The ECB's policy response to the COVID-19 crisis*

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Bond Market Contact Group
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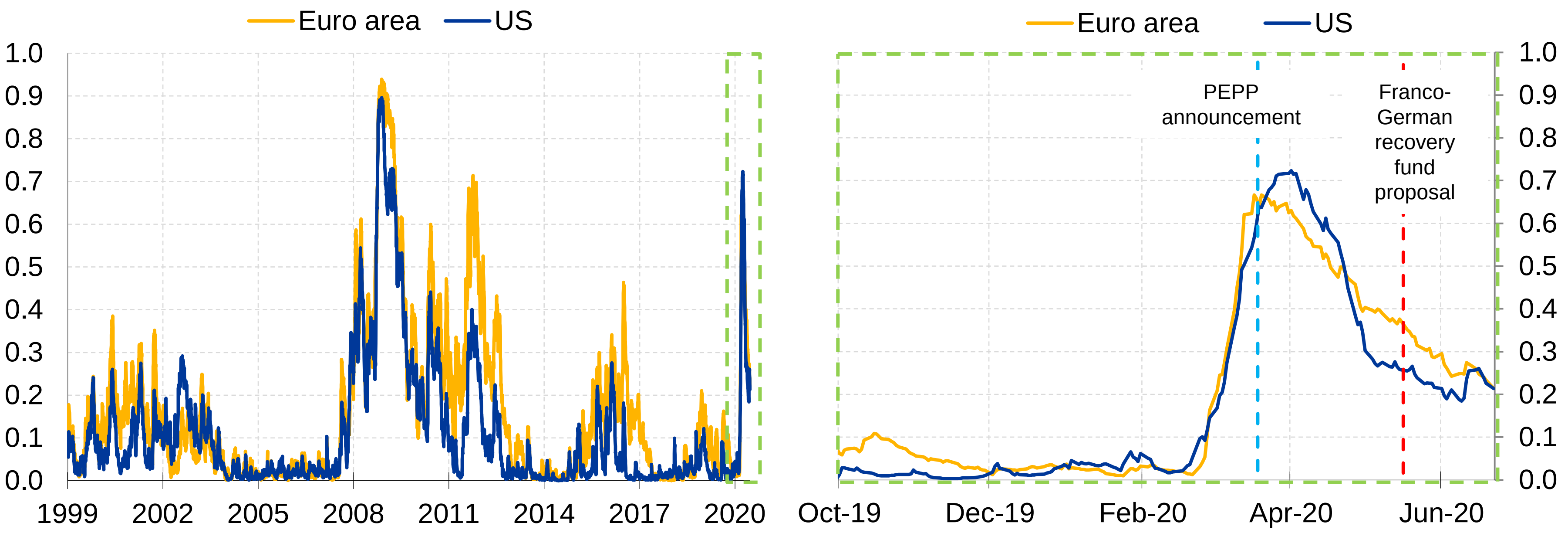
Systemic stress in financial markets gradually receding

