European Central Bank launches Emergency Bond-Buying Programme as a Response to the Coronavirus Pandemic

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The European Central Bank has launched a EUR 750 billion bond purchase programme designed to mitigate the enormous economic and financial risks to the Eurozone caused by the coronavirus pandemic. The creation of the "Pandemic Emergency Purchase Programme" is an unprecedented step, in European monetary integration terms, to pump money into the European capital markets, which have been deeply affected by the turmoil.

Introduction

On 18 March 2020, the European Central Bank (ECB) announced the launch of a **Pandemic Emergency Purchase Programme (PEPP)**, covering both **private and public sector securities**, in an attempt to stabilise the monetary policy transmission mechanism in response to the negative forecast for the Eurozone caused by the outbreak and expansion of the coronavirus pandemic (COVID-19) throughout the European Union.

The launch of the PEPP came as the Bank of England announced plans to purchase GBP 200 billion of government and corporate debt and the Federal Reserve in the United States announced plans for a USD 700 billon bond-buying program to support the US municipal bond market. In Asia, the Bank of Japan has also launched a JPY 1.3 trillion (USD 11.7 billion) emergency bond purchase program. The measures introduced across the world all seek to mitigate the negative economic consequences of and to shield the international capital markets from the adverse impact of COVID-19, bearing a striking resemblance to the measures adopted during the previous global financial crisis.

The PEPP Explained

The ECB intends to purchase bonds issued by corporates and countries within the Eurozone without limiting eligibility to specific corporate entities or member states, similar to the purchase programme implemented during the previous financial crisis.

The PEPP has an overall envelope of EUR 750 billion and any purchases made under the scheme will be separate from, and in addition to, purchases carried out under the **existing asset purchase programme (APP)** currently in place, which in turn comprises four separate programmes: the corporate sector purchase programme (**CSPP**), public sector purchase programme (**PSPP**), asset backed securities purchase programme (**ABSPP**) and the third covered bond purchase programme (**CBPP3**).

Purchases of bonds under the PEPP will be subject to eligibility criteria based on the asset categories already eligible under the APP. In line with the APP principle of market neutrality, the new PEPP does not include any "green" criteria. The PEPP also contains additional categories of purchasable securities, designed to broaden its scope beyond that of the APP (see "PEPP Specifics" and "Overview" below).

The ECB, in its announcement of the programme, stressed the PEPP's temporary nature. The ECB has the power to terminate the PEPP once its Governing Council considers that the current crisis phase of the epidemic is over, however this is not intended to be before the end of 2020.

PEPP Specifics

Alongside the launch of the PEPP, the ECB has also expanded the range of eligible assets under the existing CSPP to non-financial commercial paper, which makes all commercial paper issued by e.g. industrial companies and of sufficient credit quality, corresponding to at least credit quality step 3 (DBRS: BBBL / Fitch: BBB- / Moody's: Baa3 / S&P: BBB-), eligible for purchase under the CSPP. Further flexibility is provided by lowering minimum remaining maturities for issued instruments to as low as 28 days. These two important changes to the CSPP also apply to the new PEPP.

In relation to purchases of public sector securities, the benchmark allocation across jurisdictions will continue to be the capital key of the national central banks, as is the case under the existing PSPP. However, the Governing Council noted that purchases under the PEPP will be conducted in a flexible manner, allowing for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions given the current uncertain circumstances. For example, public sector marketable debt securities with remaining maturities shorter than one year can be purchased under the PEPP if they have a minimum remaining maturity of at least 70 days. The high degree of flexibility in the design and implementation of the PEPP is notable given its departure from the approach in the current APP, but necessary given the rapidly evolving and uncertain markets.

Interestingly, the ECB's announcement of the PEPP also contained a statement about the possibility of revising its "self-imposed limits", if deemed necessary to fulfil its mandate of supporting the economy through the COVID-19 crisis. This no doubt raises questions about the ECB's existing capital key limitations: at present, the APP allows the ECB to purchase a maximum of 33 per cent. of a government's outstanding debt (an "Issuer limitation") and no more than 33 per cent. of a particular bond issue (an "Issue limitation"). In showing its willingness to re-assess the limits currently binding on the ECB, the Governing Council demonstrated its commitment to exploring all options and contingencies to ensure that the ECB will be able to continue to buy bonds even when existing thresholds may be breached.

