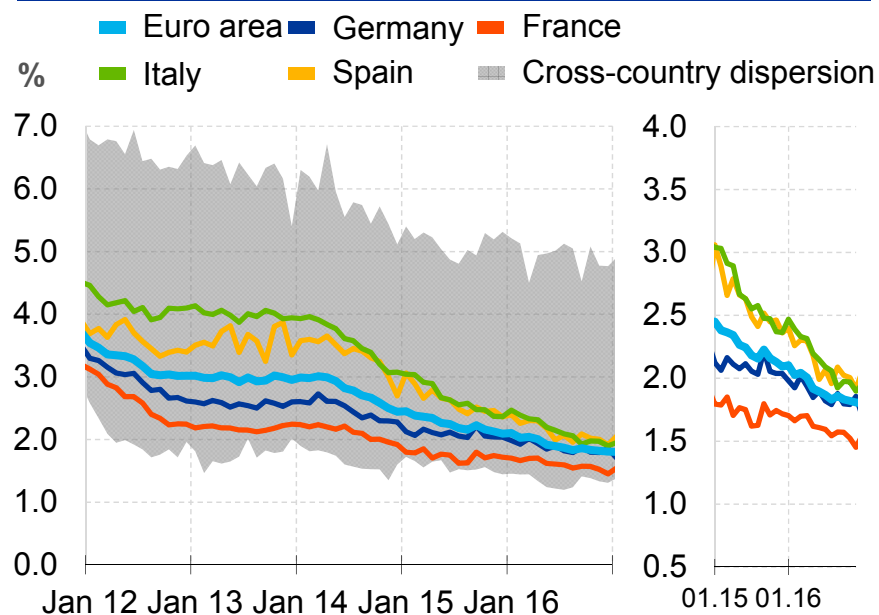
Notes: The indicator for the total cost of lending refers to non-financial corporations and is calculated by aggregating short and long-term rates using a 24-month moving average of new business volumes. The cross-country dispersion displays the min and max range over a fixed sample of 12 euro area countries. Source: ECB calculations.

