

ECB Unveils Pandemic Emergency Purchase Programme

By Aidan Lawson

Original post [here](#).

On March 18, the ECB unveiled a temporary program to purchase up to €750 billion in public and private-sector securities until the “crisis phase” of the COVID-19 crisis is over, but at least until the end of 2020.

The [Pandemic Emergency Purchase Programme \(PEPP\)](#) is an expansion of the ECB’s [Asset Purchase Programme \(APP\)](#), a package of asset-purchase measures that the ECB initiated in 2014 to support monetary policy. The PEPP, like the earlier APP, includes programs to buy [sovereign debt](#), [covered bonds](#), [asset-backed securities](#), [corporate bonds](#), and [commercial paper](#). As with the APP, the ECB will make available for lending any securities that it purchases under the PEPP.

Purchasing conventions are based on the type of asset purchased. They generally follow the guidelines for the relevant ECB APP. For instance, purchases of sovereign debt under the PEPP would generally follow the same rules as purchases made under the APP’s sovereign debt program, unless otherwise specified in the [PEPP framework](#).

The table below shows eligible securities for the PEPP, as announced on March 18. However, the ECB may waive some requirements to allow for wider participation. For example, the ECB waived the eligibility requirements for Greek debt because Greek financial markets have been severely destabilized, and previous commitments by the Greek government to achieve structural reform would be more difficult if it could not access the PEPP.

Security	Minimum Credit Rating	Maturity	Purchase Limits
Sovereign debt	Credit Quality Step 3	70 days – 30 yr + 364 days	33% of total debt if issued by sovereign 50% of total debt if issued by international institution
Corporate bonds	Credit Quality Step 3	6 mo. – 30 yr + 364 days	70% per ISIN ^[1]
Covered bonds	Credit Quality Step 3	Unspecified	70% per ISIN 30% per ISIN for Greece + Cyprus
Asset-backed securities	Credit Quality Step 3	Unspecified	70% per ISIN 30% per ISIN for Greece + Cyprus

The ECB published details of the new program in the Journal of the European Union on March 26. It had changed some details. Most significantly, it [removed](#) the limit to buy no more than

33% of any country's bonds, which was in the initial announcement (see here, [point number \(6\)](#), and [here, Article 5](#)). This has given the ECB the authority to essentially purchase unlimited amounts of sovereign debt, up to the €750 billion limit.

In the updated publication, the ECB said that it would “not tolerate any risks to the smooth transmission of its monetary policy in all jurisdictions of the Euro area.” While a wide range of securities are eligible for purchase under PEPP, the vast majority of securities purchased under the APP have been government debt (see [here](#)).

Generally, the allocation of purchases will be proportionate to the amount of ECB capital subscribed to by euro-area national central banks. Therefore, it is likely that Germany, France, and Italy will obtain a sizable share of the ECB funding (see [here](#)).

Still, the language allows the ECB some discretion. The ECB can make purchases “in a flexible manner allowing for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions.”

The decision to remove the purchase limit on government debt suggested that the ECB prefers to use the PEPP instead of the Outright Monetary Transactions (OMT). The ECB [has confirmed](#) this. OMT, which would allow the ECB to buy essentially unlimited quantities of an individual nation's sovereign debt, has not been used since the ECB introduced it in 2012. Countries are required to apply for aid, leading to [concerns about stigmatization](#) of OMT aid, and assistance comes with “strict conditionality,” sometimes taking the form of a macroeconomic adjustment program or even the involvement of the IMF (see [here](#)).

The ECB earlier created two covered-bond purchase programs—in 2009 during the Global Financial Crisis and in 2011 during the sovereign debt crisis. The ECB purchased €60 billion and €16.4 billion in bonds in the two programs, respectively. The purpose of the two programs was to restore liquidity to the market, tighten credit spreads, ease bank funding costs, and promote lending. Observers view the first program as a modest success, while the impact of the second is less clear. ***See the YPFS [case for more](#).***

[1] An International Securities Identification Number (ISIN) is a 12-digit code used to unify different ticker symbols and identifications that can vary across exchanges, currencies, and countries. As such, a 70 percent purchase limit on an ISIN indicates that the ECB can purchase up to 70% of the outstanding issue of that particular security or debt instrument (see [here](#)).