THE EUROSYSTEM CORPORATE SECTOR PURCHASE PROGRAMME AND ITS EFFECT ON THE EXTERNAL FINANCING OF SPANISH NON-FINANCIAL CORPORATIONS

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The Eurosystem's corporate sector purchase programme (CSPP) has helped to reduce the cost of financing of Spanish non-financial corporations through debt securities. This effect is apparent not only for bonds eligible under the programme, but also extends to other assets, such as the fixed-income securities issued by non-financial corporations with credit ratings below investment grade and, to a lesser extent, to those issued by financial institutions. The progressive decrease in debt instrument yields has led to an increase in primary market activity and to the appearance of new non-financial issuer firms, generally smaller than those already present in these markets. All these effects are in line with those observed in other euro area countries.

Introduction

The CSPP was announced by the Governing Council of the European Central Bank (ECB) at its meeting on 10 March 2016, and operations commenced on 8 June this same year. The CSPP represents an extension of the more general asset purchase programme (APP)[1] to debt securities issued by euro area non-financial corporations and its aim is to improve the pass-through of monetary policy to the financing conditions of the real economy. As with the other components of the APP, the purchases will continue until at least the end of March 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term.

The Eurosystem debt holdings under the CSPP were €38,144 million at end-October 2016. Although this figure only represents 2.7% of the total purchases under the APP, it is significant, given the low relative size of the non-bank private debt market of the euro area. Indeed, as shown in this article, this programme has helped to significantly reduce the cost of financing through bond issuance by Spanish non-financial corporations and their counterparts in the rest of the euro area and to enable these firms to raise a larger amount of funds in this market.

This article focuses on analysing the effects of the CSPP on the financing cost and structure of Spanish non-financial corporations. It is organised as follows: following this introduction, Section 2 summarises the main features of the programme; Section 3 analyses the effects on the cost of debt of non-financial corporations; and Section 4 discusses the impact on the amount of bonds issued.

The CSPP

On 10 March 2016 the Governing Council of the ECB added the CSPP to the set of programmes comprising the APP in order to strengthen the pass-through of monetary policy to the financing conditions of the real economy. The main technical parameters of the programme were published on 21 April 2016.

The bonds eligible for purchase under the CSPP are the marketable instruments accepted as collateral for Eurosystem liquidity-providing operations as specified in Guideline

1 In addition to the CSPP, the asset purchase programme (APP) consists of three other programmes initiated at an earlier date. The first two were introduced in 2014: the covered bond purchase programme (CBPP3, in its third edition) and that for securitisations (ABSPP). The third, the public sector purchase programme (PSPP), started in March 2015.

2 See https://www.ecb.europa.eu/ecb/legal/pdf/celex_02014o0060-20160125_en_txt.pdf.

ECB/2014/60.[2] These bonds must be issued in euro and their credit rating must be investment grade (BBB- or higher) from a recognised rating agency.[3] The maturity of these securities must be above six months and less than 31 years at the date of purchase.[4] However, the Eurosystem is not obliged to sell the securities in its portfolio if they cease to comply with these requirements, for example, if their credit rating falls below investment grade.

The issuer must be established in the euro area. However, the securities of firms established in the euro area but whose parent is located outside the euro area are also eligible provided they meet the other requirements. Also, for a bond to be eligible, the issuer or its parent may not be a credit institution subject to banking supervision either inside or outside the euro area (the securities of firms which have banks as subsidiaries are eligible). Also excluded are securities issued by investment firms or asset management vehicles (as defined in the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation) or by national asset management and divestment funds, such as, for example, the *Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria* (asset management company for assets arising from bank restructuring) or the *Fondo de Reestructuración Ordenada Bancaria* (fund for the orderly restructuring of the banking sector).

Certain limits in terms of assets apply to the maximum amount of purchases. Thus, CSPP purchases of any given single type of security, i.e. any specific ISIN, may not exceed 70% of its outstanding balance. This percentage may be lower for specific cases such as securities issued by public undertakings,[5] in order to equate their treatment to that under the PSPP. Also, limits are placed on the issuer entity's group in order to ensure a certain degree of proportionality and diversification in the allocation of purchases across firms. These limits are determined on the basis of the market capitalisation of the eligible bonds of a given group as a proportion of the total eligible assets of the programme. Further, as in the full APP, the eligible instruments must have a yield which is above the deposit facility rate (currently –0.4%) at the purchase date.

