Analysis

Reinvestments in ECB's expanded asset purchase programme

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Under the ongoing purchase programme, the Eurosystem's securities holdings had already grown by about EUR 2,300 billion by the end of 2017. The ECB Governing Council has announced that it will continue net asset purchases at a monthly pace of EUR 30 billion until September 2018, at the least. Gross purchases of securities consist of net purchases that increase the Eurosystem balance sheet and of reinvestments to replace maturing securities. Gross purchases will average about EUR 40 billion a month during the period January–September 2018, during which securities will mature by an average of about EUR 10 billion per month. The reinvestment of maturing holdings is gradually becoming an increasingly important part of an appropriate monetary policy stance.



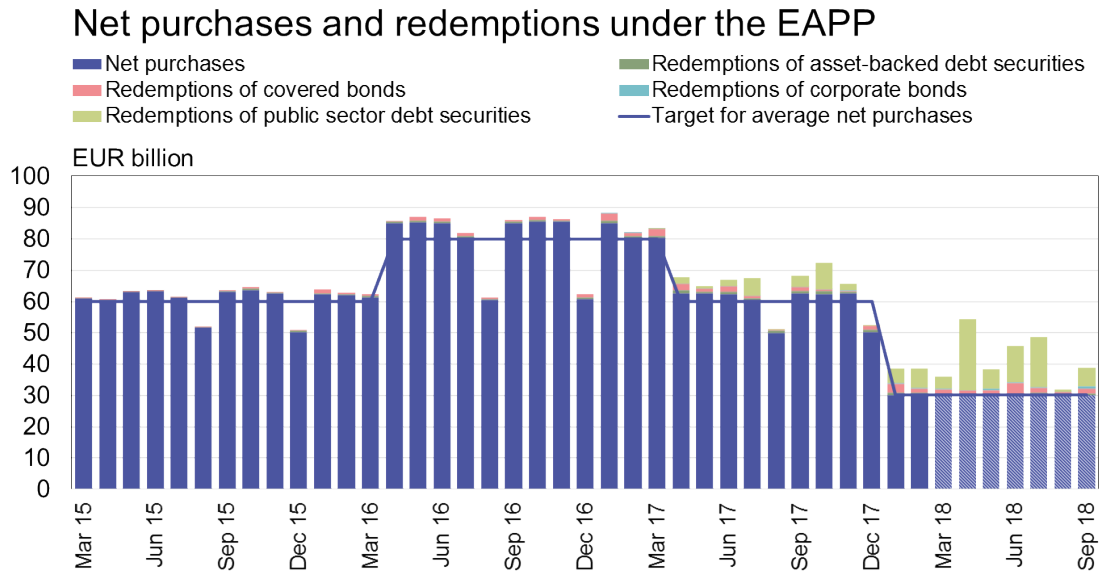
The Eurosystem began its purchases under the expanded asset purchase programme (EAPP)[1] in March 2015 to help achievement of the price stability objective and to address the risks of a prolonged period of low inflation. The Eurosystem holdings increased to EUR 2,286 billion by the end of 2017. At its meeting in October 2017, the Governing Council decided to reduce the pace of net monthly purchases from EUR 60 billion to EUR 30 million as of January 2018. The Governing Council confirmed that net purchases will be continued until the end of September 2018, or beyond, until the Governing Council sees a sustained adjustment in the path of inflation consistent

with its inflation target.

The Eurosystem's gross asset purchases equal net purchases plus reinvestments of principal payments from maturing securities[2]. The net purchases increase the Eurosystem's balance sheet on average by the pace of the monthly purchase target set by the Governing Council. Since the purchase programme has been in place already since 2015 and the stock of acquired assets has increased to a significant level, the reinvestment of redemptions is gradually becoming an increasingly important part of the monetary policy stance.

The Governing Council decided in October 2017 that the Eurosystem will publish monthly redemption amounts for each component of the asset purchase programme.[3] The redemption amounts are published every month for the following 12-month period, which gives a better idea of the amount and timing of reinvestments to be made. The published data shows that amounts of maturing holdings vary considerably depending on the month and the purchase programme (Chart 1).

Chart 1.



Net purchases and redemptions March–September 2018 are estimates.
Source: ECB.
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During January–September 2018, securities owned by the Eurosystem will according to the current estimate mature to a total of EUR 101 billion, i.e. an average of more than EUR 10 billion per month.[4] When reinvestments are taken into account, the actual monthly gross purchases are significantly higher than the net purchase pace, equivalent to about EUR 40 billion per month on

average until September 2018.

The Governing Council has announced the Eurosystem would reinvest the principal payments from maturing securities purchased under the programme for an extended period of time after the end of its net asset purchases, and in any case as long as is necessary.[5] This will promote both favourable liquidity conditions and an appropriate monetary policy stance. After the end of net purchases, the reinvestment of redemptions ensures that the size of the expanded asset purchase programme remains at a level in line with the Governing Council's target.

Public sector debt securities account for most of the assets purchased under the expanded asset purchase programme and the coming reinvestments. Of the total redemptions in 2018, the public sector purchase programme will account for EUR 116 billion (about 80%) and the private sector purchase programmes for EUR 30 billion (about 20%). In the public sector purchase programme, the national central banks within the Eurosystem buy their domestic public sector debt securities in accordance with the capital key, that is, in accordance with the proportionate size of the member country's economy. The ECB has clarified that during the period of net asset purchases, principal redemptions of public sector securities will be reinvested in the jurisdiction in which the maturing bond was issued.[6] When securities mature in the public sector purchase programme, the redemptions are reinvested preferably during the same month or at least within the next two months, depending on the liquidity conditions of the secondary market. As a result, purchase volumes by individual countries may fluctuate considerably from month to month.

In the private sector programmes, there are no strict country allocations for the purchase volumes. However, the Eurosystem's purchases are broadly oriented towards market weightings of eligible bonds, taking into account the market conditions. New bond issues and secondary market liquidity may vary considerably from month to month and country to country. Therefore, in private sector programmes the monthly redemptions in certain countries may not directly reflect the purchase volumes in that jurisdiction.

Notes

1. The expanded asset purchase programme consists of the public sector purchase programme (PSPP), the asset-backed securities purchase programme (ABSPP), the covered bond purchase programme (CBPP3) and the corporate sector purchase programme (CSPP). ↑
2. The Governing Council decided in December 2015 on the reinvestment of maturing assets. ↑
3. For the latest information about the redemptions of Eurosystem holdings, please see the ECB website. ↑
4. According to estimates published by the ECB, the total maturities in 2018 will be about EUR 146 billion. This figure may grow further as the Eurosystem buys securities maturing in ↑

2018.

5. See ECB (2017) The recalibration of the ECB's asset purchase programme. Economic Bulletin No.7. ↑
6. Under the public sector purchase programme the Eurosystem purchases bonds issued by euro area countries, their regional and local governments, recognised agencies and international and supranational institutions located in the euro area. ↑

Keywords

central bank's balance sheet, net purchases, purchase programmes, reinvestments