

Covered Bond Purchase Programme Initial Experience

**Money Market Contact Group
Frankfurt, 1 September 2009**

Covered Bond Purchase Programme

- **ECB announced on 7 May and subsequently on 4 June and 2 July to implement a covered bond purchase programme to be implemented over a one year horizon starting on the 6 July with a total size of up to EUR 60 billion**
- **Objectives of the purchases:**
 - 1) easing funding conditions for credit institutions
 - 2) encouraging credit institutions to maintain and expand their lending to clients
 - 3) improving market liquidity in an important segment of the private debt securities market.

Covered Bond Purchase Programme

- **Eligibility criteria**

covered bonds that are:

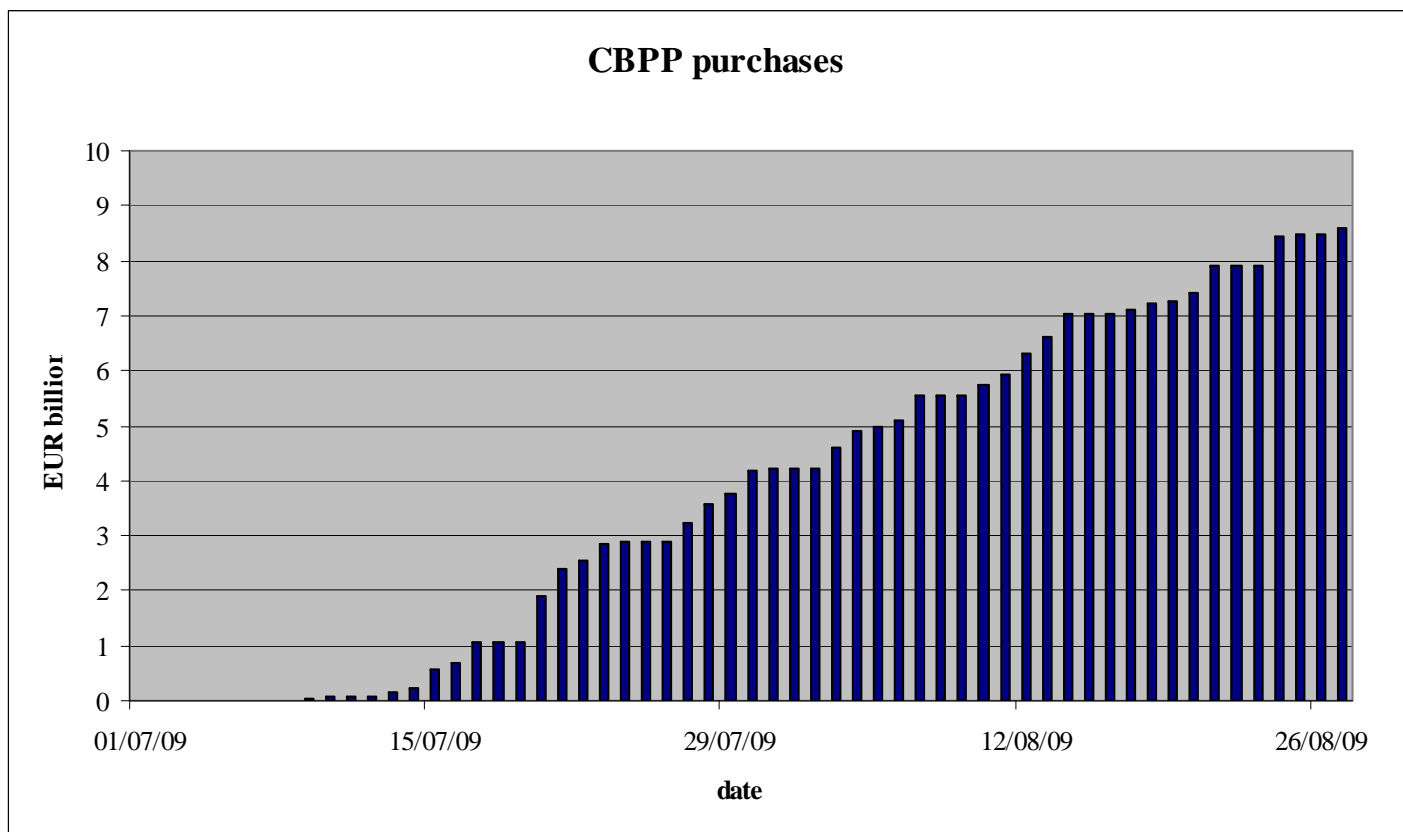
- **Eligible for monetary policy operations**
- **Denominated in euro**
- **Issued by credit institutions or other entities incorporated in the euro area**
- **Held and settled in the euro area;**

are eligible provided they satisfy following requirements:

- **UCITS compliant or offering similar safeguards**
- **Minimum issue size of EUR 500 million, with exceptions down to EUR 100 million**
- **Covered bond rating of minimum AA**

Covered Bond Purchase Programme

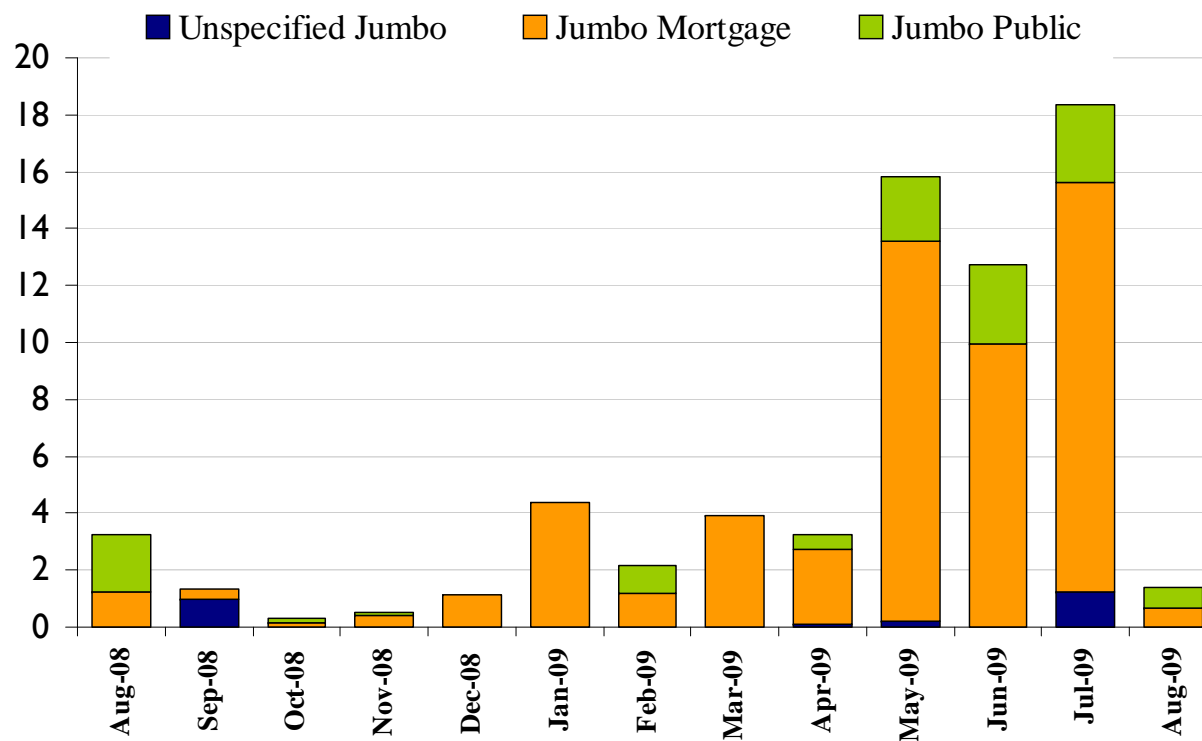
- Covered Bond purchases so far



Source: ECB data

Covered Bond Purchase Programme

- **New issuance volume increased significantly since the announcement of the programme**

