



EUROPEAN CENTRAL BANK

EUROSYSTEM

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ECB's Public Sector Purchase Programme (PSPP)

OMCG

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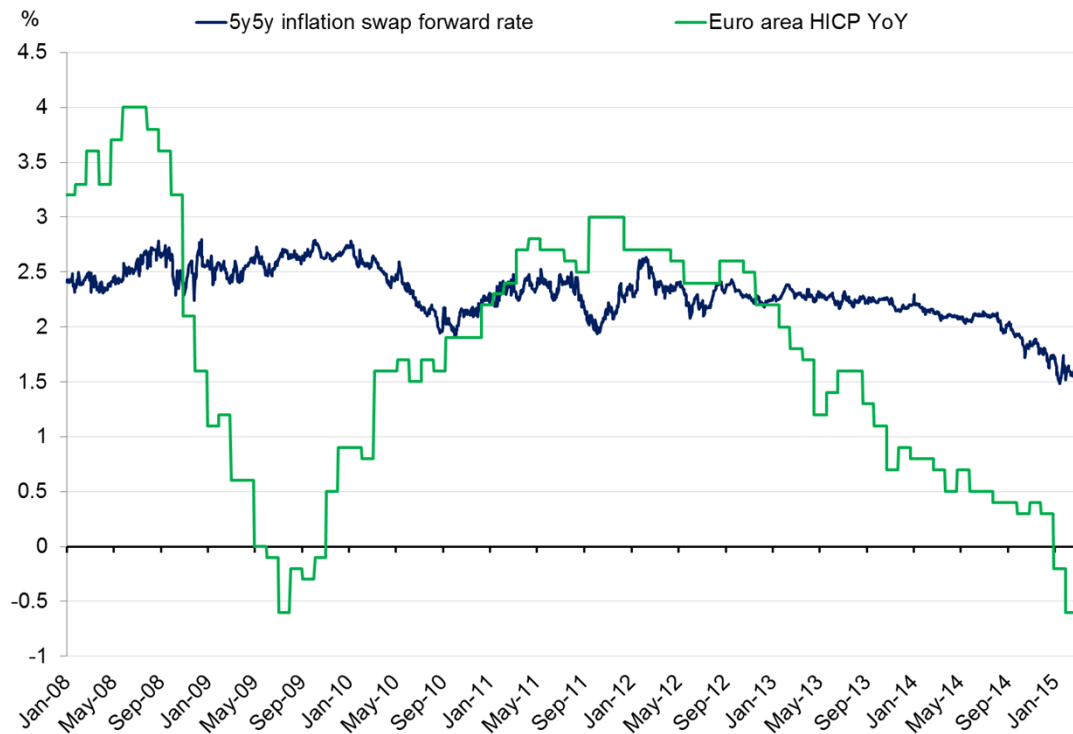
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Expanded asset purchase programme (APP)

- Objective:

→ To fulfill the ECB's price stability mandate (given historically low inflation rates)

Monetary stimulus to the economy when policy interest rates already at their lower bound



Source: Bloomberg; last observation: 13/03/2015

APP - 3 pillars

- The APP comprises of three pillars:
 1. **Covered Bond Purchase Programme (CBPP3)**
 - started in October 2014, so far EUR 56.9 billion
 2. **Asset Backed Securities Purchase Programme (ABSPP)**
 - started in November 2014, so far EUR 3.8 billion
 3. **Public Sector Purchase Programme (PSPP)**
 - started on 9 March 2015, so far EUR 9.8 billion
- Purchase pace and duration:
 - EUR 60 billion per month until at least September 2016

PSPP eligible securities

- **Asset classes:**
 - central government bonds
 - agencies
 - international organizations and multilateral development banks
 - 12% share
 - Public non-financial corporations
 - In exceptional circumstances as substitutes
- Need to fulfill collateral eligibility criteria
- Denominated in euros, issued in the euro area
- Maturity range: 2-30 years
- Investment grade rating
- GR and CY securities currently not eligible for purchases
 - GR: Collateral waiver not in place
 - CY: Under a programme review period

List of current eligible issuers was published on the ECB website, it may be updated in mid-April 2015.

