Covered Bond Purchase Programme
Initial Experience

Money Market Contact Group
Frankfurt, 1 September 2009
Covered Bond Purchase Programme

- ECB announced on 7 May and subsequently on 4 June and 2 July to implement a covered bond purchase programme to be implemented over a one year horizon starting on the 6 July with a total size of up to EUR 60 billion

- Objectives of the purchases:
  1) easing funding conditions for credit institutions
  2) encouraging credit institutions to maintain and expand their lending to clients
  3) improving market liquidity in an important segment of the private debt securities market.
Covered Bond Purchase Programme

- Eligibility criteria

covered bonds that are:
  - Eligible for monetary policy operations
  - Denominated in euro
  - Issued by credit institutions or other entities incorporated in the euro area
  - Held and settled in the euro area;

are eligible provided they satisfy following requirements:
  - UCITS compliant or offering similar safeguards
  - Minimum issue size of EUR 500 million, with exceptions down to EUR 100 million
  - Covered bond rating of minimum AA
• **Covered Bond purchases so far**

![Covered Bond Purchase Programme](image)

Source: ECB data
 Covered Bond Purchase Programme

- New issuance volume increased significantly since the announcement of the programme

Source: Dealogic
• **Country and maturity structure of new issuances since May**

Euro area jumbo covered bond issuance since May 2009 by country
*(in bn EUR, data until 25 Aug. 2009)*

![Bar chart showing Euro area jumbo covered bond issuance by country](chart1)

Source: Dealogic

Euro area jumbo covered bond issuance since May 2009 by maturity
*(in bn EUR, data until 25 Aug. 2009)*

![Bar chart showing Euro area jumbo covered bond issuance by maturity](chart2)

Source: Dealogic
**Covered Bond Purchase Programme**

- **Spread development against swaps in selected high grade markets**

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**Source:** iBoxx

**Note:** Sub-sovereigns are bonds issued by local governments (e.g. German Bundesländer), guaranteed or issued by entities guaranteed by the governments (e.g. Cades, KfW), public banks (e.g. German Landesbank debt issued before 31 July 2005) or supranational entities (e.g. EIB, World Bank).
Covered Bond Purchase Programme

- Covered Bond Spreads against Swaps

Source: iBoxx
Covered Bond Purchase Programme

- Spread compression since announcement of the programme

Source: iBoxx
Covered Bond Purchase Programme

- Spread compression by maturity bucket since start of the programme

Source: iBoxx
Covered Bond Purchase Programme

Potential issues for discussion:

– Has the CBPP been the main driver of the spread compression or would spreads have narrowed also without the programme?

– How do members assess secondary market liquidity in the covered bond markets?

– How do members view the speed of the Eurosystem’s purchases?

– To which degree did the Eurosystem reach its stated objectives so far?

1) easing funding conditions for credit institutions

2) encouraging credit institutions to maintain and expand their lending to clients

3) improving market liquidity in an important segment of the private debt securities market.