

2 The ECB's corporate sector purchase programme: its implementation and impact

8 June 2017 marked the first anniversary of the start of the corporate sector purchase programme (CSPP)⁹. The CSPP is part of the Eurosystem's expanded asset purchase programme (APP) and was introduced with the aim of strengthening the pass-through of the Eurosystem's asset purchases to financing conditions of the real economy.

The universe of CSPP-eligible bonds is deliberately broad and its composition is primarily guided by monetary policy and risk management considerations.

In pursuing its objective of maintaining price stability, the ECB is mandated to act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources. Consequently, the ECB aims for a market-neutral implementation of the APP, and therefore CSPP purchases are conducted according to a benchmark that reflects proportionally the market value of eligible bonds.¹⁰

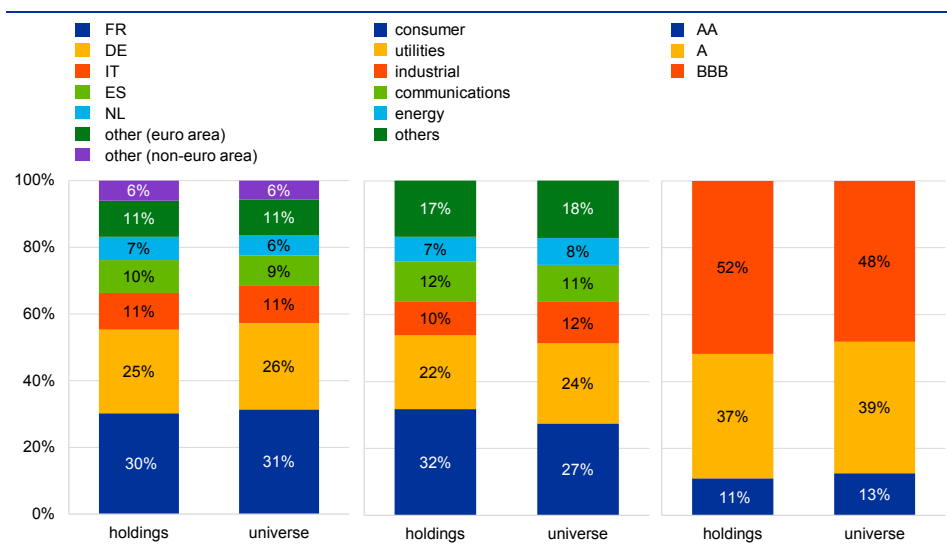
The composition of CSPP holdings generally mirrors that of the CSPP-eligible bond universe. CSPP holdings stood at €92 billion as at 7 June 2017, corresponding to around 11% of the CSPP-eligible bond universe. Holdings are well diversified over around 950 securities issued by around 200 issuer groups. The breakdown of CSPP holdings by country of risk follows that of the CSPP-eligible bond universe very closely (see Chart A). Nor are there any major deviations between CSPP holdings and their respective shares in the CSPP-eligible universe in terms of sectors of economic activity or rating groups. 12% of CSPP holdings were purchased at negative yields, but above the level of the deposit facility rate.

⁹ For an initial analysis of the impact of the CSPP, see the box entitled "The corporate bond market and the ECB's corporate sector purchase programme", *Economic Bulletin*, Issue 5, ECB, August 2016.

¹⁰ The ECB purchases securities issued by non-bank corporations incorporated in the euro area, in both the primary and the secondary markets. To be eligible for purchase, securities must be eligible as collateral for Eurosystem credit operations. For more details on the programme design and eligibility criteria, see Decision (EU) 2016/948 of the European Central Bank of 1 June 2016 on the implementation of the corporate sector purchase programme (ECB/2016/16) (OJ L 157, 15.6.2016, p. 28).

Chart A

Country, sector and rating classification of CSPP holdings and CSPP-eligible bond universe



Sources: ECB, Bloomberg.