Limit considerations

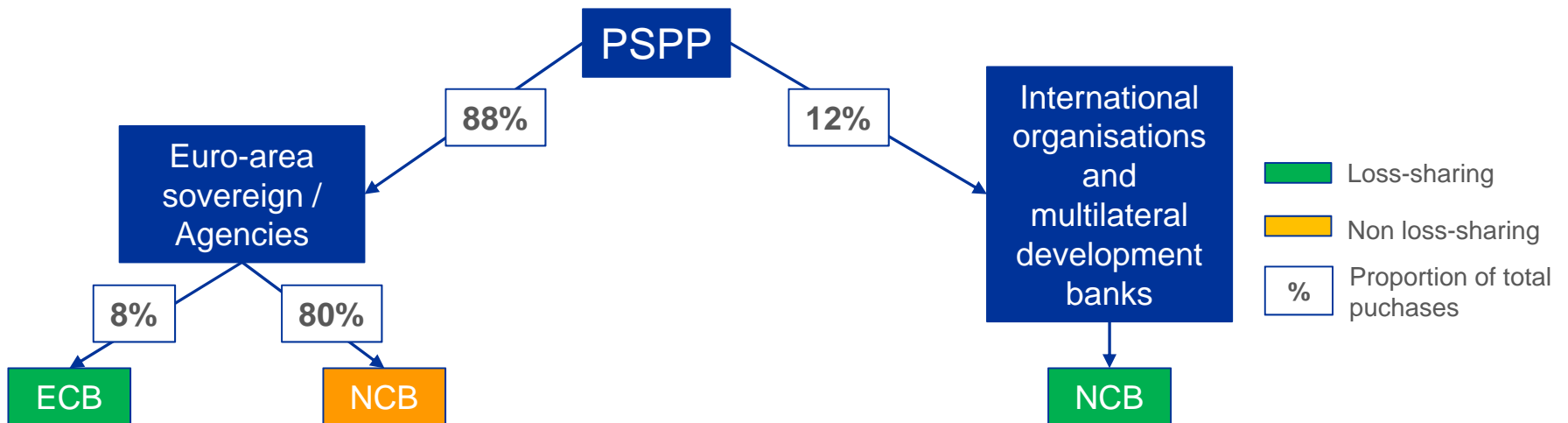
- 33% issuer limit
 - To preserve market functioning
- 25% issue share limit
 - To avoid blocking minority for CACs
 - May be reviewed after 6 months
- Prohibition of monetary policy financing (Art. 123 TFEU)
 - No purchases in the primary market
 - A blackout period is applied to avoid overly direct influence on primary market price formation
 - No purchases in newly issued, tapped securities
 - And no purchases in those with maturity close in time over a certain period
 - For syndications respected on a best effort basis before the issuance
- *Pari passu* treatment of holdings
- No purchases below the deposit facility rate (-0.20%)

Allocation

1. Country allocation

- Based on the ECB capital key
- If not enough eligible securities, substitute purchases should be conducted in individual jurisdictions
 - In securities issued international organisations and multilateral development banks
 - Within the 12% share
 - In public non-financial corporations located in the euro area