CISS indicator

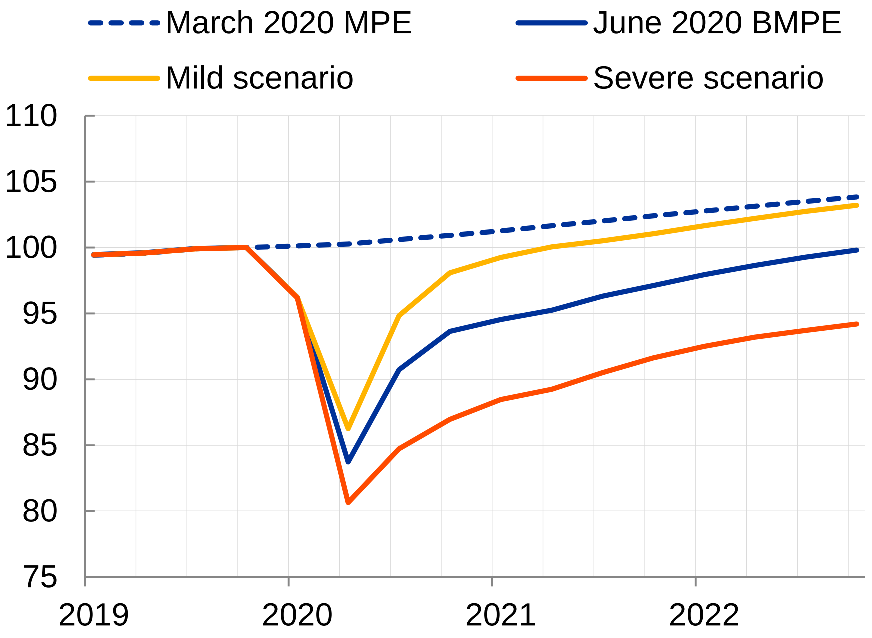


Source: ECB Working Paper No. 1426. Note: CISS stands for Composite Indicator of Systemic Stress (0=No Stress,1=High Stress). It aggregates stress symptoms across money, bond, equity and foreign exchange markets and is computed from time-varying correlations among individual asset returns.
Last observation: 22/06/2020.

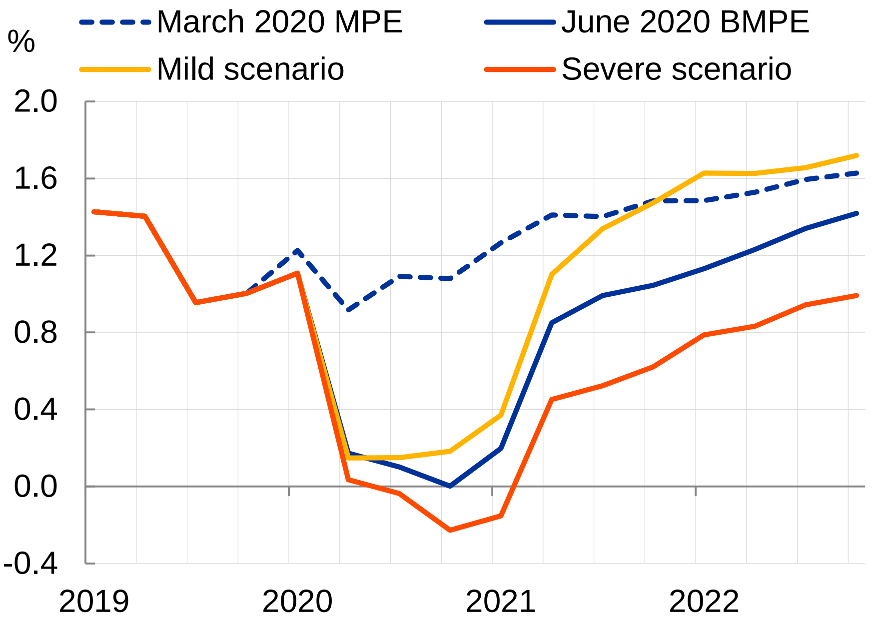
COVID-19 likely to leave lasting scars on euro area economy

Eurosystem staff projections

Real GDP (index: 2019Q4 = 100)