In short, the purpose of most of the restrictions applied is to ensure that the bond portfolio purchased under the CSPP has a limited risk and a certain degree of diversification. As a result of this, the securities portfolio purchased is highly heterogeneous as regards credit quality, sector, country and issuer [see, for example, ECB (2016), "The corporate bond market and the ECB's corporate sector purchase programme", Box 2, *Economic Bulletin*, No 5/2016].

As regards modus operandi, the Eurosystem may purchase bonds on both the secondary and the primary markets. In the latter case, it may participate in both public and private placements, applying in both cases the same eligibility criteria. In any event, these purchases take place concurrently and in competition with other investors, in keeping with free-market principles and with usual practice. However, the Eurosystem may not participate in primary market issuances by public undertakings as defined in Article 8 of Council Regulation (EC) No 3603/93 of 13 December 1993.[6]

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3 The credit rating of an asset has priority over issuer or guarantor ratings. If a bond has two or more ratings, the best one must be used. The rating agencies recognised by the ECB are: DBRS, Fitch Ratings, Moody's, and Standard & Poor's.

4 The upper limit is in line with that applied by the PSPP, while the lower limit ensures that the bonds issued by smaller firms, generally with a shorter maturity, also form part of the universe of eligible bonds. For this reason, there is no limit on the minimum size of an issue.

5 Following reclassification in the CSPP of the issuers originating from the PSPP.

6 See: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31993R3603&from=EN.

HOLDINGS UNDER THE CSPP PROGRAMME (a) TABLE 1

	Primary market holdings (€m)	Primary market share (%)	Secondary market holdings (€m)	Secondary market share (%)	Total holdings (€m)
June 2016	241	3.8	6,158	96.2	6,398
July 2016	775	5.9	12,439	94.1	13,214
August 2016	1,299	6.5	18,622	93.5	19,921
September 2016	3,243	10.9	26,479	89.1	29,722
October 2016	5,206	13.7	32,938	86.3	38,144

SOURCE: European Central Bank.

a Holdings up to the date indicated. Book value.

Implementation of the programme is entrusted to six central banks acting on behalf of the Eurosystem (those of Germany, Belgium, Spain, France, Finland and Italy) coordinated by the ECB. Each of them is responsible for a different geographical area. Thus the Banco de España is entrusted with purchases of debt issued by firms resident in Spain and by those resident in the Netherlands whenever the country of risk[7] is Spain.[8]

To support market liquidity and the availability of collateral, securities purchased under the CSPP are available for lending from 18 July 2016. For this reason, the central banks acting on behalf of the Eurosystem will publish and update each week a list of the individual securities available for lending.

At end-October the Eurosystem had purchased 686 securities under this programme, issued by 198 firms, of which 13 were Spanish. The volume of purchases up to that date was €38,144 million. Table 1 shows that most of the purchases were on the secondary market.

Effect of the CSPP on the cost of debt of non-financial corporations

From the announcement of the CSPP in March this year until mid-April, the average yield of the bonds eligible under this programme (those with an investment-grade credit rating) issued by Spanish non-financial corporations[9] decreased by 44 basis points (bp) (see Chart 1.1). This decrease took place against a background in which the interest rates on other long-term debt securities, such as the Overnight Index Swap (OIS) or long-term public debt, scarcely changed, suggesting that the fall is largely explained by this programme. Specifically, Table 2 shows that, around the announcement date, the yield spread of these bonds over OIS rates decreased by 20 bp,[10] with further falls up to mid-April. From then on,

7 The "country of risk" concept is as defined by the International Organization for Standardization (ISO) and depends on four factors: management location, country of primary listing, country of revenue and reporting currency of the issuer.