2. Purchase allocation



Implementation - 1

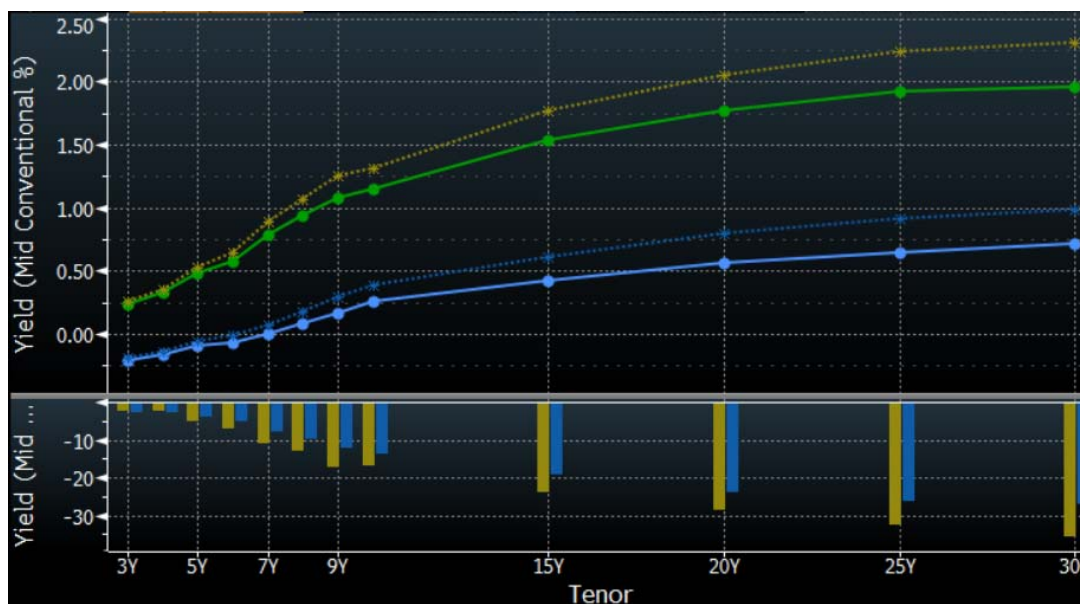
- Specialisation scheme
 - Coordinated by the ECB
 - Each NCB purchases securities in its own jurisdiction
 - Securities issued by international organisations and development banks bought by NCBs
 - Mostly by Banque de France and Banco de España on behalf of the Eurosystem
 - ECB buys central government and agency securities of all jurisdictions
- Eligible counterparties
 - Those eligible to participate in Eurosystem monetary policy operations
 - Other counterparties used for Eurosystem investment portfolios
- Market neutral purchases to prevent significant dislocations
 - Gradual purchases across the curves
 - Purchases roughly according to the nominal amount outstanding
 - Aim to avoid to the extent possible buying CTD bonds, special in the repo

Implementation - 2

- Securities lending
 - To ensure the effectiveness of the programme
 - Allowing the counterparties to show competitive prices
 - Gives them more time to cover their open positions in the market
 - Purchased securities will gradually become available for lending
 - Aimed to be developed in the near future
 - Implemented in a decentralized manner, mirroring the organisation of the PSPP
- Transparency
 - Reports of the amounts held, valued at amortised cost
 - Aggregate value published on a weekly basis
 - Weighted average maturity by issuer residence published on a monthly basis
 - Separate for international organisations and multilateral development banks

First week of PSPP purchases

- EUR 9.8 billion of PSPP purchases settled until 13 March 2015:
 - On average EUR 3.3 billion purchases per day
 - On track to reach EUR 60 billion by the end of March
- Relatively smooth implementation
- No major issues with sourcing the bonds
- Yields declined, yield curves flattened