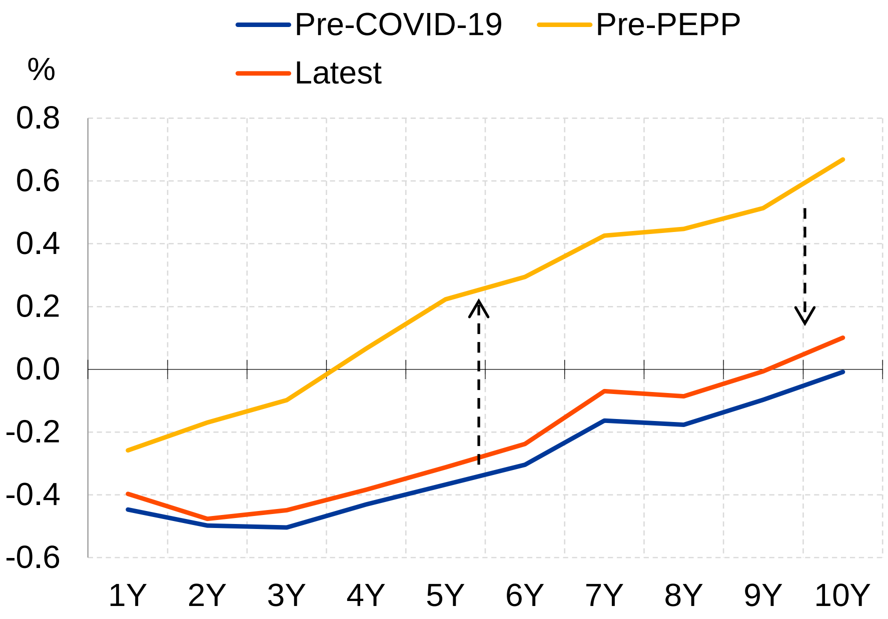
HICP inflation (year-on year)



Source: ECB.

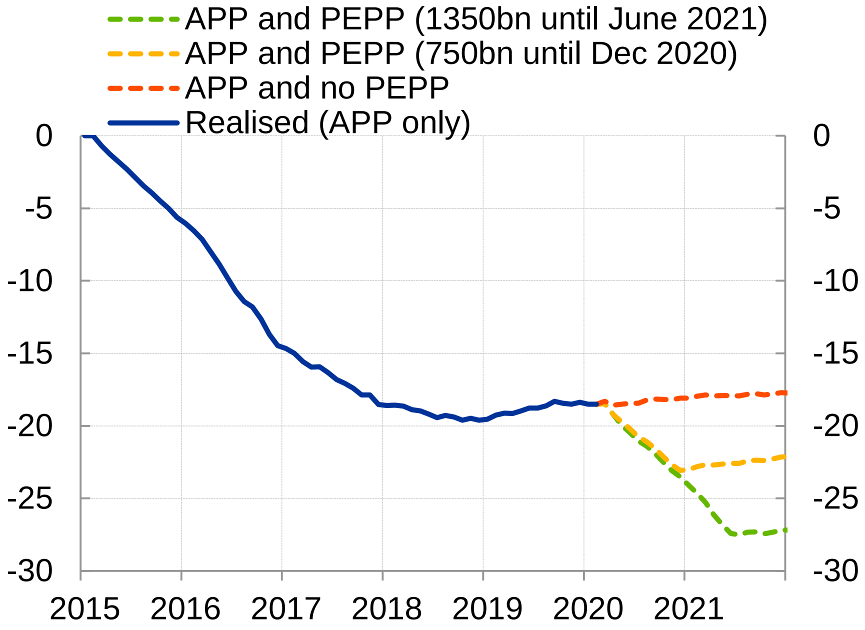
PEPP effective in easing financial conditions by removing duration risk

Euro area GDP-weighted yield curve



Source: ECB. Notes: Pre-COVID-19 refers to 19 February 2020 and pre-PEPP to 18 March 2020. Latest refers to 23 June 2020.