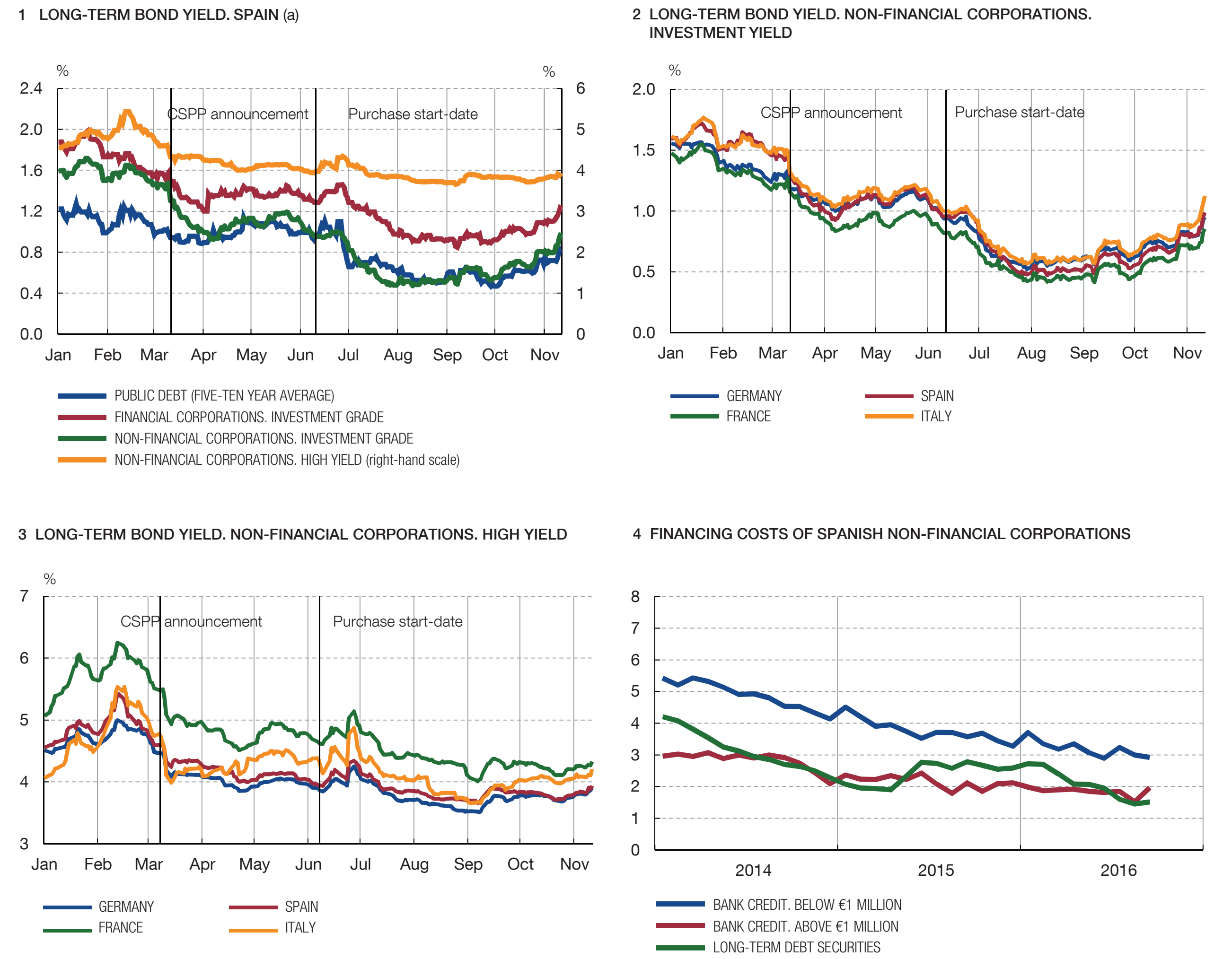
8 The bonds purchased by the other central banks according to nationality of the issuer are as follows: Nationale Bank van België/Banque Nationale de Belgique (Belgium, Cyprus, Greece, Luxembourg, Malta, Portugal, Slovakia and Slovenia), Deutsche Bundesbank (Germany), Suomen Pankki/Finlands Bank (Austria, Estonia, Finland, Ireland, Latvia and Lithuania), Banque de France (France), and Banca d'Italia (Italy). The central banks of Germany and Italy are also responsible for purchasing debt issued by firms resident in the Netherlands when the country of risk is Germany and Italy, respectively. The Nationale Bank van België/Banque Nationale de Belgique purchases other debt issued by firms resident in the Netherlands when the country of risk is neither Germany nor Spain nor Italy.

9 Issues by resident and non-resident subsidiaries are included.

10 For this exercise the change between the day before and the day after the announcement is calculated. The spread rather than the yield is used to isolate the effects associated with general changes in long-term interest rates. Due to the heterogeneity of the maturities of the bond sample, the average of the OIS rates corresponding to the five- and 10-year maturities was taken. The change of 20 bp lies in the 99.8th percentile of the distribution of the two-day change in the average yield of investment-grade bonds for the period between January 2013 and October 2016.

