

ADDITIONAL NON-STANDARD MONETARY POLICY MEASURES DECIDED BY THE GOVERNING COUNCIL ON 8 DECEMBER 2011

On 8 December 2011 the Governing Council of the ECB decided on several measures to prevent adverse effects on the monetary policy transmission mechanism stemming from the ongoing tensions in parts of the euro area financial markets. These tensions have the potential to hamper the monetary policy transmission mechanism of the Eurosystem and, hence, its ability to maintain price stability in the euro area. These measures are not intended to affect the monetary policy stance.

In particular, the Governing Council decided to expand its offer of refinancing operations by conducting two refinancing operations with a maturity of 36 months, to support the supply of credit to the euro area economy. This measure addresses the risk that persistent financial market tensions could affect the capacity of euro area banks to obtain refinancing over longer horizons. Through these operations, the Eurosystem will ensure that banks continue to have access to stable funding with longer maturities. This will provide essential support to lending activity by limiting the impact on euro area banks of the difficult conditions in funding markets. Additionally, after one year banks will have the option to repay outstanding amounts received in these operations, which gives them a high degree of flexibility, facilitating their liability management.

The Governing Council also announced a temporary expansion of the list of collateral with regard to securities, as well as the intention to enhance the use of eligible credit claims (i.e. bank loans) as collateral in Eurosystem operations. These measures also aim to support bank lending, by increasing the amount of assets on euro area banks' balance sheets that can be used to obtain central bank refinancing. Expanding the list of collateral helps to enhance the reach of the fixed rate tender procedure with full allotment (including in the additional longer-term refinancing operations), limiting the impact of the financial market tensions on access to central bank refinancing. The list of collateral is expanded to include securities backed by loans to the real economy, as well as loans which are not securitised (asset-backed securities and credit claims respectively). This enables euro area banks to more readily access Eurosystem refinancing using assets directly related to their lending activity.

In the case of credit claims, the Governing Council decided to temporarily accept as collateral credit claims which are assessed at the national level as eligible. Although the vast majority of euro area banks currently do not face collateral shortages, this measure allows for a swift expansion of collateral, as a precaution, in order to counter the risk of a more broad-based collateral shortage resulting from persistent financial market tensions. National central banks will apply certain eligibility criteria in their evaluation of credit claims. The Governing Council would welcome the wider use of credit claims as collateral in Eurosystem operations on the basis of harmonised criteria. To this end, the Eurosystem aims to enhance its internal credit assessment capabilities and encourages potential external credit assessment providers, as well as commercial banks using an internal ratings-based system, to seek endorsement under the Eurosystem Credit Assessment Framework.

The Governing Council also decided on measures aimed at fostering money market activity. The proper functioning of euro area money markets is essential to ensure that monetary policy

impulses are transmitted via the banking system to the euro area economy. Accordingly, it decided to discontinue the fine-tuning operations carried out at the end of maintenance periods. These operations, which, in a situation of balanced liquidity conditions, help to limit the volatility of short-term money market rates, especially on the last day of a maintenance period, are not needed under the current circumstances, given that there is excess liquidity in aggregate terms. The Governing Council also decided to temporarily reduce the reserve ratio from 2% to 1% in order to increase incentives for market participants to engage in money market transactions, as this increases the cost to banks of holding liquidity buffers, which are an alternative to money market trades for smoothing out intra-maintenance period liquidity shocks. In this context, it should be noted that reserve requirements are technically not needed in an environment of excess liquidity. This measure also increases the collateral available to banks, as it reduces their liquidity needs vis-à-vis the Eurosystem and thereby the amount of collateral that needs to be posted.

In the view of the Governing Council, these measures are essential to safeguard the effectiveness of the monetary policy transmission mechanism. In particular, they will help to remove impediments to access to finance in the economy stemming from spillovers from the sovereign debt crisis to banks' funding markets and to asset valuation. The measures will thereby help to ensure continued access to finance for households, non-financial corporations and financial intermediaries at favourable conditions, thus contributing to maintaining price stability over the medium term in the euro area.