Financial risk resulting from the implementation of unconventional monetary policy measures

Agenda

- Non-standard policy measures for collateral

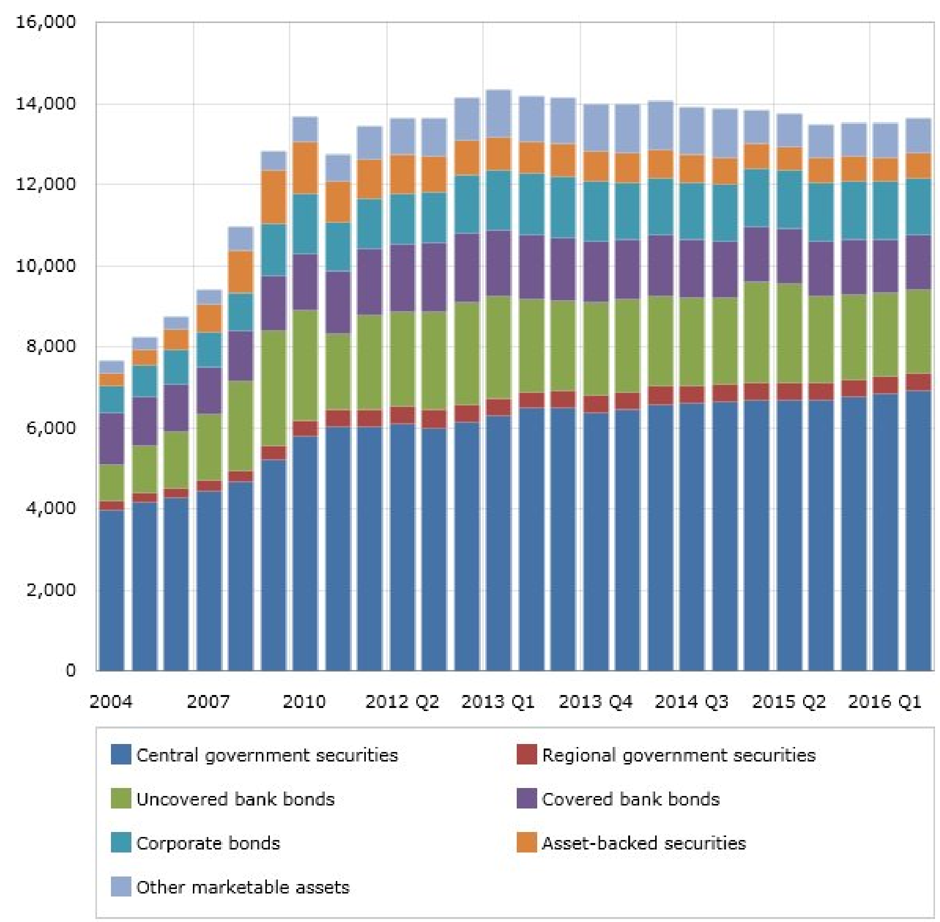
- The extension of Asset Purchase Programmes

- Risk metrics

Non-standard monetary policy measures – collateral (1)

Since the financial crisis, the range of available colleral has widened and longer-term refi-nancing opera-tions have been introduced

