ECB’s Public Sector Purchase Programme (PSPP)

OMCG
Frankfurt, 17 March 2015

The views expressed do not necessarily reflect those of the ECB
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
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 (%)
Useful links

22 January Press release

Implementation aspects of the PSPP

Q&A 1

Q&A 2

Public decision
Thank you for your attention!