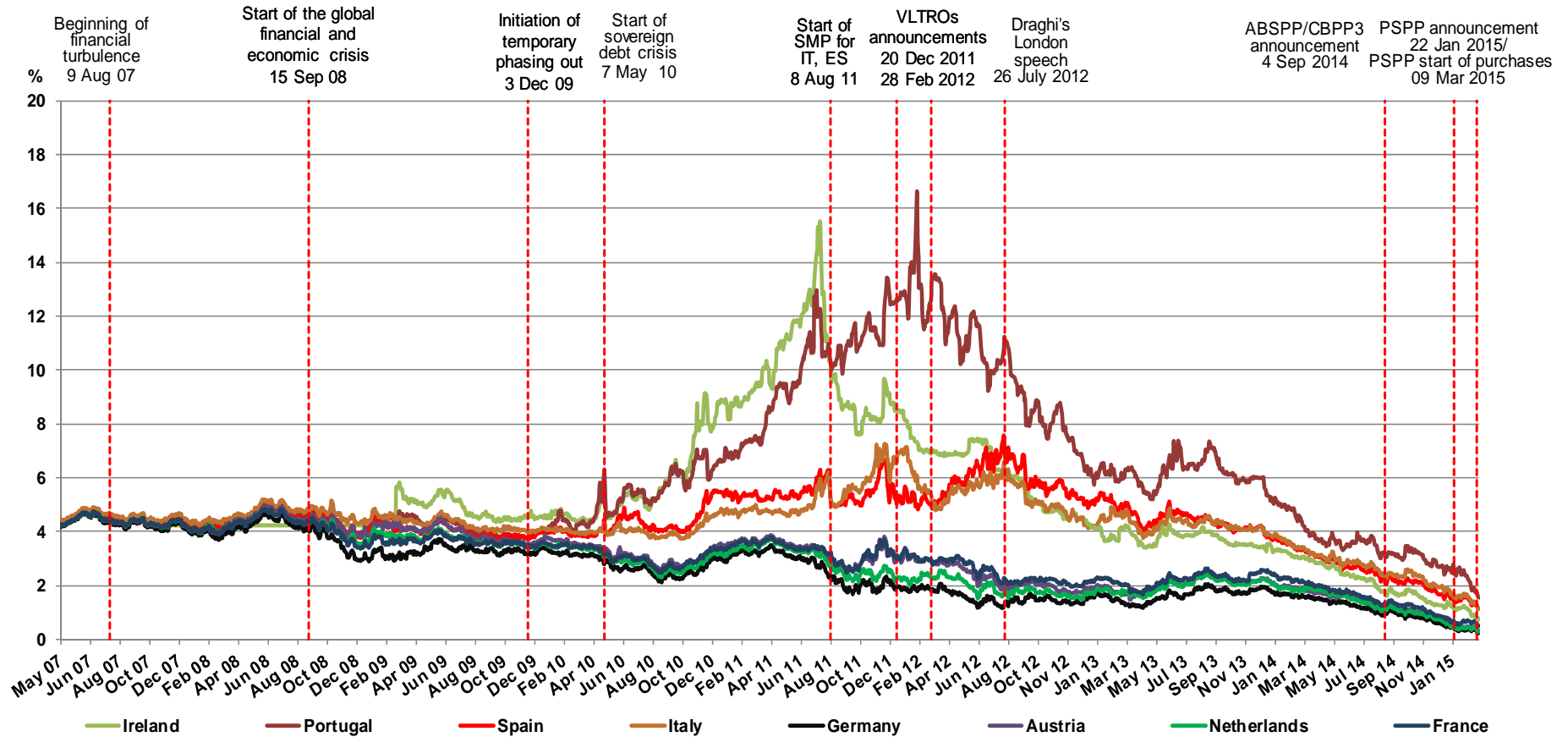


← Italian government bond yield curve

← German government bond yield curve