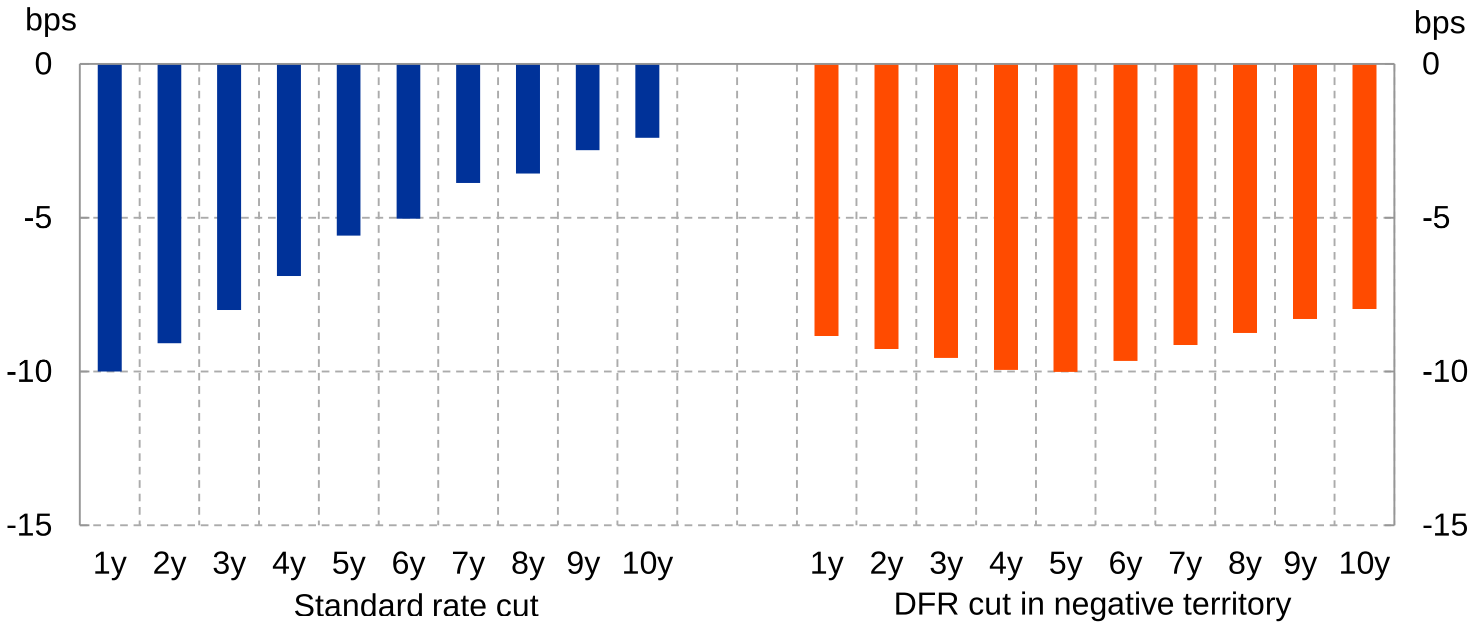
Impact of asset purchases on free-float ratio of the four largest EA countries (percentage points)



Source: ECB. Notes: The figure shows the compression of a free-float measure (based on the ratio of bond holdings of price-sensitive investors to total bond equivalents, as in Eser et al. 2019) induced over time by the successive vintages of the APP and the PEPP.

Strong portfolio rebalancing effects unleashed by negative rates

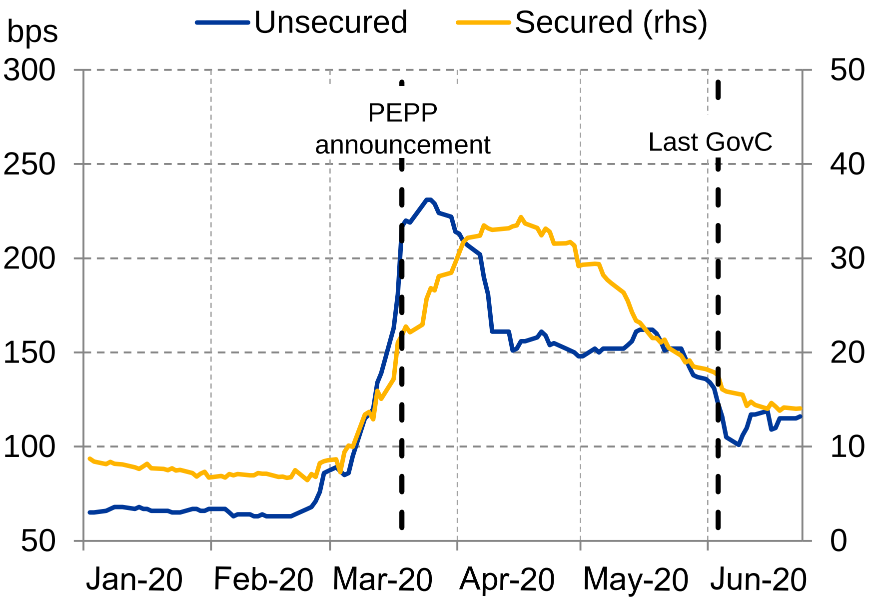
“Footprint” of policy rate cuts across maturity: standard rate cut vs. DFR cut in negative territory