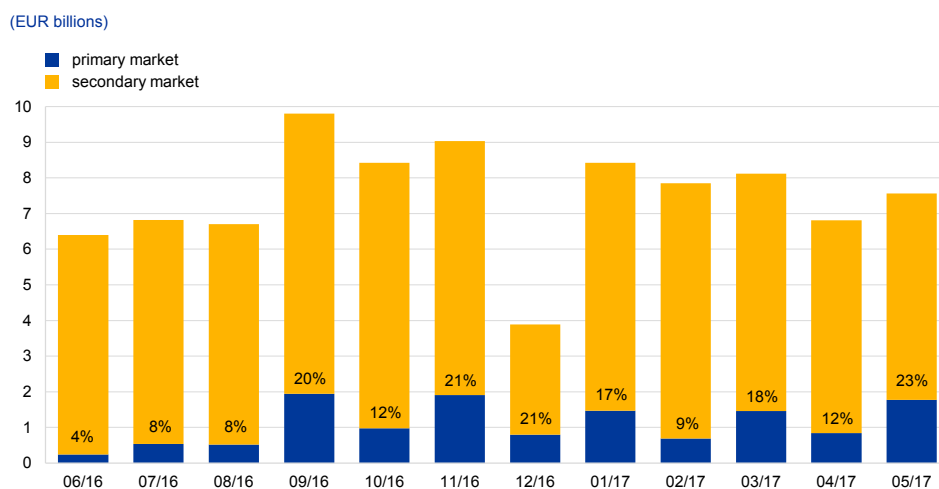
Notes: Bloomberg country of risk classification, sector classification and first-best ratings (broad categories) are used. The distribution is according to nominal values.

To ensure the effectiveness of monetary policy while maintaining a level playing field for all market participants and avoiding undue market distortions, there is no positive or negative discrimination in the CSPP-eligible bond universe on the basis of environmental or social criteria. While the ECB shares the view that an awareness of environmental issues, together with ethical and socially responsible behaviour, are important for society, it is nevertheless up to political decision-makers (in the first instance) to agree on, define and promote appropriate policies and measures. It is not, however, possible to embed these into a large-scale asset purchase programme that is carried out as a temporary monetary policy measure over a relatively short period of time. To do so would limit the effectiveness of the APP in its contribution to fulfilling the ECB's mandate of maintaining price stability. It is worth noting that a number of assets classified as "green bonds" are eligible for the CSPP and have also been purchased by the Eurosystem. The holdings of these bonds are broadly in line with their weightings in the benchmark.

The pace of purchases under the CSPP depends on prevailing market conditions. Monthly net purchases during the period from June 2016 to May 2017 (inclusive) have ranged between just below €4 billion and just below €10 billion (see Chart B). Purchases were particularly low ahead of the year-end, which is a period typically characterised by negligible bond issuance and low secondary market liquidity.

Chart B

CSPP monthly net purchases according to transaction method

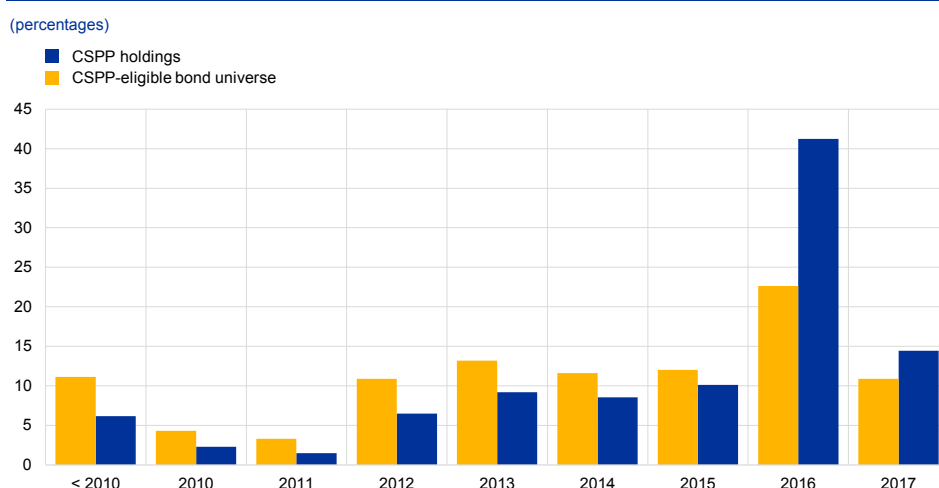


Sources: ECB, Bloomberg.
Note: The distribution is based on book values.