The ECB's decision also waived the existing eligibility requirements for securities issued by the Greek government. Greek government securities will now be eligible for purchase only under the PEPP, irrespective of whether they comply with the credit quality requirements which apply to the PSPP, provided they comply with certain other PSPP criteria.

Last but not least, asset backed securities and covered bonds are also eligible under the PEPP but there are no noteworthy changes in relation to the existing eligibility criteria applicable to the ABSPP and CBPP3 respectively.

Conclusion

COVID-19 has been characterised by the World Health Organization as a pandemic and is the cause of a collective public health emergency which is unprecedented in recent history. The resulting economic fallout has put a massive strain on families, businesses and governments, and this looks set to continue as more countries are required to intensify their containment measures.

Against this background, the PEPP is a measure which the ECB considers "proportionate to counter the serious risks to price stability, the monetary policy transmission mechanism and the economic outlook in the euro area, which are posed by the outbreak and escalating diffusion of COVID-19". As central banks globally step up with extraordinary measures to fight the crisis, it remains to be seen how effective the measures are in supporting the international capital markets at a time of extraordinary uncertainty.

Overview

Existing Asset Purchase Programme (APP)	Assets Eligible for Purchase	Recent Amendments	New Pandemic Emergency Purchase Programme (PEPP)
The corporate sector purchase programme (CSPP)	Marketable debt instruments issued by corporations which comply with the criteria for marketable assets for Eurosystem credit operations, as a minimum, with a credit quality requirement.	**18 March 2020**: Extended to non-financial commercial paper. All commercial paper is eligible, but only with sufficient credit quality. **24 March 2020**: • For marketable debt instruments with initial maturity of 365/366 days or less, minimum remaining maturity of **28 days** at the time of purchase. • For marketable debt instruments with initial maturity of 367 days or more, minimum remaining maturity of **6 months** at the time of purchase.	• Corporate sector covered? Yes. • What's new/additional under the PEPP? N/A (same criteria generally apply)
The public sector purchase programme (PSPP)	Euro-denominated marketable debt securities issued by (i) central, regional or local governments of a Member State whose currency is the euro, (ii) recognised agencies, and (iii) international organisations and multilateral development banks, each located in the euro area, that meet eligibility criteria, in particular the minimum rating requirement as stated in Decision (EU) 2015/774, i.e. a minimum rating of at least credit quality step 3.	N/A	• Public sector covered? Yes. • What's new/additional under the PEPP? All Euro-denominated marketable debt securities issued by the government of the Hellenic Republic are eligible irrespective of whether they comply with the minimum rating requirement applicable to the PSPP, provided that the other PSPP criteria are satisfied. Minimum remaining maturity of **70 days** at the time of purchase.

Existing Asset Purchase Programme (APP)	Assets Eligible for Purchase	Recent Amendments	New Pandemic Emergency Purchase Programme (PEPP)
The asset-backed securities purchase programme (ABSPP) -	Asset-Backed Securities that are eligible as collateral for the Eurosystem and in relation to which the ECB conducts a credit assessment and due diligence and takes into account their outcome.	N/A	• ABS covered? Yes. • What's new/additional under the PEPP? N/A (same criteria generally apply)
The third covered bond purchase programme (CBPP3) -	Covered bonds that are covered assets for monetary policy operations, fulfilling the conditions for their acceptance as own-used collateral, issued by credit institutions incorporated in the euro area.	N/A	• Covered Bonds covered? Yes. • What's new/additional under the PEPP? N/A (same criteria generally apply)

The pandemic emergency purchase programme Questions & Answers summary was published recently.

Reference is also made to our publication relating to the Covid Corporate Financing Facility of the Bank of England which can be accessed via the following Link.

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