Source: Rostagno, Altavilla, Carboni, Lemke, Motto, Saint-Guilhem and Yiangou (2019). Notes: Term structure refers to OIS. The changes are normalized to a 10 bps decline of the OIS rate at the maturity where the measure exerts the maximum impact, namely 1-year for the standard rate cut and 5-years for the DFR cut

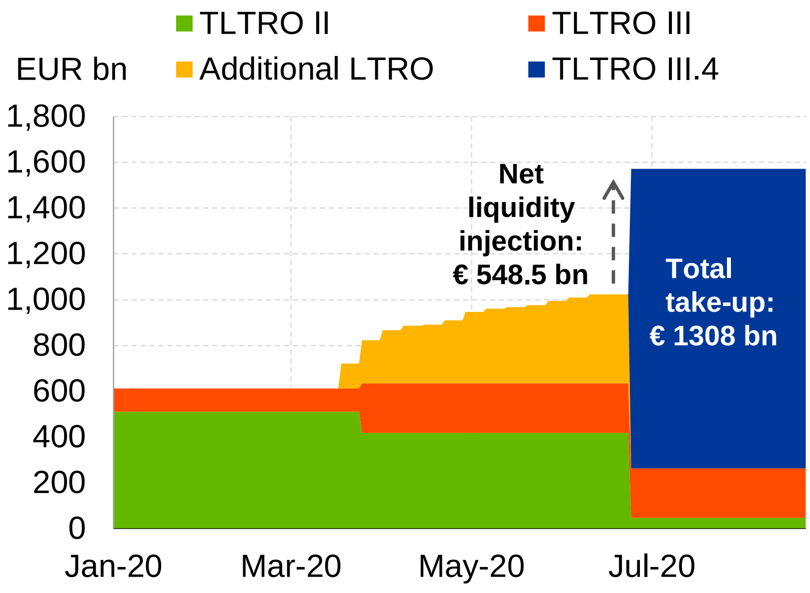
TLTRO III mitigates tighter market-based funding conditions

Euro area bank funding conditions



Source: Bloomberg. Note: Unsecured refers to Iboxx EUR Financials and Secured to Iboxx EUR Covered indices.
Last observation: 23 June 2020.

ECB liquidity-providing operations



Source: ECB. Notes: TLTRO III refers to the sum of TLTRO III.1, III.2 and III.3.