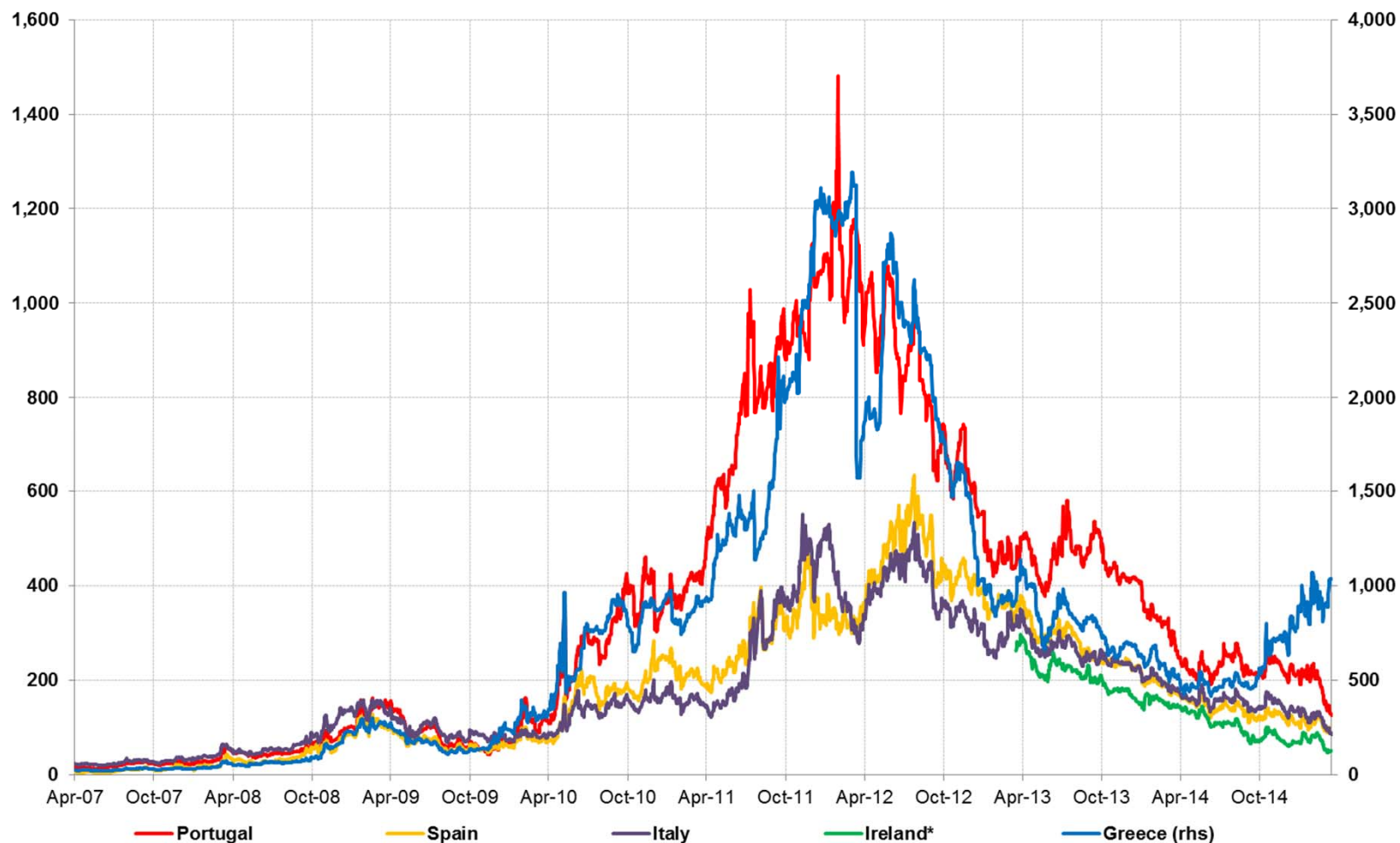
Yield changes over the first week of purchases