Gradual recovery in loan dynamics

Legend: Annual growth rate of loans to households · Annual growth rate of loans to non-financial corporations
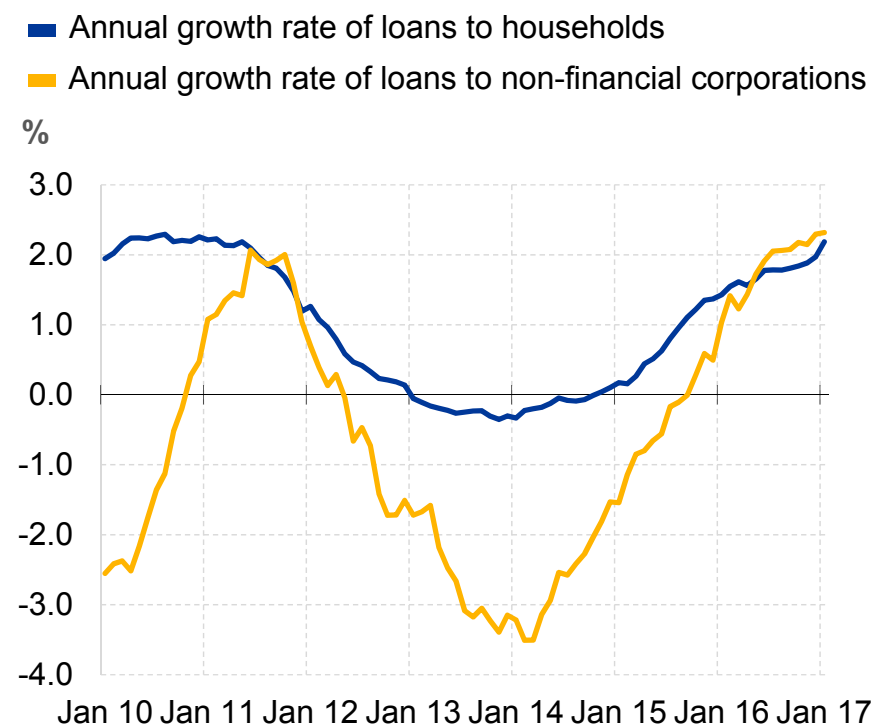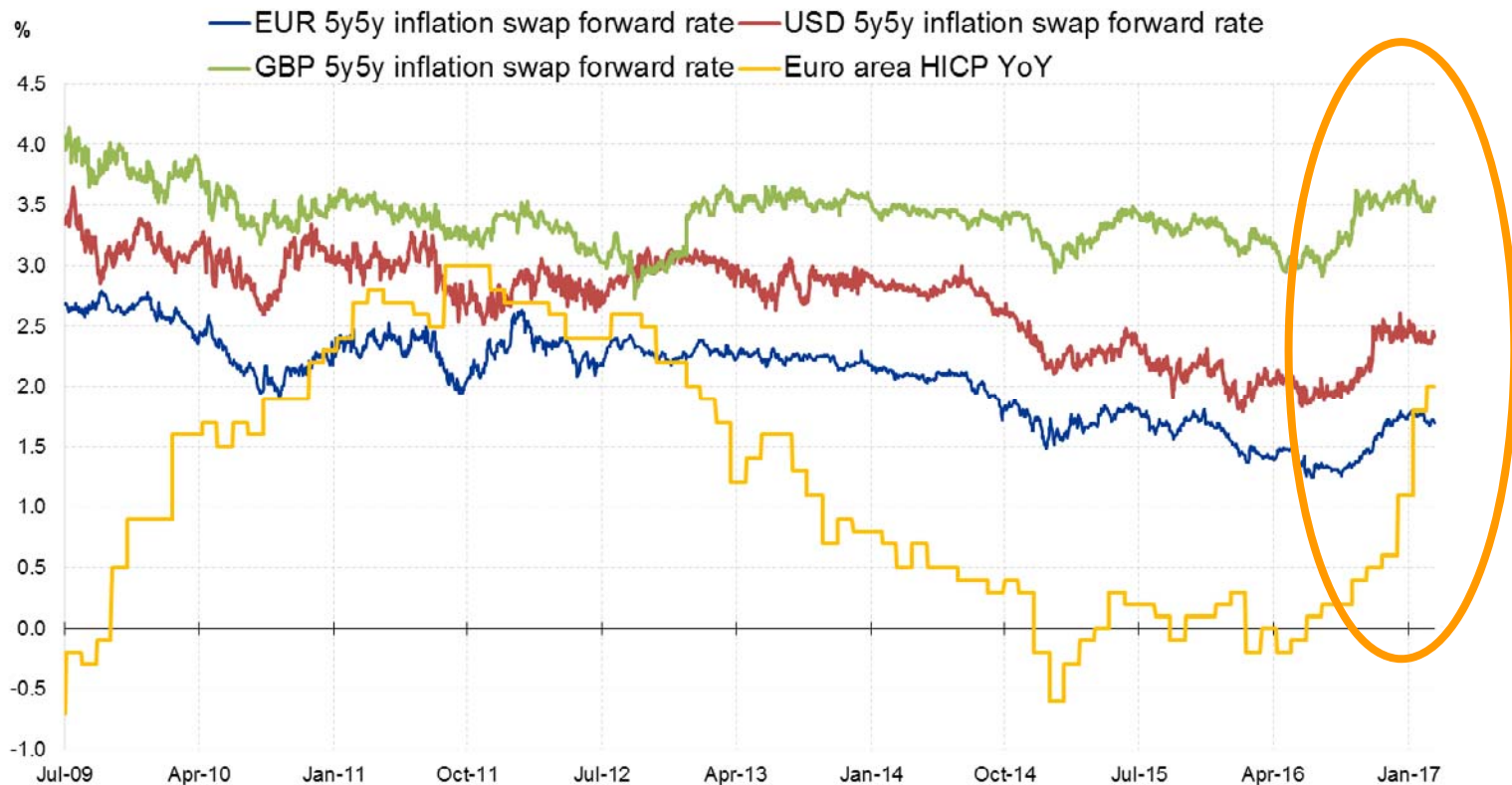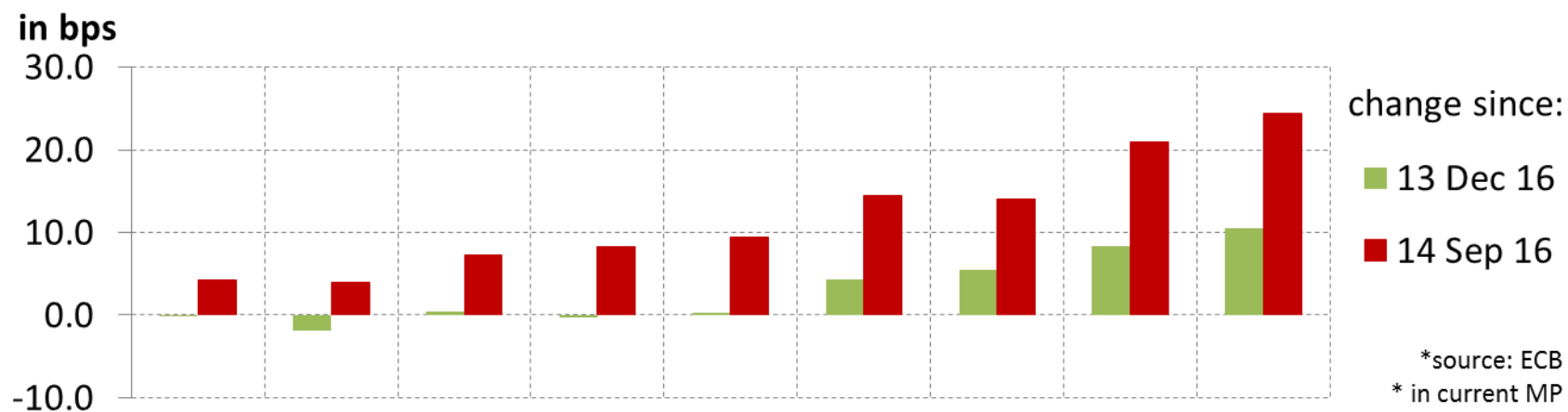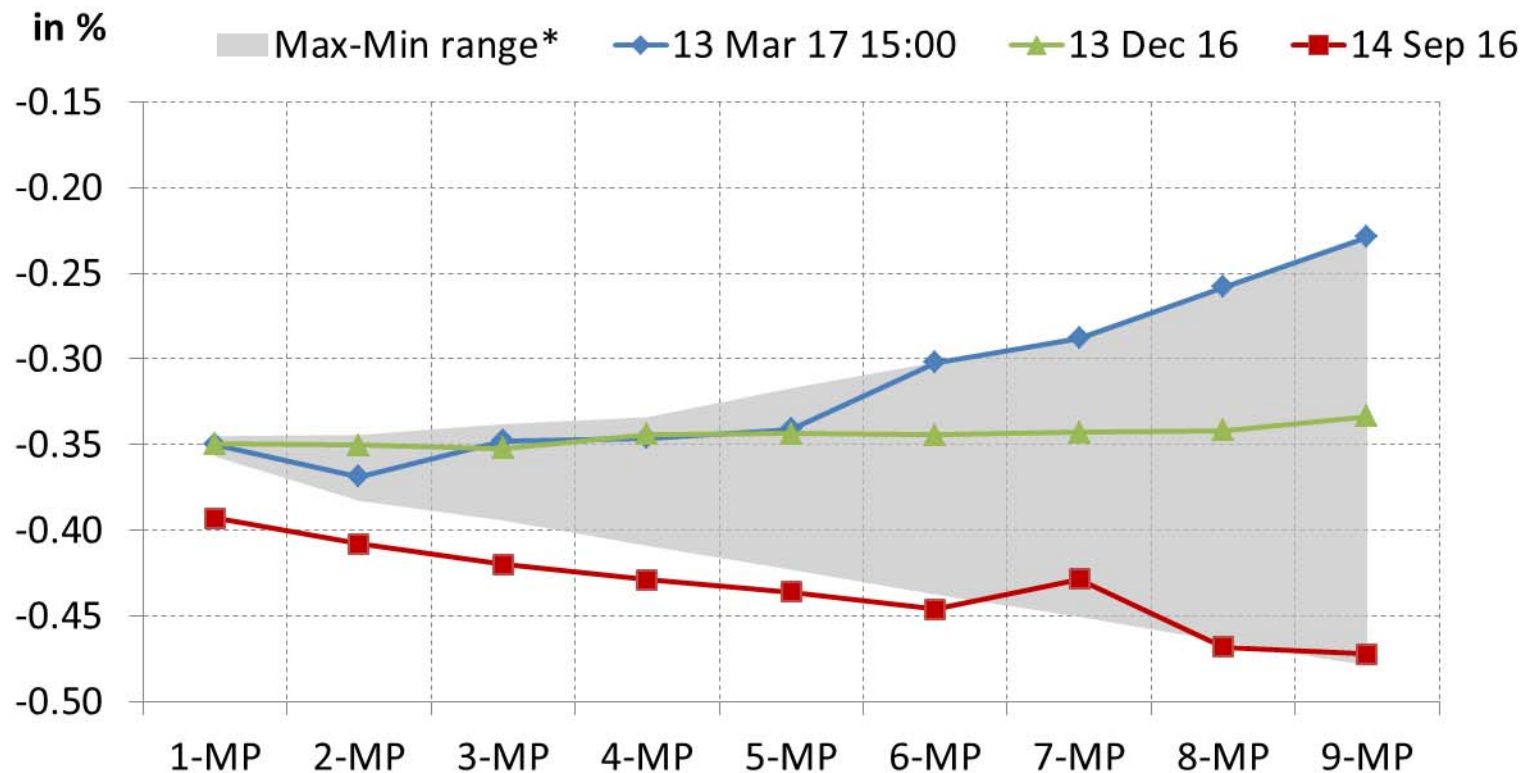