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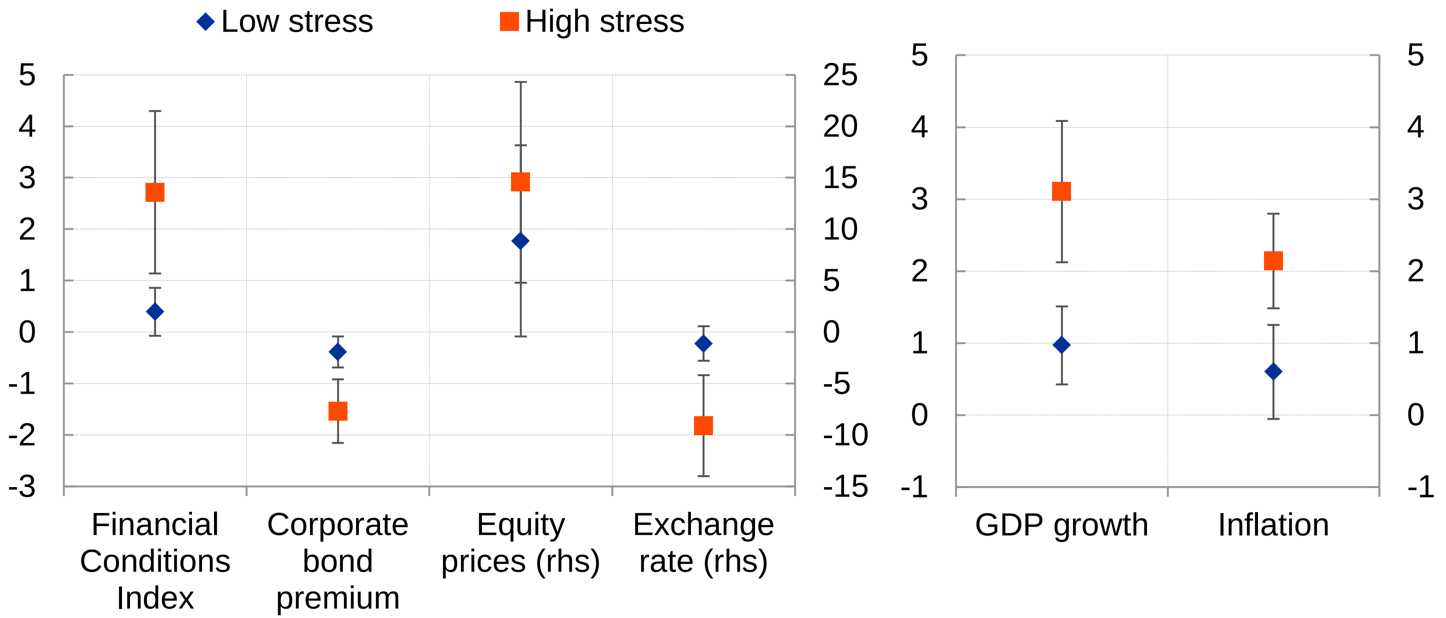
Asset purchases more effective in periods of market stress

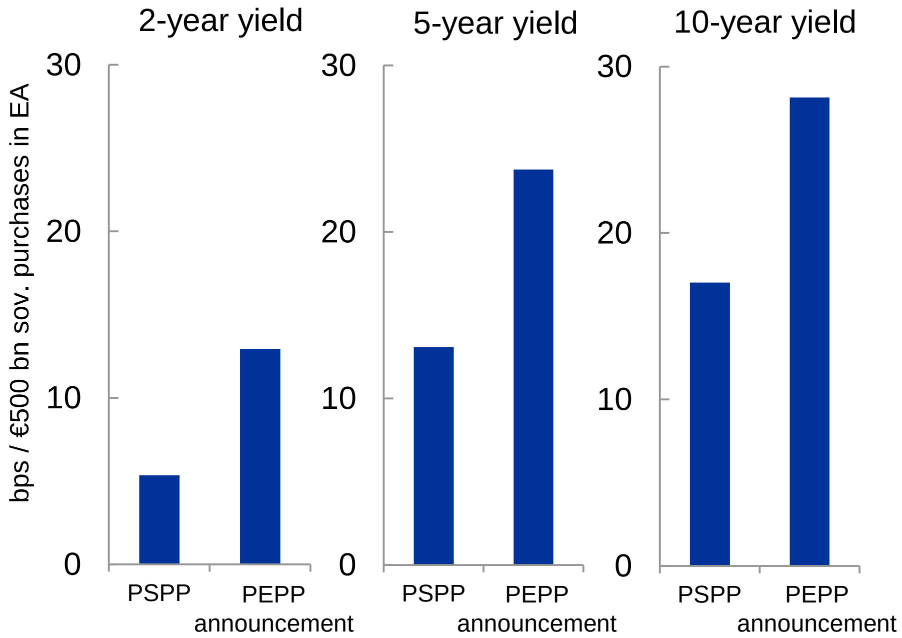
Impact of asset purchases during low and high market stress: the US experience