10-year euro area government bond yields



Source: Bloomberg. Last observation 13 March 2015

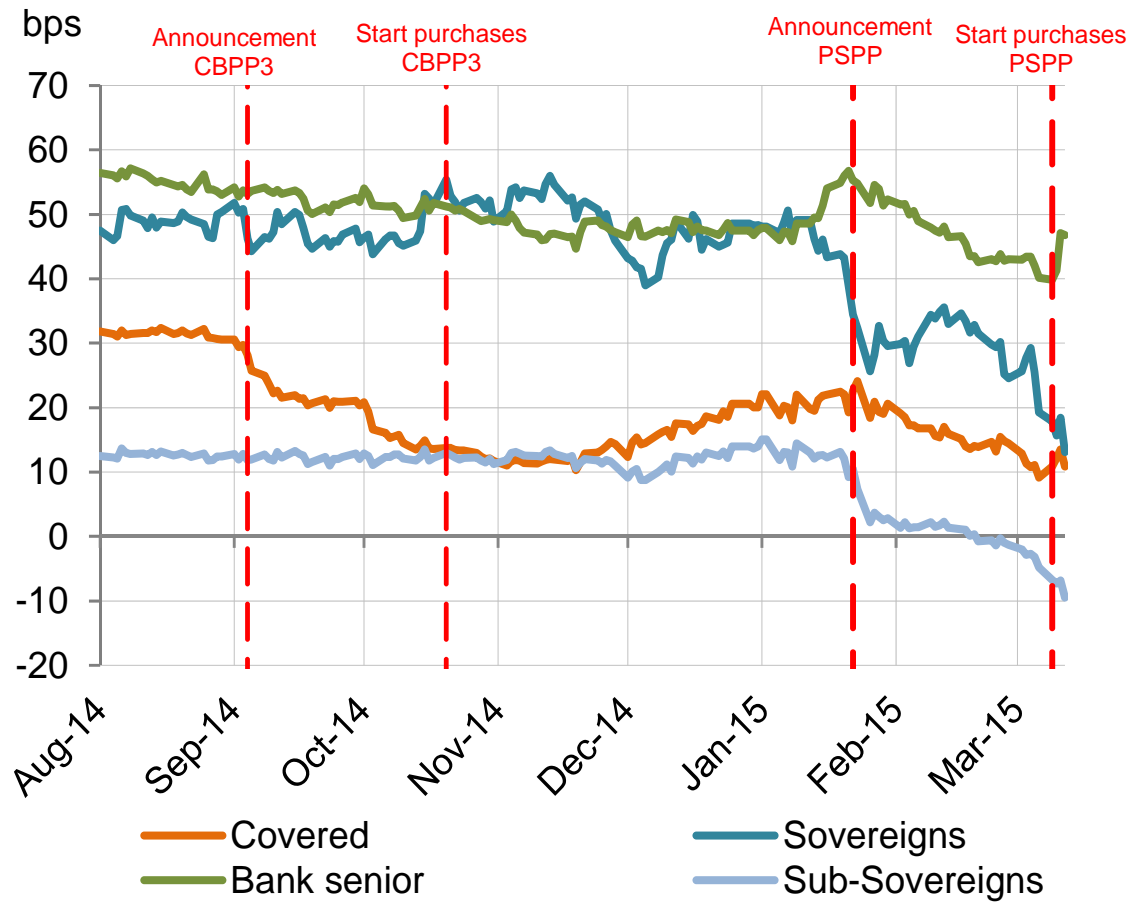
Selected 10-year euro area government bond spreads against Germany (bps)



Source: Bloomberg. Last observation 13 March 2015.