Source: ECB.

The expanded asset purchase programme (APP): why it was needed, how it happened, what it achieved

Recent upturn in euro area inflation

Source: Bloomberg.

ECB-dated forward EONIA curve steepened after March 2017 GovC Press Conference

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Closing remarks

- The **APP, alongside other measures**, has been **instrumental** in the **pass-through** of monetary accommodation **to the euro area real economy**

- **Purchases will continue until** December 2017, or beyond, if necessary, and in any case until the Governing Council sees a **sustained adjustment in the path of inflation consistent with its inflation aim**

- The Eurosystem will continue to **closely monitor market conditions** and remain responsive in its pursuit of **market neutrality and market functioning**

Thank you for your attention!

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ECB balance sheet since 2007
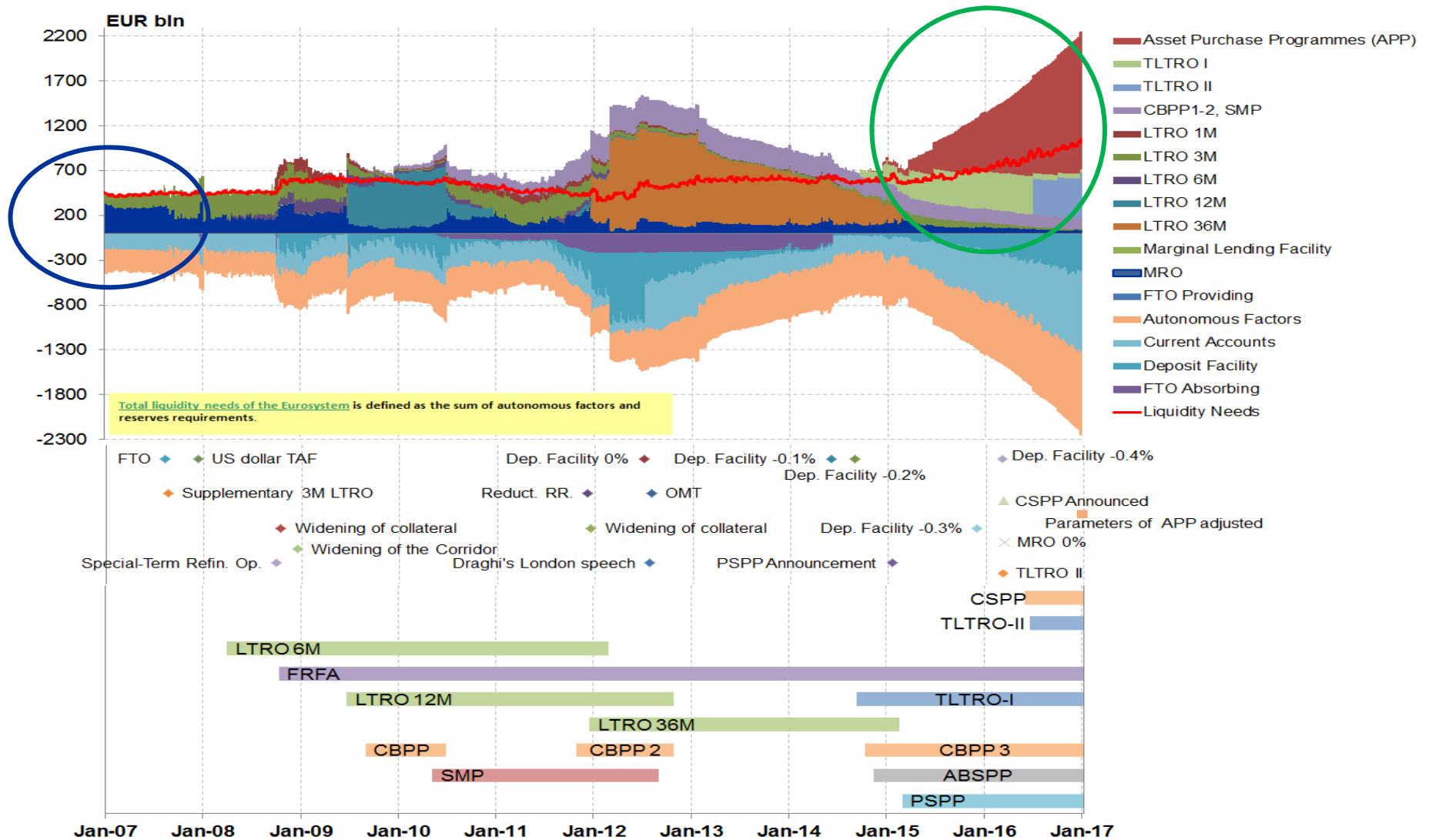
Sources: ECB data, ECB staff calculations, Last observation: 15 January 2017