3 new ECOFIN papers on the ECB's CSPP
September 2017

In September, the European Parliament's Committee on Economic and Monetary Affairs (ECON) published a series of papers that investigate the effectiveness, challenges, and future prospects of the CSPP.

The corporate sector purchase programme (CSPP): Effectiveness and challenges ahead; London School of Economics, September 2017

The Corporate Sector Purchase Progamme (CSPP): Challenges and future prospects; Andrew Hughes Hallett, September 2017

The corporate sector purchase programme (CSPP): Challenges and future prospects; Kiel Institute for the World Economy, September 2017

The paper by the London School of Economics notes that the purchases to date have been skewed towards bonds issued more recently but with low quality. 24% of holdings are rated BB+ or unrated. It further suggests that while the CSPP provides a technical support bid for the market, market sentiment, in general has remained positive, with reduced fears over Brexit and the German elections, and continued inflows for investment grade corporate bond funds. However, it also suggests that while the improvement of financing conditions resulting from the CSPP has mainly helped larger firms to finance themselves, it has had limited impact with respect to SMEs. Furthermore, it argues that the benefits of the CSPP may be felt less in countries where the banking systems remain under pressure, such as Italy and Spain, and where the link between improved financial conditions and higher business investment is weaker. It therefore concludes that while the CSPP has contributed to the smooth functioning of the transmission mechanism for monetary policy, it is not a substitute for other policy tools, such as the already implemented Targeted Long Term Refinancing Operations (TLTROs), and the Asset Purchase Programme (APP) more broadly.

The paper by Andrew Hughes Hallet also picks up on this theme, arguing that the CSPP is complementary to, and not an alternative to, QE policies. However, it also argues that corporate bond purchases are a more efficient form of monetary expansion since this bypasses the banking system and transmissions between extra liquidity and loans for investment, at least in the first round of spending, and does so without the extra debt and deficits that new fiscal spending would entail.

Meanwhile, the paper by the Kiel Institute for the World Economy looks at the effects of the CSPP and suggests that these are very difficult to assess, noting that corporate bonds are not an important refinancing instrument in the euro area, compared to other refinancing instruments, accounting for only

5% of all liabilities of non-financial corporations. It questions whether a further easing of financial conditions can stimulate investment activity, citing evidence that monetary policy is in general less effective in the aftermath of financial crises. It further notes that one important drawback of the CSPP is that it has distributional effects as it favours large firms, that are more likely to use corporate bonds for refinancing, over small and medium sized firms that do not rely on corporate bond markets. It concludes that it is questionable how the CSPP can effectively contribute towards fulfilling the ECB's aims, and that even if the ECB did extend the programme, the effects would likely remain small.

Andy Hill, September 2017