Purchases under the CSPP are made in both the primary and the secondary markets; since its inception 15% of CSPP holdings have been purchased in the primary market. Owing to these primary market purchases and to better liquidity in newly issued bonds, CSPP holdings tend to be skewed towards bonds issued more recently; more than half are in bonds issued in 2016 and 2017 (see Chart C). Investor demand for CSPP-eligible corporate bond issuances was, on average, around three times higher than the issued amount. Issuers generally treat the Eurosystem similarly to most other investors in terms of final allocations.

Chart C

CSPP holdings according to year of issuance



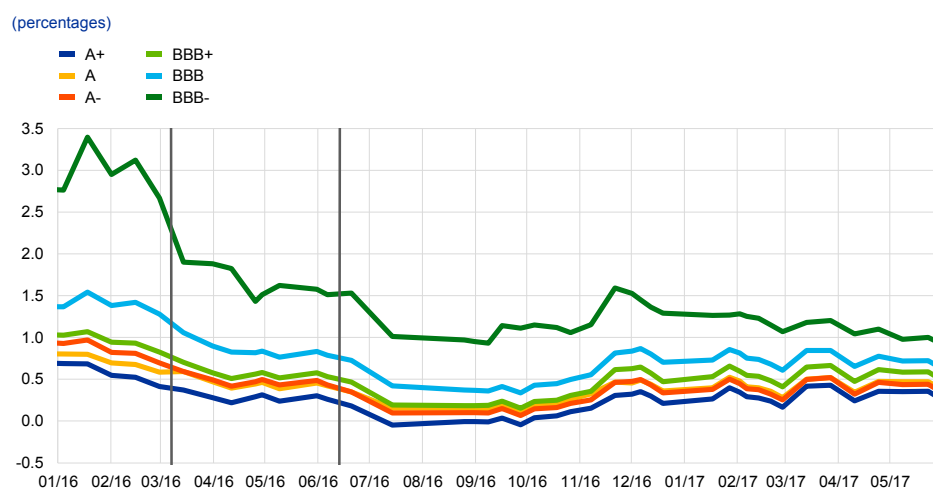
Sources: ECB, Bloomberg.
Note: The distribution is based on nominal values. Data for the year 2017 cover purchases of bonds settled during the period from 1 January until 7 June.

The corporate bond market has developed positively since the announcement of the CSPP in March 2016. The announcement had a measurable effect at the

time on secondary market pricing in the corporate bond market¹¹. Euro area corporate bond yields continued to decline in the period following the announcement until the autumn of 2016 (see Chart D), when they again increased amid an expansion in the supply of new bonds and a rise in risk premia globally. Since the beginning of 2017, euro area corporate bond yields have declined overall amid relatively low volatility. Market liquidity conditions remain generally favourable for CSPP bond purchases by the Eurosystem.

Chart D

5-year yields on CSPP-eligible bonds according to rating classification



Sources: ECB, Bloomberg.

Notes: Bi-weekly data are used. The vertical lines mark the announcement of the CSPP on 10 March 2016 and the beginning of purchases under the CSPP on 8 June 2016. The 5-year constant maturity yields are based on estimated yield curves for portfolios of CSPP-eligible bonds using a first-best credit rating.