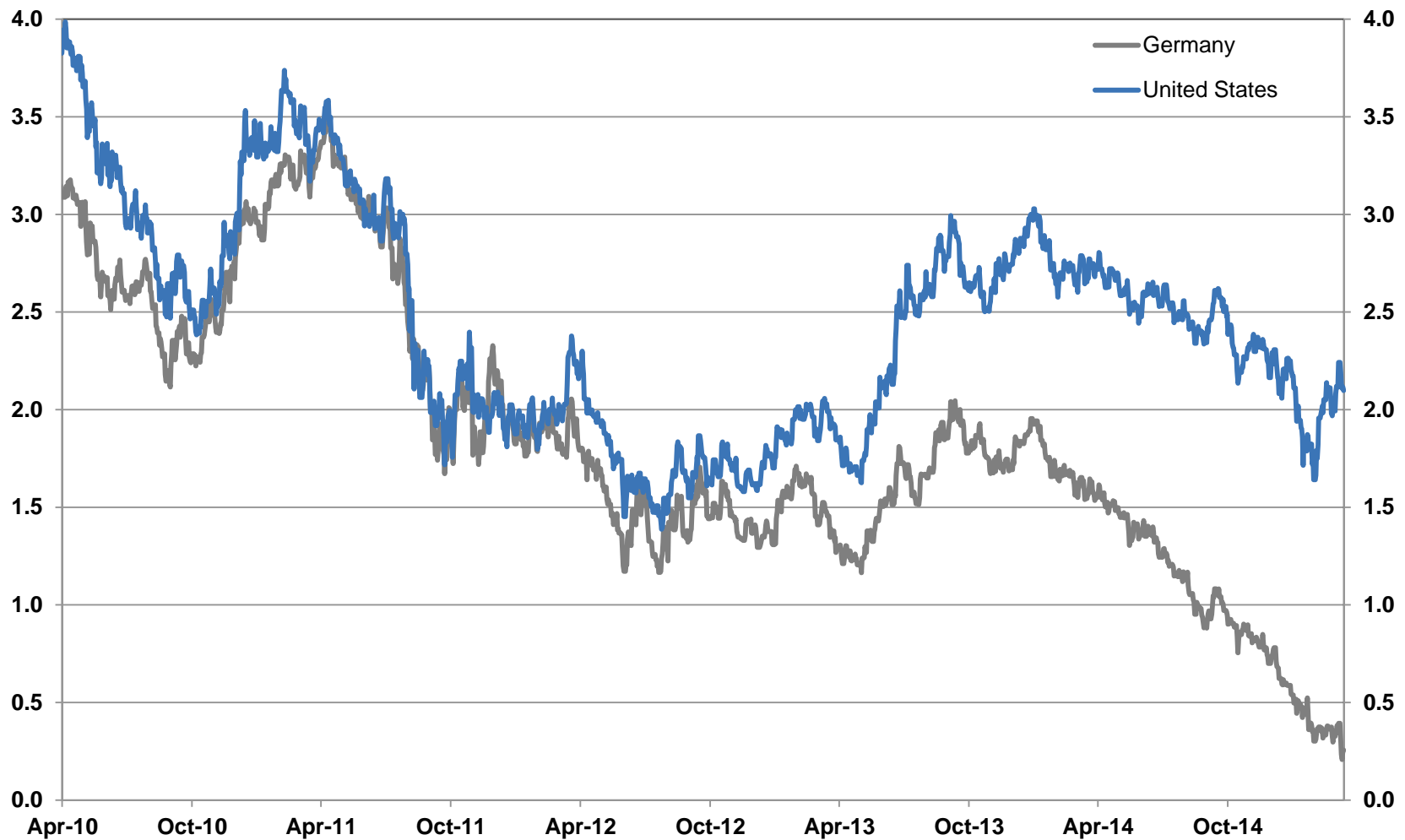
Note: The 10-year yields for Ireland are not available for the entire period.

Swap spread development of different asset classes



Source: iBoxx Indices. Last observation: 12 March 2015

German and US 10-year government bond yields (%)



Source: Bloomberg, last observation 13 March 2015

Useful links

22 January Press release

https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.en.html

Implementation aspects of the PSPP

<https://www.ecb.europa.eu/mopo/liq/html/pspp.en.html>

Q&A 1

<https://www.ecb.europa.eu/home/html/faqassetpurchaseprogramme.en.html>

Q&A 2

<https://www.ecb.europa.eu/mopo/liq/html/pspp-qa.en.html>

Public decision

https://www.ecb.europa.eu/ecb/legal/pdf/en_dec_ecb_2015_10_f_sign.pdf



Thank you for your attention!