Box 2

IMPLEMENTATION OF NEW COLLATERAL RULES AND RESERVE REQUIREMENTS

In its continued efforts to support bank lending and liquidity in the euro area money market and thereby to ensure that the ECB's monetary policy continues to be effectively transmitted to the real economy throughout the euro area, the Governing Council announced additional non-standard measures after its meeting on 8 December 2011.[1] In addition to expanding the offer of refinancing operations, the Governing Council decided, with a view to ensuring a smooth transmission of monetary policy, to temporarily expand the list of collateral eligible for Eurosystem operations, as some banks' access to refinancing operations may be restricted by a lack of eligible collateral.[2] In order to reduce the banking system's need for liquidity and support activity in the euro area money market, the Governing Council decided to temporarily reduce the positive minimum reserve ratio from 2% to 1%.

Expanding the list of eligible collateral supports access to funding

The temporary expansion of the list of eligible collateral announced on 8 December 2011 consisted of two elements. First, the Governing Council decided to reduce the rating threshold for certain types of eligible asset-backed securities.[3] Second, a larger proportion of loans which are not securitised (i.e. credit claims) will be accepted as collateral for Eurosystem operations. In particular, each NCB may, as a temporary solution, authorise their use on the basis of eligibility criteria and a corresponding risk-control framework that have to be approved by the Governing Council. The national dimension of this measure achieves additional risk protection due to the NCBs' in-depth knowledge of the domestic markets for credit claims. It is expected that this measure will facilitate a more uniform transmission of the single monetary policy across the euro area. The responsibility entailed in accepting these "additional performing credit claims" (ACCs) will be borne by the NCB authorising their use. On 9 February the Governing Council approved a first wave consisting of seven ACC frameworks submitted by the Central Bank of Ireland, Banco de España, Banque de France, Banca d'Italia, the Central Bank of Cyprus, Oesterreichische Nationalbank and Banco de Portugal.

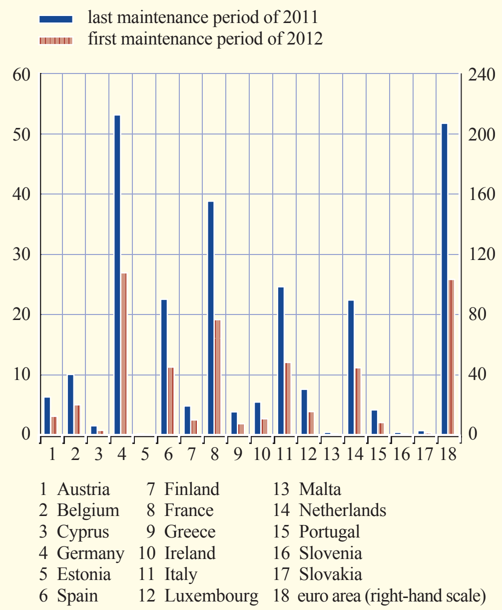
With a view to maintaining consistency between different ACC frameworks and between these frameworks and the Eurosystem risk control framework, the Governing Council also decided that a minimum quality threshold should apply to all ACC frameworks. However, each NCB may decide to set a stricter minimum quality threshold. Furthermore, a minimum haircut schedule has been established for individual credit claims other than those backed by real estate assets. For individual credit claims backed by real estate assets and pools of credit claims, equivalent haircut calibration approaches have been adopted. Haircut schedules ensure risk equivalence for the different types of credit claim submitted across all jurisdictions. In addition, the use and effectiveness of the ACC frameworks will be monitored by the Governing Council on an ongoing basis.

1 See also the box entitled "The impact of the first three-year longer-term refinancing operation" in the January 2012 issue of the Monthly Bulletin and the box entitled "Additional non-standard monetary policy measures decided by the Governing Council on 8 December 2011" in the December 2011 issue of the Monthly Bulletin.
2 The general Eurosystem eligibility criteria for credit claims, as stipulated in the publication entitled "The implementation of monetary policy in the euro area – general documentation on Eurosystem monetary policy instruments and procedures", remain unchanged.
3 For details, see the press release entitled "ECB announces measures to support bank lending and money market activity", ECB, 8 December 2011.

It is expected that, after applying the eligibility criteria and haircut schedules specified in the respective ACC framework, the Central Bank of Ireland, Banco de España, Banque de France, Banca d'Italia, the Central Bank of Cyprus, Oesterreichische Nationalbank and Banco de Portugal will be able to accept ACCs for an estimated aggregate value of around €200 billion. This flexible approach to accepting ACCs will allow a swift expansion of eligible collateral where needed to counter the risk of a more broadly based collateral shortage resulting from persistent financial market tensions. At the same time, maintaining a consistent approach to controlling risk ensures that the Eurosystem's high standards regarding prudence are met.

Comparison of reserve requirements

(EUR billions)



Source: ECB.

A lower reserve ratio reduces the banking system's liquidity needs

The Governing Council also decided to lower the positive minimum reserve ratio from 2% to 1% as of the maintenance period starting on 18 January 2012. This measure implies that the average amount of liquidity that banks need to hold on their current accounts during a maintenance period in order to fulfil their minimum reserve requirements was halved from around €200 billion in aggregate to around €100 billion. The chart shows that reserve requirements decreased proportionally across countries between the last maintenance period of 2011 and the first maintenance period of 2012. The purpose of reducing the minimum reserve requirement is twofold. First and most importantly, it reduces banks' liquidity needs and thereby the amount of collateral that they may need to mobilise in order to achieve the required amount of refinancing with the Eurosystem to satisfy reserve requirements. Second, the measure is also intended to foster money market activity, mainly because it increases the incentives of cash long banks to offer their liquidity to other banks, as they can no longer deposit it with the fully remunerated reserve account.

2.4 BOND MARKETS

Between the turn of the year and early February 2012, AAA-rated long-term euro area government bond yields remained broadly unchanged, while the yields on comparable US government securities increased slightly. Developments in government bond markets over this period appeared to reflect a mix of factors. In the United States, positive market sentiment reflected generally better than expected macroeconomic data. In the euro area, mixed economic and financial news, including the credit rating downgrades of several euro area sovereigns, appear not to have weighed significantly on market sentiment. Uncertainty about future bond market developments, as measured by implied bond market volatility, remains high by historical standards, despite significant moderation over the period under review. Market-based indicators suggest that inflation expectations remain fully consistent with price stability.