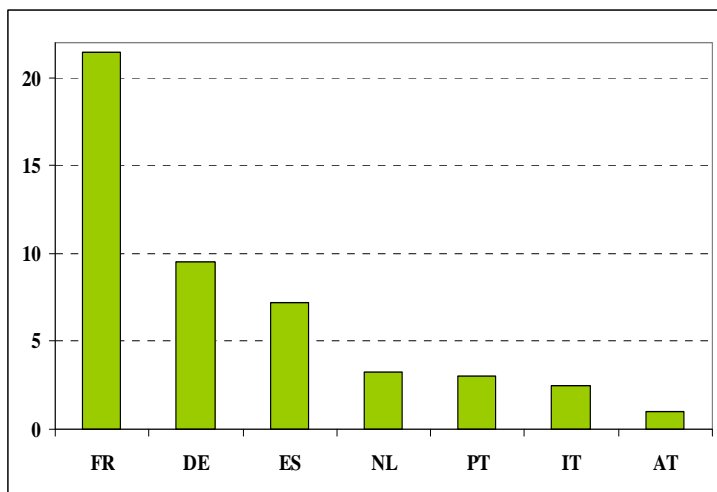


Source: Dealogic

Covered Bond Purchase Programme

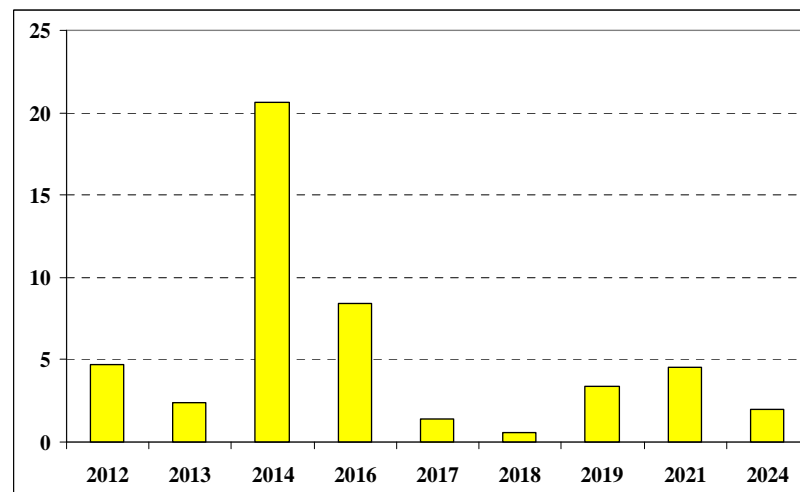
- Country and maturity structure of new issuances since May

Euro area jumbo covered bond issuance since May 2009 by country
(in bn EUR, data until 25 Aug. 2009)



Source: Dealogic

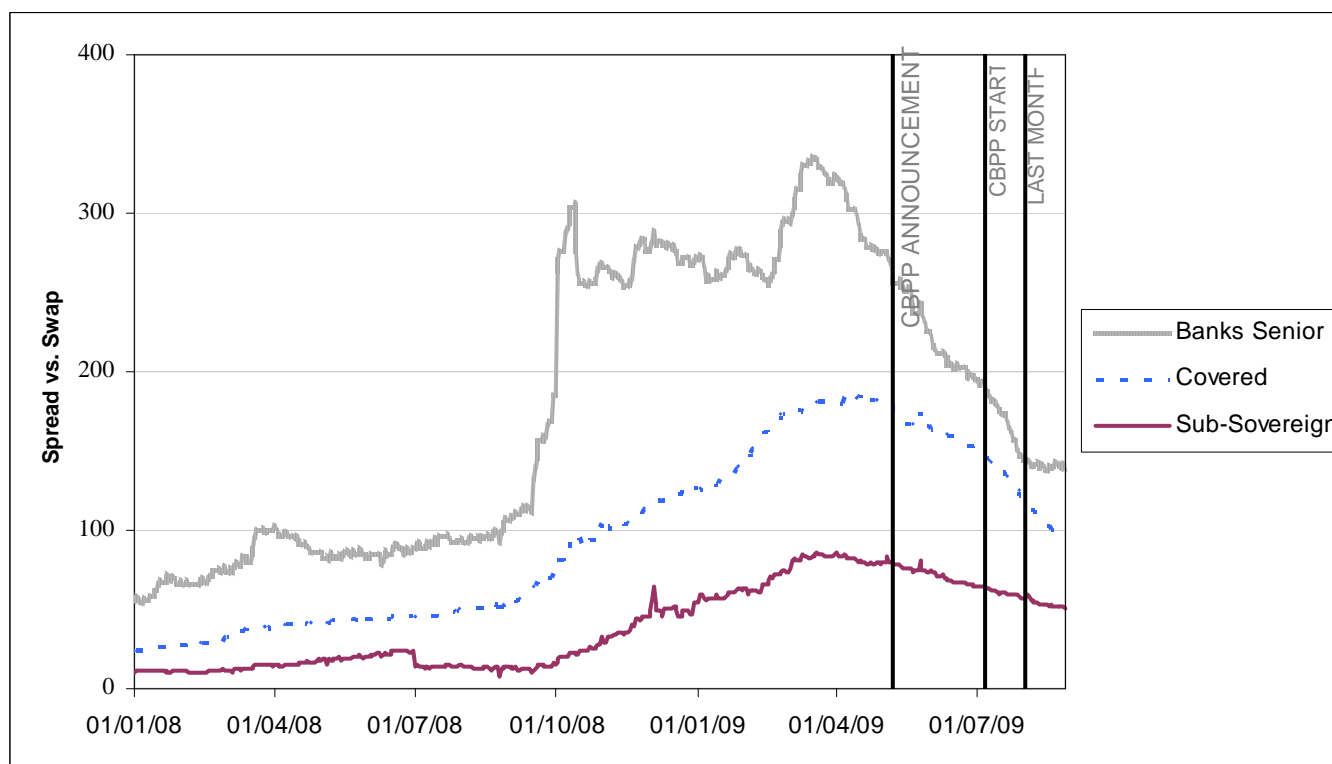
Euro area jumbo covered bond issuance since May 2009 by maturity
(in bn EUR, data until 25 Aug. 2009)



Source: Dealogic

Covered Bond Purchase Programme

- Spread development against swaps in selected high grade markets

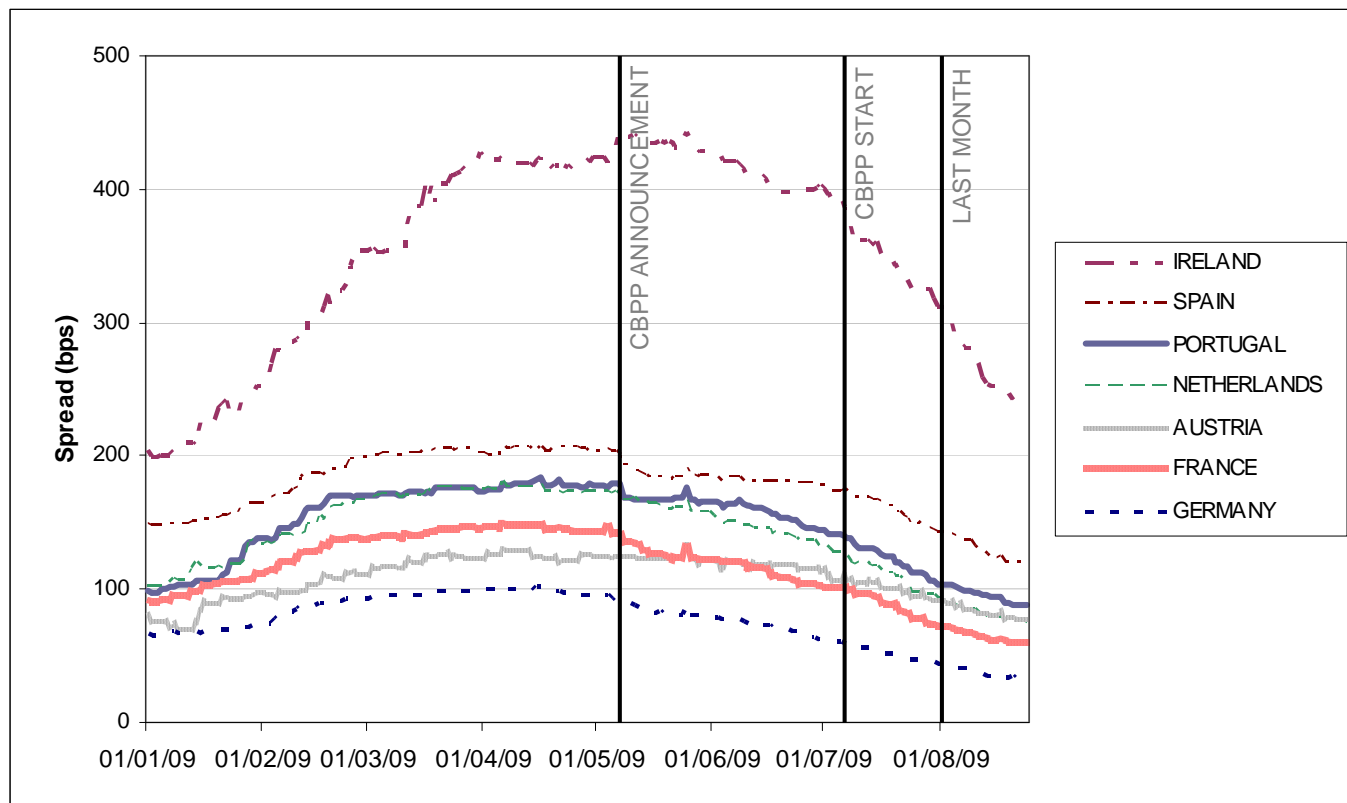


Source: iBoxx

Note: Sub-sovereigns are bonds issued by local governments (e.g. German Bundeslaender), guaranteed or issued by entities guaranteed by the governments (e.g. Cades, KfW), public banks (e.g. German Landesbank debt issued before 31 July 2005) or supranational entities (e.g. EIB, World Bank).

Covered Bond Purchase Programme

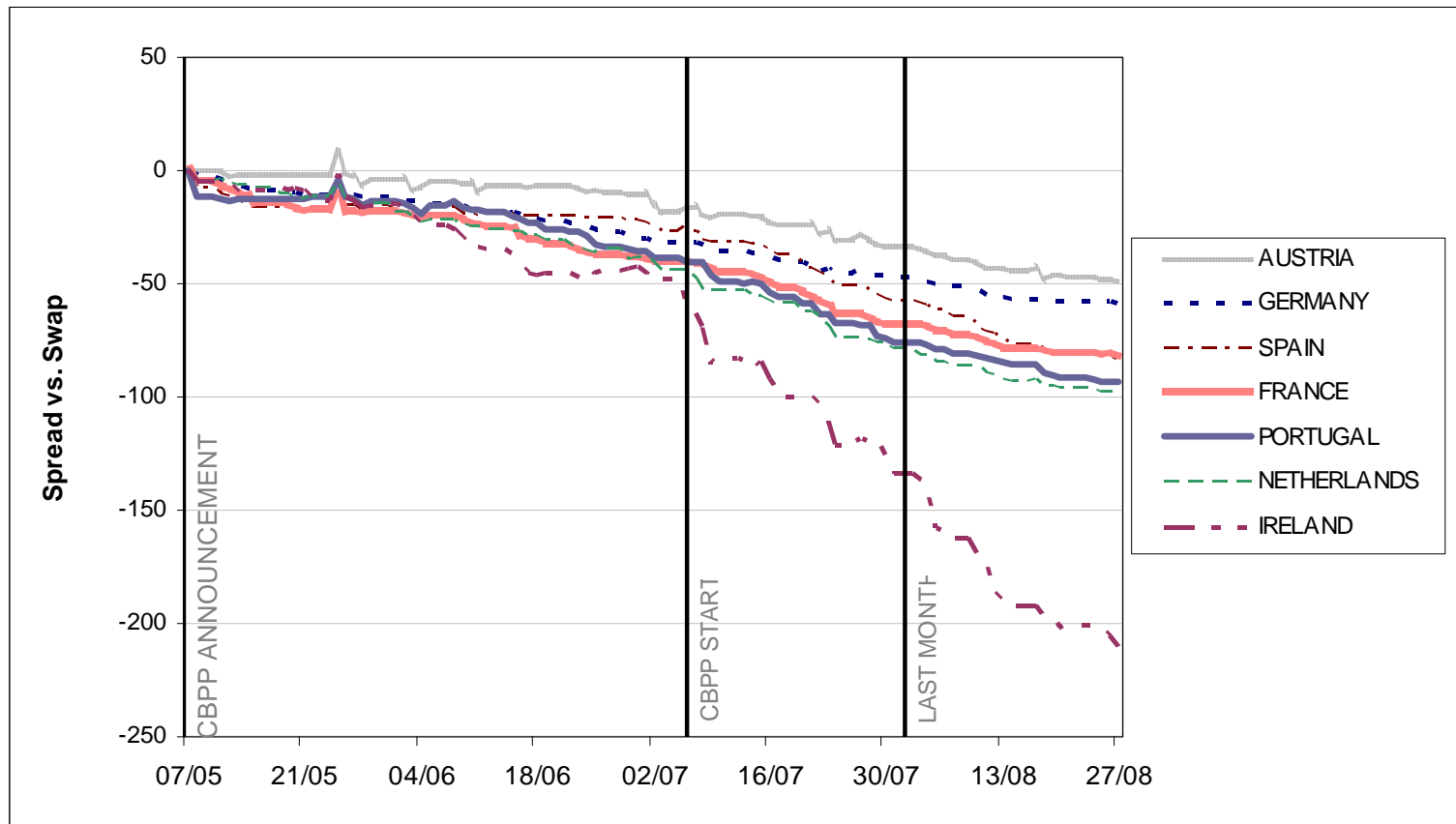
- **Covered Bond Spreads against Swaps**