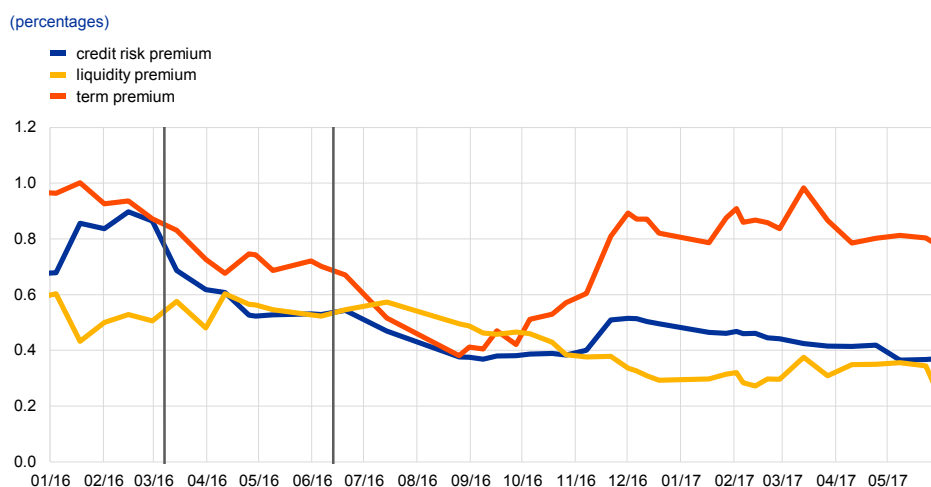
Risk premia in the CSPP-eligible bond market have been contained and have shown resilience to shocks. The credit premium has been in almost continuous decline since the CSPP announcement (see Chart E); according to feedback from market participants, this reflects (among other factors) investor appetite for bonds issued by lower-rated companies. Market participants also note that, as a consequence of the CSPP, investors are rebalancing their portfolios to favour more risky non-eligible assets or to adjust the geographical distribution to holdings outside the euro area. The term premium also declined throughout most of 2016, before increasing again in the fourth quarter of that year. According to market participants, some investors are becoming less willing to assume exposure to term risk in the corporate bond market, in anticipation of a possible global rise in interest rates. The liquidity premium has been on a slight downward trend since the start of the CSPP; this is a positive sign of a well-functioning market¹².

¹¹ For an initial analysis of the impact of the CSPP, see the box entitled “The corporate bond market and the ECB’s corporate sector purchase programme”, *Economic Bulletin*, Issue 5, ECB, August 2016.

¹² This compression took place even though CSPP purchases have been skewed towards bonds with larger amounts outstanding – which are typically more liquid than those with smaller amounts outstanding – and therefore more frequently offered to the Eurosystem.

Chart E

Pricing of credit, liquidity and term differences in the CSPP bond market



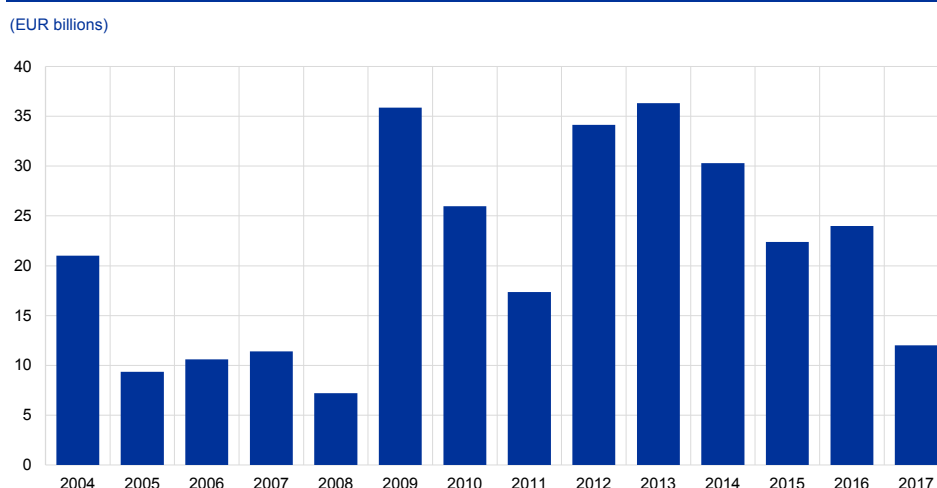
Source: ECB, Bloomberg.

