

Monetary policy measures taken by the Eurosystem in response to COVID-19

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The Eurosystem responded quickly to the COVID-19 crisis, deploying significant measures to support the provision of financing to the economy through the bank lending and market financing channels. The measures take three forms: credit operations have been adjusted and extended, collateral easing measures have been introduced, and securities purchase programmes have been strengthened.

Table: main monetary policy decisions taken in March-June 2020

Measures	12 March	18 March	7 April	22 April	30 April	4 June
Credit operations	TLTROIII: special COVID period, rate reduced to DFR-25bps. Bridge LTRO: 13 operations maturing in June 2020, rate set at DFR	[15 March] Dollar: Weekly operations with 84-day maturity announced [20 March] Dollar: 7-day operations increased to daily frequency			TLTROIII: rate during special period reduced to DFR-50bps PELTRO: 7 operations maturing in Q3 2021, rate set at MRO-25bps	
Collateral framework		Future adjustments to the collateral framework announced	Package of measures: extension of credit claims, haircuts subject to a general reduction of 20%, increase in maximum share of UBBs	Ratings: eligible assets as at 7 April to remain eligible, with a threshold set at CQS5 (CQS4 for ABS)		
Outright securities purchases	APP: additional envelope of EUR 120 billion in net purchases until end-2020	PEPP: EUR 750 billion programme until end-2020			PEPP: disaggregated reporting of data every two months from 2 June	PEPP: increase to EUR 1,350 billion, horizon extended to end-June 2021, reinvestments at least until end-2022

DFR: [deposit facility rate](#); MRO: [main refinancing operations](#); CQS: [credit quality step](#); UBB: *unsecured bank bond*; TLTROIII, PELTRO, bridge LTRO, APP, PEPP: cf. definitions below.

Source: Banque de France

While health and fiscal policies make up the front-line in the public response to COVID-19, **monetary policy is also playing a key role**, in particular by maintaining financial sector liquidity whilst ensuring that the real sector, i.e. households, companies and general government, continues to benefit from favourable financing conditions during this period. Beginning in early March, the Eurosystem, which comprises the ECB and euro area national central banks, thus took steps to safeguard the efficient transmission of monetary policy and ward off the risks of financial market fragmentation in the euro area (Table). [Other major central banks](#) have done likewise.

Measures to extend and adjust Eurosystem credit operations

The conditions for targeted longer-term refinancing operations (TLTROs) were significantly eased to support lending to the economy. TLTROs, which have been implemented through three series of operations since 2014, are referred to as “targeted” because the amounts that may be borrowed and the applicable rates are tied to the volume of loans to non-financial corporations and households (except for house purchases), so creating an incentive for banks to lend.

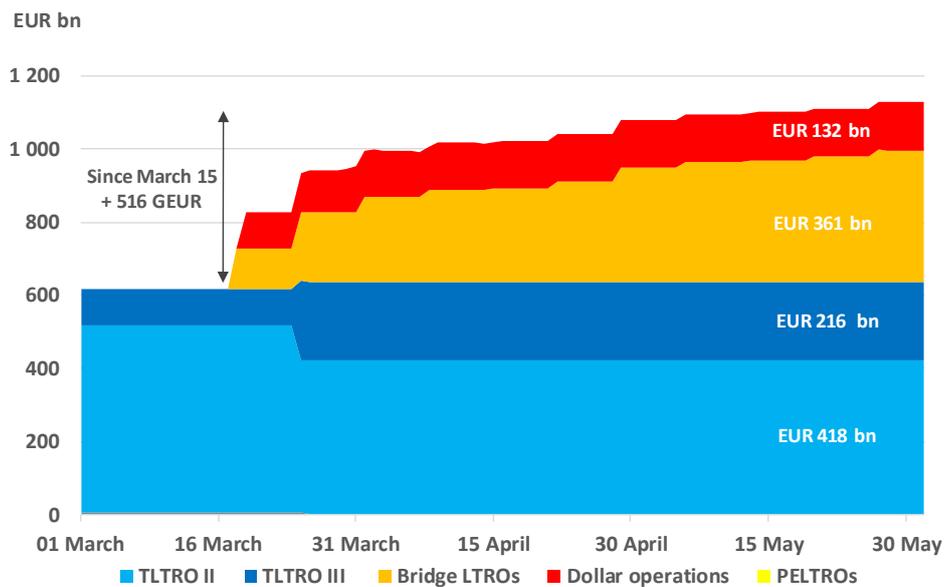
On [12 March 2020](#) (and then again on [30 April 2020](#)), the ECB announced that it was further easing the conditions for the third TLTRO series, which was launched in 2019 (TLTROIII), notably by introducing a special period, running from June 2020 to June 2021, during which the rate on the operations will be reduced to 50 bps below the DFR (i.e. at present -1%). It will also be easier for borrowing banks to obtain the most favourable rates, owing to a reduction in lending targets.¹