Eligible marketable assets



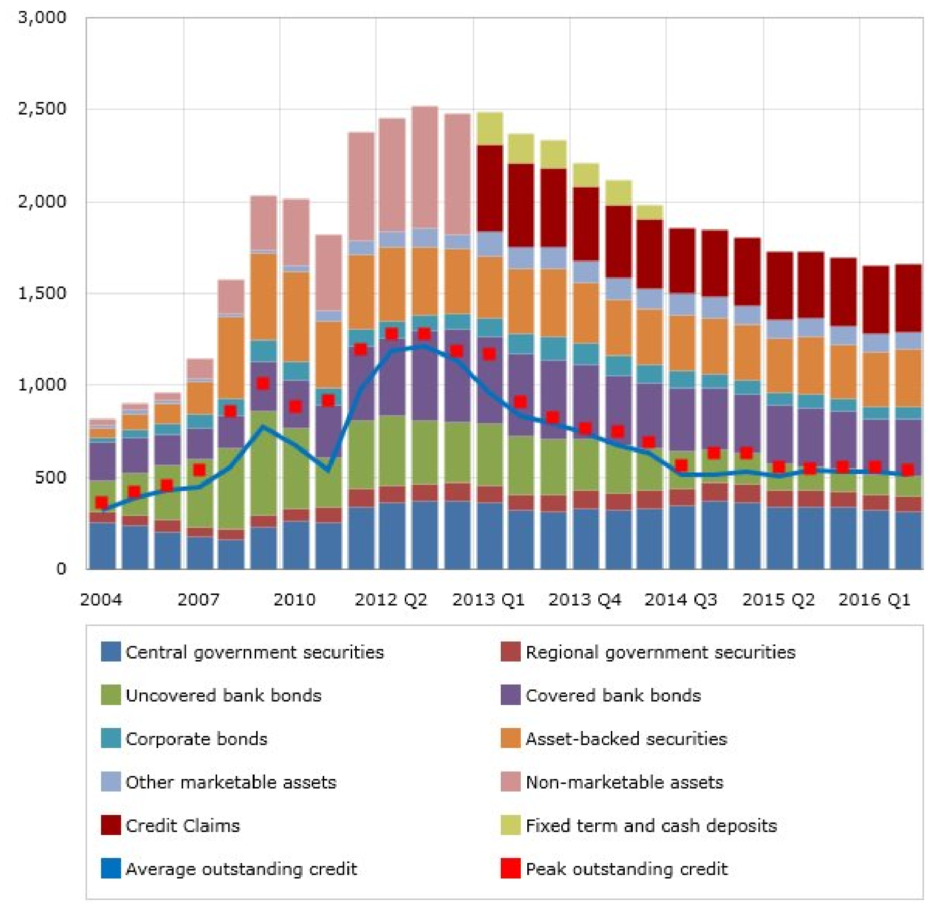
Non-standard monetary policy measures – collateral (2)

- Longer-term refinancing operations have a limited impact vis-à-vis forward-looking risk measures
- Risks are monitored thanks to a common Eurosystem Credit Assessment Framework
- Increase of some marketable assets whose financial risks are more closely correlated with counterparties' default risk (wrong-way risk), such as « own-used » covered bonds, ABS retained by the originator

Non-standard monetary policy measures - collateral (3)

- The use of outstanding credit is stable since 2014.
- Credit claims (non-marketable assets) stand as a significant class of collateral. In this respect, the Eurosystem has increased recently its internal credit assessment capacity

