

EASING OF THE EUROSISTEM'S COLLATERAL FRAMEWORK

In March and April this year, the Governing Council of the European Central Bank (ECB) adopted a broad package of measures to ensure liquidity and mitigate the tightening of financing conditions as a result of COVID-19. These measures include the expansion of asset purchases (additional envelope for the existing Asset Purchase Programme and launch of the Pandemic Emergency Purchase Programme), changes in liquidity-providing operations to credit institutions, and easing of collateral eligibility criteria for such operations (see Section 3.3). This box aims to review the latter aspect of the package in greater detail.

In the Eurosystem's monetary policy framework, liquidity-providing operations must be sufficiently collateralised by counterparties. National central banks (NCBs) accept as collateral marketable and non-marketable financial assets that comply with certain eligibility criteria and to which a valuation haircut is applied depending on the level of risk involved.

In April 2020, the Governing Council of the ECB adopted a set of temporary measures to ensure that any potential shortage of collateral caused by the pandemic does not reduce credit institutions' access to liquidity from their NCBs and, consequently, does not undermine the transmission of monetary policy or restrain the supply of credit to the economy. The economic crisis triggered by the COVID-19 pandemic may adversely affect both the value of assets used as collateral and their eligibility if their credit ratings are downgraded, thus excluding them from the set of assets that are eligible in such operations.

The measures adopted by the Governing Council of the ECB can be divided into three broad categories:

First, measures which apply immediately and uniformly to all NCBs. Specifically:

- The valuation haircuts applied to both marketable and non-marketable assets have been reduced by between 20% and 36%.
- Credit institutions have been allowed to use a larger volume of bank bonds as collateral. The limit for those of a single issuer or connected issuers has been increased from 2.5% of the total portfolio of pledged assets, to 10%.
- To mitigate the impact of possible rating downgrades resulting from this crisis, it has been decided that all

the marketable assets of public or private issuers that were eligible on 7 April shall continue to be so, as long as their credit rating does not fall below the BB equivalent (CQS5, in the Eurosystem's taxonomy), except in the case of asset-backed securities, which will remain eligible provided that their rating does not drop below BB+ (CQS4).

The second set of measures focuses on the expansion of the so-called "additional credit claims frameworks" (ACCs). These frameworks give NCBs the possibility of enlarging the scope of eligible collateral in their jurisdictions by including bank loans that comply with certain requirements. The ACCs are proposed by NCBs and approved by the Governing Council of the ECB, thus ensuring a sufficient degree of uniformity across the different national frameworks. The measures that have been adopted by the Banco de España under its ACC framework can be summarised as follows:

- Acceptance of the government-guaranteed loans to corporates, SMEs and self-employed individuals under the Royal Decree-Laws approved in response to the COVID-19 pandemic.
- Introduction of a purely statistical system for the credit assessment of non-financial corporations, which will allow for an increase in the number of debtors assessed and the acceptance of loan portfolios (not only of individual loans).
- Acceptance of loans with a credit rating not lower than the equivalent of BB (CQS5).

Lastly, also in April, the Governing Council of the ECB approved another set of measures, the adoption of which is voluntary for NCBs. With respect to this category, the Banco de España has adopted the following measures under its collateral framework:

- It has removed the minimum threshold for the acceptance of loans, previously set at €25,000.
- It has decided to accept Greek sovereign debt as collateral, for which the ECB has granted a waiver of the minimum credit rating threshold (equivalent to investment-grade, CQS3).

It is not easy to quantify the aggregate impact of all these measures. First, because it will depend on the behaviour of the counterparties themselves, and second, because it

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will also be influenced by external factors such as the assessment of credit rating agencies in light of the risks generated by COVID-19, which will be decisive for assessing the effects of the measures adopted.

In any event, the impact will foreseeably be quantitatively significant. For example, the expanded ACC framework in Spain includes as new collateral the loans guaranteed by the ICO facility of €100 billion provided by the Spanish Government to partly cover loans to non-financial corporations (see Section 4.3 in Chapter 4). At end-March 2020, credit institutions had pledged collateral amounting

to €255 billion to the Banco de España. The potential inclusion of all these new loans as eligible assets would mean a substantial increase in the liquidity that institutions could borrow from the Banco de España.

The impact is also likely to be significant from a qualitative viewpoint. To a large extent, the expanded ACC framework in Spain has a direct effect on institutions' capacity to pledge at the Banco de España loans granted to productive sectors of the economy that are greatly exposed to the adverse economic impact of the pandemic, such as SMEs or self-employed individuals.