FINANCING COSTS OF NON-FINANCIAL CORPORATIONS

CHART 1



SOURCE: Banco de España calculation using Bloomberg and Datastream.

a Average yield is calculated as the weighted average of the yields of individual bonds issued in euro by each type of corporation from 2010, with a minimum amount of €10 million and a maturity of more than five years. The weights are based on the amount issued.

the yield on these bonds moved similarly to that of government debt, and there was no appreciable impact around the initiation of purchases, suggesting that by that time the effect had been completely factored into the price of the instruments. The impact on the yields of bonds issued by Spanish firms was somewhat larger than that observed for German and French firms and similar to that for Italian firms, regardless of whether it is evaluated around the announcement date or in cumulative terms up to mid-April (see Table 2 and Chart 1.2). Specifically, in this latter period the yields of German, French and Italian corporate securities fell by 28, 37 and 42 bp, respectively, compared with a fall of 44 bp for Spanish firms.

The effect of the programme was not limited to CSPP-eligible securities, but rather extended to others such as, in particular, bonds issued by non-financial corporations with credit ratings below investment grade (high-yield bonds). In fact, the information given in Chart 1.3 and in Table 2 indicates that the impact on the yield of these instruments may have been even higher than that on eligible bonds, both in Spain and in the rest of the euro area, a finding which is in line with ECB (2016) (see reference on page 2, last paragraph).

CHANGE IN BOND YIELD SPREAD OVER OIS RATE (a) — TABLE 2

Basis points

	Spain	Germany	France	Italy
CSPP announcement (10.3.2016)				
NFC. Investment grade	-20	-17	-11	-21
NFC. High yield	-31	-30	-44	-55
FC. Investment grade	-11	-1	-17	-5
Start of CSPP purchases (8.6.2016)				
NFC. Investment grade	-2	-3	-2	-3
NFC. High yield	0	-2	0	-20
FC. Investment grade	1	1	2	2

SOURCE: European Central Bank, drawing on Datastream.

a For this exercise the change between the day before and the day after the date of the event is used. To calculate the spread, the average of the OIS rates corresponding to the five- and ten-year maturities was taken. NFC stands for non-financial corporations and FC for financial corporations.

In the case of bonds issued by Spanish non-financial corporations with a credit rating below investment grade, the cumulative decrease in yield from the announcement date to mid-April was 48 bp, while the spread over OIS rates decreased by 31 bp around the announcement date. There is also evidence that the programme may have contributed to the fall in yields of bonds issued by financial firms, although in this case its effect seems to have been small. Specifically, as shown by Table 2, the yield spread of investment-grade bonds issued by Spanish financial firms decreased by 11 bp around the announcement date.

From mid-April the behaviour of the yield on long-term debt issued by Spanish non-financial corporations was in line with that of the interest rates of other debt securities such as government debt or OISs, suggesting that behind this development there are other, basically global, factors not related to the CSPP, linked to the changes in macroeconomic and monetary policy expectations and in investors' risk appetite. Specifically, between April and end-June it followed a relatively steady course, after which it trended downwards following the result of the referendum on whether the UK should remain in the European Union, continuing to do so until end-September. Subsequently, in October and November to date, there has been a certain rise.

Effect of the CSPP on the debt financing structure of non-financial corporations

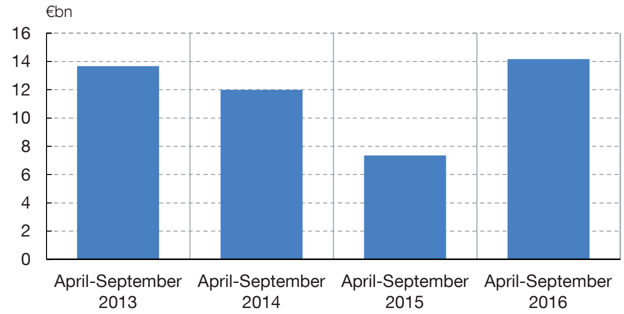
The decrease, from the CSPP announcement date to September, in Spanish non-financial corporations' cost of financing through long-term debt securities (87 bp)[11] took place against a background in which the interest rates on loans granted by resident institutions to non-financial corporations decreased to a lesser extent or even rose slightly. Specifically, in transactions of less than €1 million, there was a decrease of 26 bp, while in larger transactions, which basically include those with larger firms, i.e. those with access to the securities markets, there was an increase of 6 bp (see Chart 1.4). Thus the relative attractiveness of bond issuance for Spanish non-financial corporations increased. This was reflected in a substantial increase in the gross volumes issued. Chart 2.1 shows that in the period April-September 2016, these issues increased by 93% with respect to those in the same months of 2015 and also stood above the levels of 2014 and in line with those of 2013. Also, this greater momentum was based not only on traditional issuers, but also

11 All debt issues, both those eligible under the CSPP and those not eligible, are included.

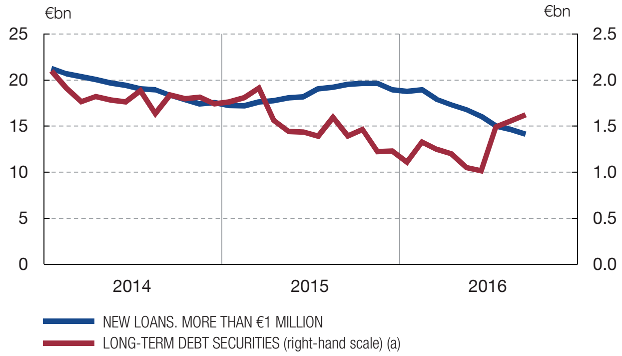
FINANCING OF NON-FINANCIAL CORPORATIONS

CHART 2

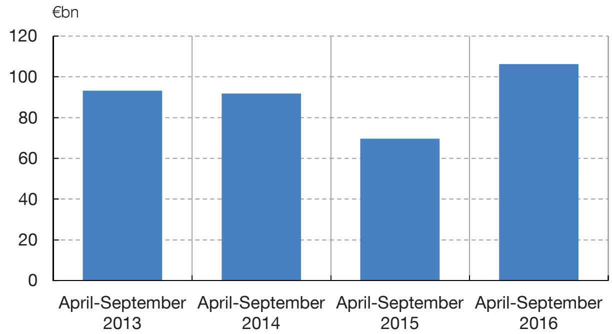
1 TOTAL GROSS BOND ISSUANCE BY SPANISH NON-FINANCIAL CORPORATIONS (a)



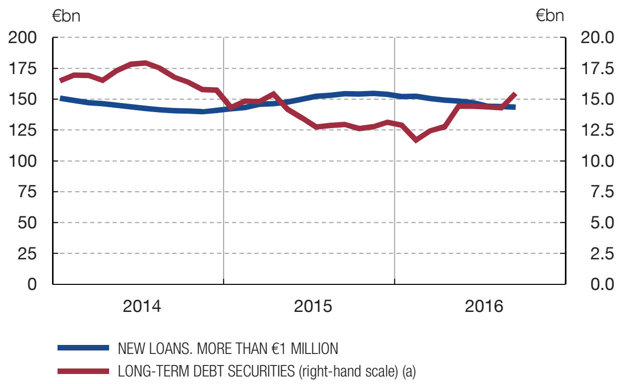
2 BANK LOANS AND FIXED-INCOME SECURITIES ISSUANCE. SPAIN (b)



3 TOTAL GROSS BOND ISSUANCE BY EURO-AREA NON-FINANCIAL CORPORATIONS (a)



4 BANK LOANS AND FIXED-INCOME SECURIES ISSUANCE. EURO AREA (b)



SOURCES: Banco de España and ECB.

a Issues of resident and non-resident subsidiaries are included.
b 12-month average.

on new groups active in the market. Specifically, of the 33 Spanish corporate groups which have issued securities since the programme was announced, 11 of them were first-time issuers, and another two had been inactive since 2011. Generally these firms are smaller than those with a past history of issuance and, although the securities issued by most of them are not eligible under the CSPP due to the absence of or a lower-than-investment-grade credit rating, the programme had an indirect beneficial effect on the yields of these non-eligible bonds.

Chart 2.2 illustrates how the rise in debt issues by Spanish non-financial corporations has been accompanied by a decrease in the volume of bank loans that exceed €1 million, which, as noted above, are basically those to larger firms that have access to the securities markets. This suggests that, as expected, the CSPP helped to accelerate the process of reduction of the weight of bank credit in the financing of large firms that has been under way for the last few years. SMEs may also be benefiting, albeit indirectly, from the effect of the CSPP because credit institutions, as a result of reducing their exposure to large firms, are more able to increase the supply of credit to SMEs, which may be reflected in an improvement in their financing conditions.

Similar developments have been observed in the euro area as a whole. Specifically, Chart 2.3 shows that gross issuance by euro area non-financial corporations increased by 53% in the period April-September 2016 with respect to the same months of 2015 and stood above the corresponding levels of 2013 and 2014. Also the rise in issues has also been accompanied by a decrease in the volume of bank loans that exceed €1 million to non-financial corporations. Thus in the euro area the programme also seems to have helped somewhat to accelerate the process of loss of relative weight of the financing channelled through credit institutions (see Chart 2.4).

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