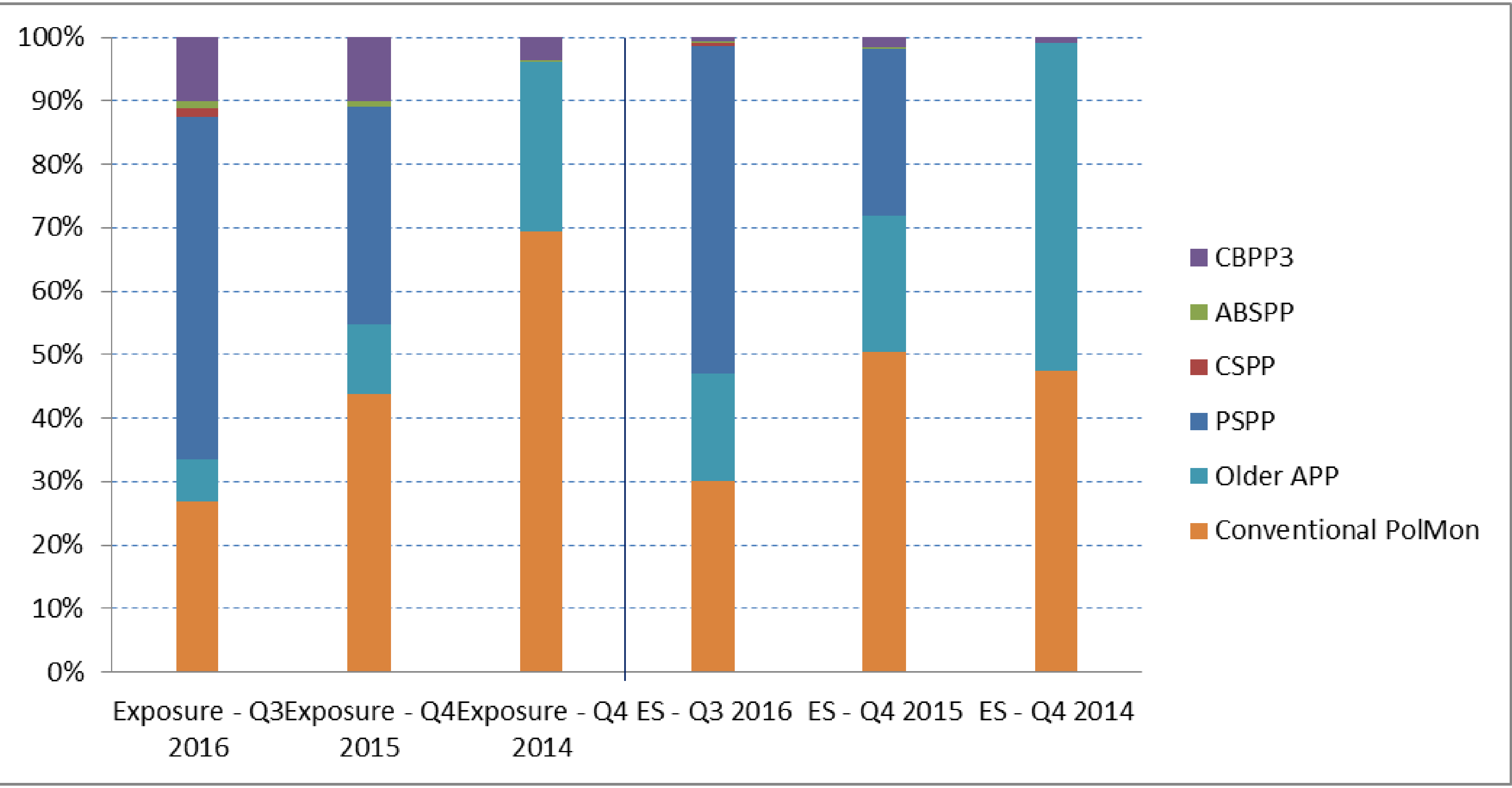
Use of collateral and outstanding credit



Non-standard monetary policy measures: the extended APP (1)

- Purchase programmes continue: currently, the CBPP3, ABSPP, PSPP, CSPP
- The nature of financial risk changes: the CB takes a direct risk, rather than a double default risk. A specific risk management framework has been set up
- The objective of the monetary policy measures is expressed in terms of volume
- Programmes have a significant scale and there is uncertainty about their maturity

Second round of measures: the extended APP (2)



Measuring the financial risk (1)

- Converting these measures in financial terms: exposure towards financial risks and the existence of financial buffers
- Two references: financial and accounting values
- Interest rate risk: fixed rate instruments, up to 30 years on the asset side, variable rates on the liabilities side
- Credit risk: direct default of issuers (CSPP), indirect default risk for counterparties (collateral operations)

Measuring the financial risk (2)

- Two major toolboxes of instruments: stress-tests and forward-looking analyses of balance sheets & results
- Stress-tests: instantaneous shocks arising from a series of scenarios (for instance, systemic bank's failure)
- Forward-looking analysis: to analyse the impact of various scenarios on the series of results over the next 10 years

Measuring the financial risk (3)

- Importance of the accounting treatment: revaluation accounts (EUR 420 billion for the Eurosystem)
- Impact on capital or reserves
- Role of other non-monetary investment portfolios