Notes: Bi-weekly data are used. The vertical lines mark the announcement of the CSPP on 10 March 2016 and the beginning of purchases under the CSPP on 8 June 2016. The credit premium is proxied by the yield spread between 5-year A+ rated and BBB rated CSPP-eligible corporate bonds. The term premium is proxied by the average slope (7-year minus 2-year) of the yield curves for portfolios of CSPP-eligible A-, A and A+ rated corporate bonds. The liquidity premium is proxied by the difference between estimated 5-year yields on two portfolios of BBB+ rated CSPP-eligible corporate bonds: one containing bonds with amounts outstanding below €300 million and one with outstanding amounts above €500 million (the latter are considered in the euro area corporate bond market as benchmark bonds).

Financing conditions for corporations have improved. Market participants mention the CSPP as a factor that has supported the ability of companies to issue bonds and deepened the corporate bond market. However, the CSPP does not appear to have directly triggered an increase in issuance by new or infrequent euro area issuers (see Chart F).

Chart F

Bond issuance by infrequent euro area non-financial corporate bond issuers



Source: Dealogic.

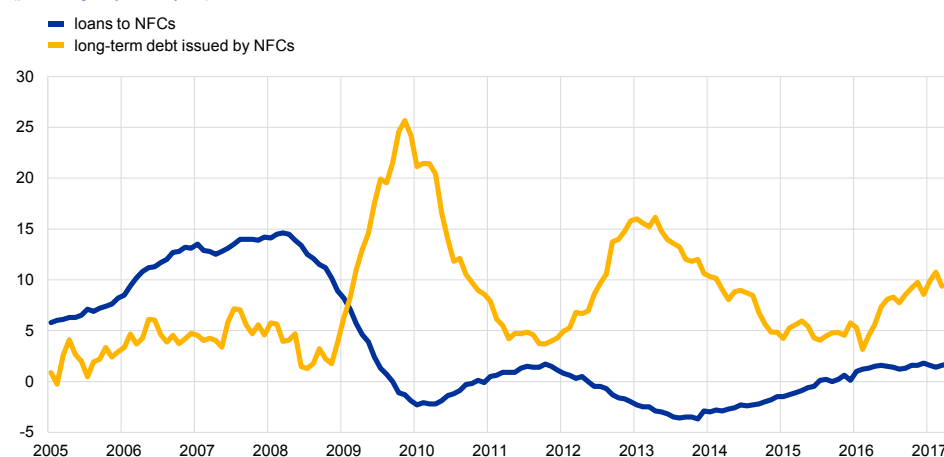
Notes: Infrequent euro area non-financial corporate bond issuers are defined as companies that have not issued bonds within the previous five calendar years. Data for 2017 cover the period from 1 January until 7 June. Data include all rated and non-rated euro area non-financial companies issuing in euro.

The annual growth rate of corporate bond issuance has generally increased since spring 2016 and reached around 10% in the first months of 2017. Bond issuance by euro area non-financial companies (NFCs) increased particularly during the period from 2009 to 2010 and in 2013, when it served as a substitute for bank loans against the background of a decline in lending activity by banks to NFCs. Recent growth in issuance, by contrast, has taken place amid an increase in bank loans and has therefore complemented bank lending in supporting corporate sector financing (see Chart G).

Chart G

Changes in sources of financing for euro area non-financial companies (NFCs)

(percentages; year-on-year)



Source: ECB.

Note: The data include debt issuance and loans denominated in euro to all euro area NFCs covered by the ECB securities statistics and statistics from MFIs (monetary financial institutions). The latest observation for the ECB securities statistics is March 2017 and the latest observation for the statistics from MFIs is April 2017.

The CSPP has also benefited companies which do not rely on capital markets for their financing. This is particularly so in the case of small and medium-sized enterprises (SMEs), since favourable bond market conditions have resulted in positive spill-over effects which have supported bank lending through various channels. For example, when large corporations increasingly finance themselves through bond issuances (rather than bank loans) this releases capacity in the balance sheets of banks for potential lending to SMEs. The results of the Survey on the Access to Finance of Enterprises in the euro area – October 2016 to March 2017 confirm that SMEs continued to benefit from the increased availability of bank loans at lower interest rates than reported in the previous survey.