The Eurosystem also launched a number of new operations:

- **Bridge LTROs:** on [12 March 2020](#), the Eurosystem announced a series of 13 additional longer-term refinancing operations (LTROs), conducted as weekly fixed rate tender procedures with full allotment. The rate used is the DFR. All of these operations will mature on 24 June 2020, which is the settlement date of the June TLTROIII. The purpose of these operations is to provide liquidity support and bridge the period until the new TLTROIII operations with relaxed requirements.
- **Dollar operations:** on [15 March 2020](#), the Eurosystem announced, as part of coordinated action by six major central banks, a series of weekly operations to provide dollar liquidity on a longer-term basis (84 days) at a rate of OIS+25 bps. The frequency of the 7-day operations was later increased to daily ([20 March 2020](#)).
- **PELTROs:** on [30 April 2020](#), the Eurosystem announced a new series of Pandemic Emergency Longer-Term Refinancing Operations (PELTROs). The 7 PELTROs will be conducted starting at the end of May 2020 as fixed rate tender procedures with full allotment. The interest rate will be MRO-25 bps. Maturing between July and September 2021, they will provide a liquidity backstop, especially for banks that are unable to take part in TLTROIII operations.

Following these measures, the outstanding amount of refinancing provided by the Eurosystem in EUR and USD to euro area banks increased significantly, climbing by over EUR 500 billion between mid-March and the end of May to exceed EUR 1,000 billion (Chart) even before the June TLTROIII.

¹ Cf. [ECB](#) and [Banque de France](#) websites for more details.

Chart: Outstanding refinancing provided to banks by the Eurosystem

Sources: ECB, Banque de France

Collateral easing measures

The Eurosystem also introduced collateral easing measures on [7 April 2020](#), to increase the amount of eligible assets and support bank lending to the whole economy, by:

- **enlarging the scope of eligible credit claims** (bank loans), notably to include government-guaranteed loans to corporates.
- **introducing a series of other temporary measures** including removing the minimum size threshold of EUR 25,000 required to mobilise credit claims and increasing the maximum share of unsecured debt instruments issued by any single other banking group in a credit institution's collateral pool from 2.5% to 10%.
- **applying a temporary 20% general reduction to collateral valuation haircuts**, along with a permanent 20% average reduction to the haircuts applicable to credit claims only, thereby freeing up some EUR 140 billion in collateral eligible for monetary policy operations.

The Governing Council also decided on [22 April 2020](#) to mitigate the negative impact of possible rating downgrades by credit rating agencies on collateral availability by freezing the ratings of already eligible marketable assets (securities).

Support for market financing and response to the risk of financial fragmentation in the euro area

The Eurosystem also supported the market financing channel by substantially stepping up its asset purchase programmes to maintain favourable financing conditions in the euro area:

- **An additional envelope of EUR 120 billion in net asset purchases** by the end of 2020, as part of the existing [APP](#), was announced on [12 March 2020](#), with a view to [ensuring a more robust presence on the corporate bond market](#), in order to support the provision of financing to the economy.

- A new EUR 750 billion **Pandemic Emergency Purchase Programme (PEPP)** was launched on [18 March](#), including all [APP](#) asset classes, initially until the end of 2020. This programme is designed to ensure the smooth transmission of monetary policy and further ease the monetary policy stance.
- The **PEPP envelope was increased by EUR 600 billion to EUR 1,350 billion** on [4 June](#), while the horizon for the net purchases was extended to end-June 2021. Principal payments from maturing securities will also be reinvested until at least the end of 2022.

Purchases under the PEPP also cover the **market for commercial paper issued by non-financial corporations** to meet their cash requirements more directly.

Purchases will be conducted in a **flexible manner (over time, across asset classes and among jurisdictions)**. Their volume and composition may be adjusted at any time. Furthermore, the limits that the Eurosystem has set in this regard may be reviewed if they hinder the accomplishment of its mandate.

Overall holdings under the Eurosystem's securities purchase programmes totalled EUR 2,978 billion at end-May, [including EUR 235 billion under the PEPP](#), and are expected to continue to increase substantially in the coming months.