

8 May 2020

Ad hoc teleconference of the ECB's Bond Market Contact Group – 6 May 2020

Summary of the discussion

In her introductory remarks, Isabel Schnabel, a member of the ECB's Executive Board, recalled some of the main features of last week's Governing Council decisions. Ms Schnabel explained that, through the ECB's targeted longer-term refinancing operations (TLTROs), banks could now receive funding at rates as low as 50 basis points below the average deposit facility rate over the period from June 2020 to June 2021, provided they hit the lending performance threshold. The complementary non-targeted pandemic emergency longer-term refinancing operations (PELTROs) would provide an effective liquidity backstop for banks, thereby ensuring smooth money market conditions during the pandemic. Ms Schnabel emphasised the Governing Council's willingness to adjust all of its instruments as necessary in order to achieve its monetary policy objective and ensure the smooth transmission of monetary policy across the whole of the euro area.

Ms Schnabel also recalled the ECB's press release on the ruling of the German Federal Constitutional Court on the public sector purchase programme (PSPP). Ms Schnabel reiterated that the Governing Council remained fully committed to doing everything necessary within its mandate to ensure that inflation rose to levels consistent with its medium-term goal and ensure that monetary policy action taken in pursuit of the objective of maintaining price stability was transmitted to all parts of the economy and all jurisdictions of the euro area. She also recalled that the Court of Justice of the European Union had confirmed in December 2018 that the ECB was acting within its price stability mandate.

BMCG members reported that market functioning in the euro area bond market had improved substantially in recent weeks, although there were some segments where conditions had not yet returned to pre-crisis levels. The primary market had been very active, and secondary market liquidity had improved significantly. Bid-ask spreads and volatility, however, remained elevated at times. Market participants were reportedly focusing not only on the immediate COVID-19-related medical emergency, but also on the medium and long-term impact on the economy.

Several members shared their concerns about the German Federal Constitutional Court's judgement on the PSPP. The ruling, they said, created uncertainty about the EU's governance framework and about the ECB's independence and ability to act forcefully. Several members were

particularly concerned about the impact that the ruling could potentially have on the pandemic emergency purchase programme (PEPP).

In terms of expectations regarding the ECB's monetary policy, several members called on the ECB to increase the size of the PEPP. Expected sovereign issuance needs had, they said, increased significantly relative to mid-March 2020, when the PEPP was announced. At the same time, there was a perceived lack of a coordinated and proportionate fiscal response and burden sharing at EU level. In this context, several members also voiced concerns about the possibility of large euro area sovereign issuers being downgraded, which could lead to exclusion from bond market indices, thereby triggering a wave of selling. Such concerns also extended to the corporate domain and the risk of a sharp increase in the number of "fallen angels".

In her concluding remarks, Ms Schnabel thanked participants for sharing their views and agreed that levels of uncertainty remained high. She stressed, however, that the ECB's actions were helping to instil confidence and improving the functioning of markets. She reiterated that the ECB remained fully committed to doing everything necessary within its mandate to support all citizens of the euro area throughout this extremely challenging period and stressed that the Governing Council was fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as necessary.