Source: Motto, Rast and Ristiniemi (2020), mimeo.
Notes: Local projections on monthly sample (2008-2019). Low stress events refer to periods when the VIX is below 25. IRFs scaled to a 50bp decline in 10-year yield on impact. Markers denote point estimates, error bars 68% significance bands.

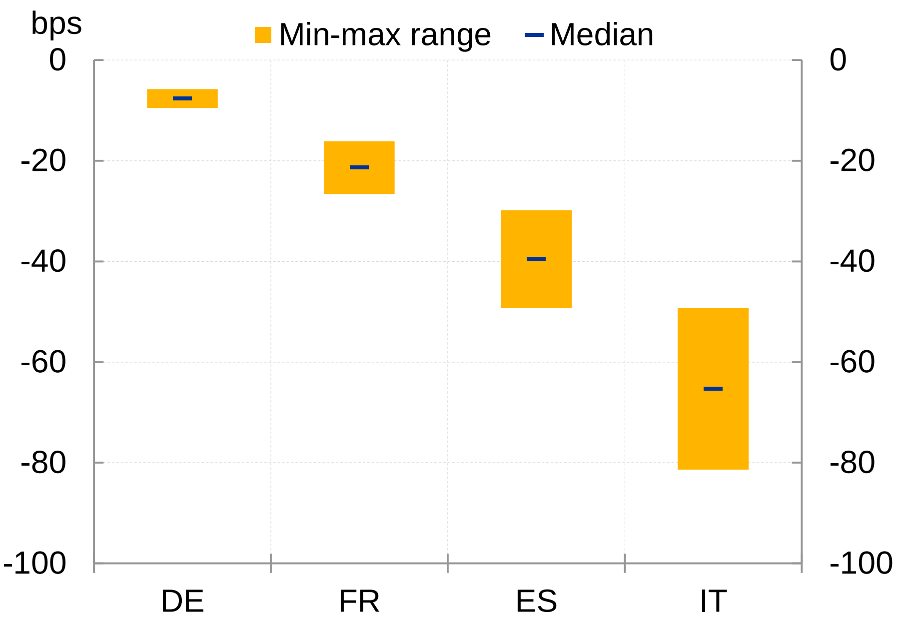
PEPP: highly effective and mitigating fragmentation

GDP-weighted average sovereign yield elasticities



Sources: Refinitiv, ECB calculations. Notes: PEPP estimates derived from an event study based on a two-day window after 18 March. PSPP estimates based on Eser et al. (2019). Elasticities refer to the change in (GDP-weighted) yields of the Big4 EA countries in response to €500bn of sovereign bond purchases in the euro area. No reinvestment assumed.

Estimated impact of PEPP envelope on 10-year sovereign yields across the four largest EA countries



Sources: Refinitiv, ECB calculations. Notes: The bigger impact corresponds to the 2-day reaction of yields to the PEPP announcement in March 2020. The smaller impact (upper part of the boxes) is based on the model by Eser et al. (2019) which uses PEPP-implied projected duration extraction to estimate the impact on GDP-weighted Big4 sovereign yields. This average yield impact is then distributed to country level by assuming the same relative impacts as for the event approach.

