EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE
President

Ms Eleonora Evi
Ms Rosa D'Amato
Mr Ignazio Corrao
Mr Piernicola Pedicini
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 30 October 2020

L/CL/20/259

Re: Your letter (QZ-051)

Honourable Members of the European Parliament,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 13 August 2020.

The corporate sector purchase programme (CSPP) is part of the Eurosystem's asset purchase programme (APP) as well as the pandemic emergency purchase programme (PEPP). The CSPP was initially introduced with the aim of strengthening the pass-through of the Eurosystem's asset purchases to financing conditions of the real economy.[1] The eligibility of assets for purchases under the CSPP is guided by our monetary policy objective, taking into account appropriate financial risk management considerations. To ensure the effectiveness of monetary policy the range of bonds eligible for the CSPP is deliberately broad. As explained in the past, the diverse composition of the CSPP holdings mirrors that of the CSPP-eligible bond universe. Under the CSPP, the Eurosystem does purchase bonds issued by a number of euro area based companies whose ultimate parent company resides outside the euro area. Many of these companies have a

[1] See the box entitled "The ECB's corporate sector purchase programme: its implementation and impact", *Economic Bulletin*, Issue 4, ECB, 2017, available at https://www.ecb.europa.eu/pub/pdf/other/ebbox201704_02.en.pdf.

significant presence in the euro area and contribute to the region's economy. Moreover, euro-denominated issuances by these companies are also reflective of the increasing international role of the euro.[2]

Evidence suggests that the CSPP has improved financing conditions directly for euro area companies that issue CSPP-eligible bonds, as well as indirectly for those that rely on other sources of funding.[3,4] These latter companies also include small and medium-sized enterprises (SMEs).[5] By reducing bond financing costs, the CSPP induces eligible firms to issue bonds as an alternative financing source to bank loans. This, in turn, frees up bank balance sheet capacity to lend to companies such as SMEs, which are not active in bond markets or eligible under the programme.[6] Therefore, the CSPP helps businesses across the euro area to gain better access to more affordable credit, boost investment, create jobs and thereby support overall economic growth. This is a precondition for inflation to return to, and stabilise at, levels below, but close to, 2% over the medium term. Moreover, the broad CSPP eligibility criteria ensure that purchases of corporate bonds under the PEPP can help to effectively stave off risks to the smooth transmission of monetary policy and contribute to easing the overall monetary policy stance, thereby helping to offset the pandemic-related downward shift in the projected path of inflation.

Transparency has played a central role in the APP by allowing market participants to better understand how the programmes are implemented. The disclosure of the specific amounts of the individual purchases under the CSPP, however, could distort price discovery and undermine the purpose of the programme. Such a disclosure by the European Central Bank (ECB) would lead market participants to draw inferences about the Eurosystem holdings and adjust their own behaviour according to assumptions established on the basis of the information made available. This could impact the market functioning which, in turn, would harm the efficiency of the transmission of the CSPP to the real economy. Furthermore, CSPP purchases are intended to have a positive effect on the wider euro area investment grade corporate bond market. Since market participants are not familiar with the purchase amounts of individual assets by the ECB and the Eurosystem national central banks, they will tend to invest broadly across the asset class. By contrast, if market participants were to be granted access to data on individual company purchase volumes this could compromise the effectiveness of the intervention measures and, ultimately, the monetary policy aim pursued.

---

2 See ECB report entitled "The international role of the euro", June 2020, available at https://www.ecb.europa.eu/pub/ire/html/ecb.ire202006~81495c263a.en.html

3 See the article entitled "The impact of the corporate sector purchase programme on corporate bond markets and the financing of euro area non-financial corporations", *Economic Bulletin*, Issue 3, ECB, 2018, available at https://www.ecb.europa.eu/pub/pdf/ecbu/eb201803.en.pdf.

4 See Zaghini, A., "The CSPP at work – yield heterogeneity and the portfolio rebalancing channel", *Working Paper Series*, No 2264, ECB, April 2020, available at https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2264~c4382400c5.en.pdf.

5 See the article entitled "Access to finance for small and medium-sized enterprises since the financial crisis: evidence from survey data", Economic Bulletin, Issue 4, ECB, 2020, available at https://www.ecb.europa.eu/pub/pdf/ecbu/eb202004.en.pdf.

6 See Betz, F. and De Santis, R.A., "ECB corporate QE and the loan supply to bank-dependent firms", *Working Paper Series*, No 2314, ECB, September 2019, available at https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2314~5d3910cb50.en.pdf.

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address
European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu

With regard to the share of green bonds in the overall CSPP-eligible corporate bond universe, let me point out that while the green bond market is growing, it still represents a comparably small share of the overall universe. Green corporate bonds represent approximately 5% of the eligible CSPP universe and the Eurosystem holds close to 20% of those bonds. It should be noted that green bond issuance is concentrated in carbon-intensive sectors, such as utilities, infrastructure, transportation and construction. Companies in these sectors use the green bond proceeds to finance the adoption of more efficient technologies, to reduce their carbon footprint and to reorient their energy portfolios towards renewable sources. Yet, as the green market segment grows and develops throughout more sectors, this growth and development will also be supported by Eurosystem purchases.

In the same spirit, the ECB supports innovation in the area of sustainable finance and is committed to making sure that the universe of Eurosystem-eligible marketable assets is aligned with the growing universe of sustainable financial products. In this context, on 22 September 2020 the ECB decided that bonds with coupon structures linked to certain sustainability performance targets will become eligible as collateral for Eurosystem credit operations and also for Eurosystem outright purchases for monetary policy purposes, provided they comply with all other eligibility criteria[7].

Finally, the Eurosystem's strategy review will provide the opportunity to further discuss how environmental sustainability considerations can be reflected within our monetary policy framework. As part of this discussion we will examine whether the market neutrality principle in the form it is defined currently should drive the composition of our monetary policy portfolios.

Yours sincerely,

[signed]

Christine Lagarde

[7] The press release is available at https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200922~482e4a5a90.en.html.

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address
European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu