EUROPEAN CENTRAL BANK

EUROSYSTEM

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Ad hoc teleconference of the ECB's Bond Market Contact Group – 21 April 2020

Summary of the discussion

Tatjana Greil-Castro (Muzinich) presented the most recent bond market developments.

Most members were of the opinion that the economic situation was much worse than had been anticipated several weeks ago. Members were surprised by the much higher than expected funding needs of euro area sovereigns, which raised concerns. They also noted that national debt management offices seemed to be increasing their usage of debt syndications.

Members agreed that some kind of fiscal debt mutualisation among euro area countries of coronavirus (COVID-19) crisis-related costs and risks was urgently needed. Bilateral loans – either via the European Stability Mechanism (ESM) or some other EU vehicle – were not the appropriate tool, as loans would not solve the balance sheet problems of a number of euro area sovereigns. In the view of members, if the countries' hardest hit by the coronavirus crisis were left to fend for themselves, the economic crisis would quickly become a fundamental political crisis for the EU.

Several members called upon the European Central Bank (ECB) to act again soon. In particular, a number of members mentioned that the current maximum size of the pandemic emergency purchase programme (PEPP) (€750 billion) was insufficient, given the funding needs of euro area sovereigns and corporations. One member highlighted that, in conceptual terms, the PEPP was still perceived as being similar to the public sector purchase programme (PSPP) with its regular predictable market presence. PEPP was not seen as an intervention tool aimed at containing yields, spreads and volatility. Other members suggested that the ECB should purchase non-investment-grade bonds or in some other way provide support to companies that are likely to be downgraded by rating agencies in the near future. At the same time, members acknowledged that ECB action alone was not sufficient to overcome the crisis and that a political agreement among EU leaders on some kind of debt mutualisation was paramount.

As regards bond market liquidity, most members agreed that market liquidity for euro area sovereign bonds had improved markedly since March. However, market liquidity was still far from the levels observed before the coronavirus crisis. In particular in credit markets, bid-offer spreads were still wide. One member also mentioned that a number of dealer banks were still “offline” in certain market segments. A few members pointed out that the actions of the Federal Reserve System, in particular in the high-yield space, had created positive spillovers for euro area credit markets. This positive spillover was fading, however.