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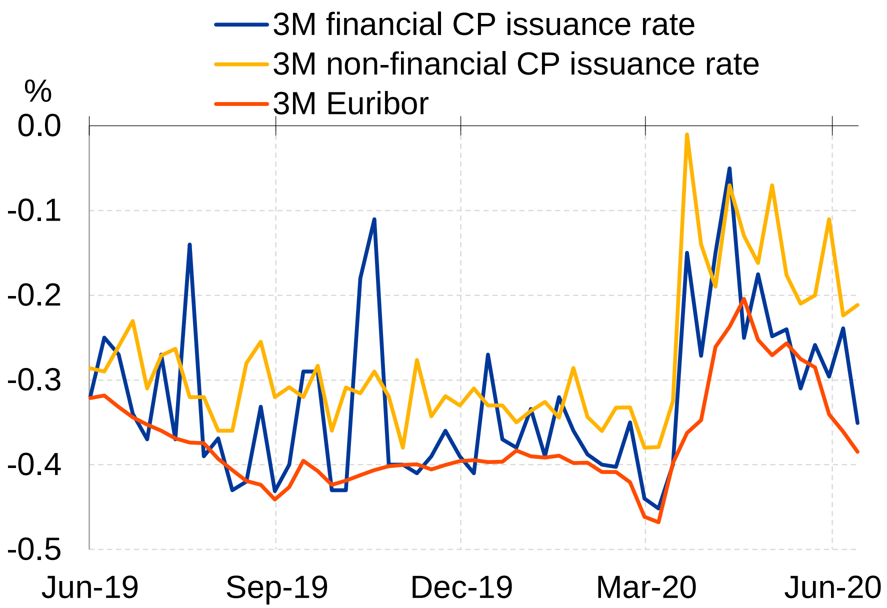
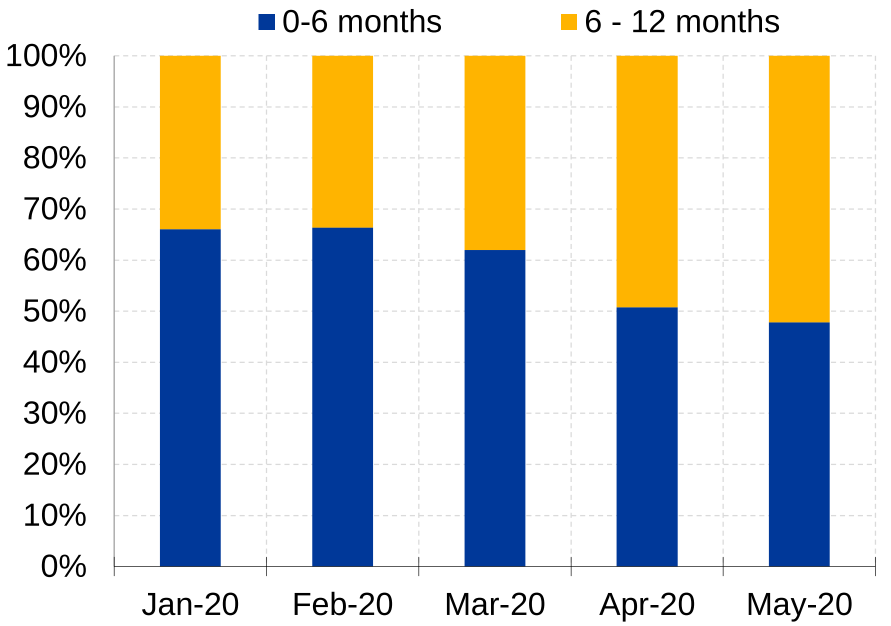
Declining rates on non-financial commercial paper, longer tenors supported by Eurosystem purchases

Commercial paper rates and Euribor



Source: NEU Banque de France
Note: Issuance of investment grade (short-term rating) CP under French law, weekly data.
Last observation: 19 June 2020.

Commercial paper: outstanding amounts by maturity



Sources: CSDB and ECB calculations. Notes: Non-financial corporate issuers as per CSDB issuer classification. Last observation: May 2020.

Thank you