Source: iBoxx

Covered Bond Purchase Programme

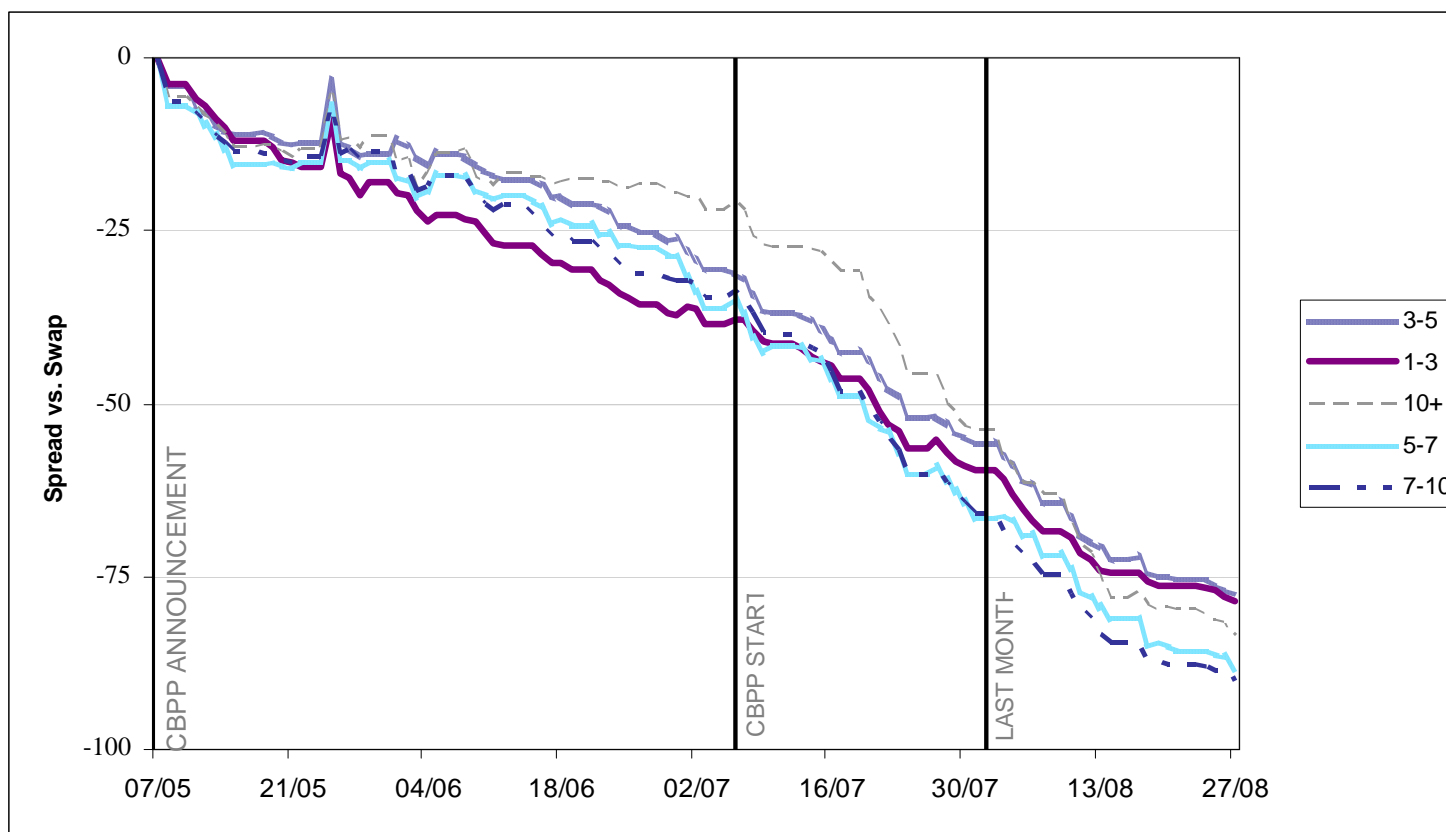
- Spread compression since announcement of the programme



Source: iBoxx

Covered Bond Purchase Programme

- Spread compression by maturity bucket since start of the programme



Source: iBoxx

Covered Bond Purchase Programme

Potential issues for discussion:

- Has the CBPP been the main driver of the spread compression or would spreads have narrowed also without the programme?
- How do members assess secondary market liquidity in the covered bond markets?
- How do members view the speed of the Eurosystem's purchases?
- To which degree did the Eurosystem reach its stated objectives so far?
 - 1) easing funding conditions for credit institutions
 - 2) encouraging credit institutions to maintain and expand their lending to clients
 - 3) improving market liquidity in an important segment of the private debt securities market.