

CHART OF THE WEEK

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WEEK

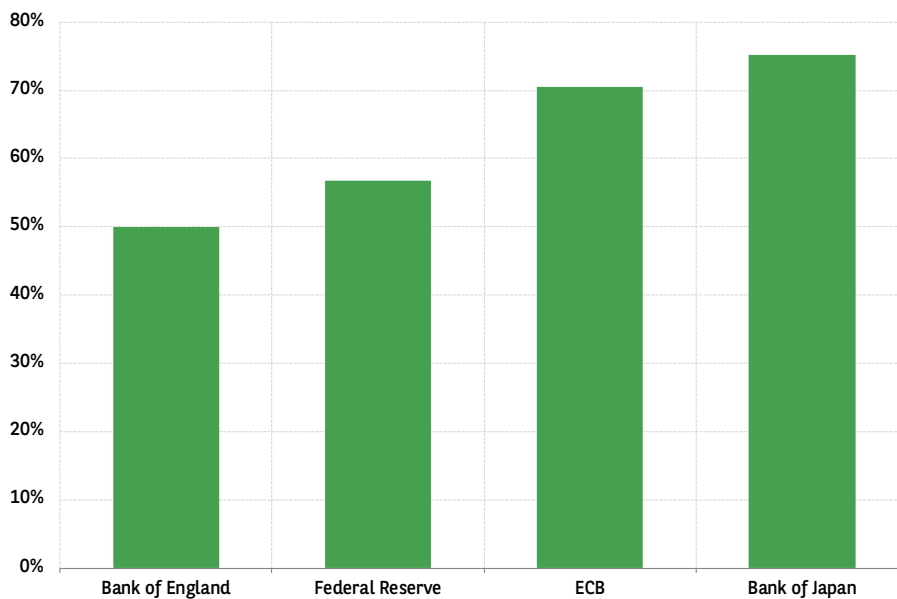
by BNP PARIBAS

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Eurozone: Covid-19, ECB and long-term interest rates

Louis Boisset

Share of sovereign debt issuance purchased by central banks since February 2020



Source: IMF, Fiscal Monitor

The Covid-19 health crisis is an historic shock for the eurozone economy. The economic policy response has been substantial and rapid, and this is particularly true for the monetary policy adopted by the European Central Bank (ECB). The ECB has notably introduced an emergency asset purchasing programme, the Pandemic Emergency Purchase Programme, or PEPP. In June, its envelope has been increased to the current level of EUR 1,350 billion. Thus, since March 2020, monetary policy has had a significant effect on long-term interest rates, improving financing conditions for eurozone member states and also for the private sector. By way of illustration, sovereign spreads –that is the difference in yields on sovereign debt of member states relative to the yield on German sovereign debt– have narrowed significantly. The Italian spread, for example, has fallen to around 115 basis points (bp) by mid-October 2020, from 280bp in mid-March. The chart shows that the ECB has purchased the equivalent of 71% of the sovereign bonds issued by eurozone member states since February 2020. This is greater than the amount purchased by its peers in the US and UK (57% and 50% respectively), but less than that in Japan (75%).

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