DEVELOPMENTS IN THE STEP MARKET

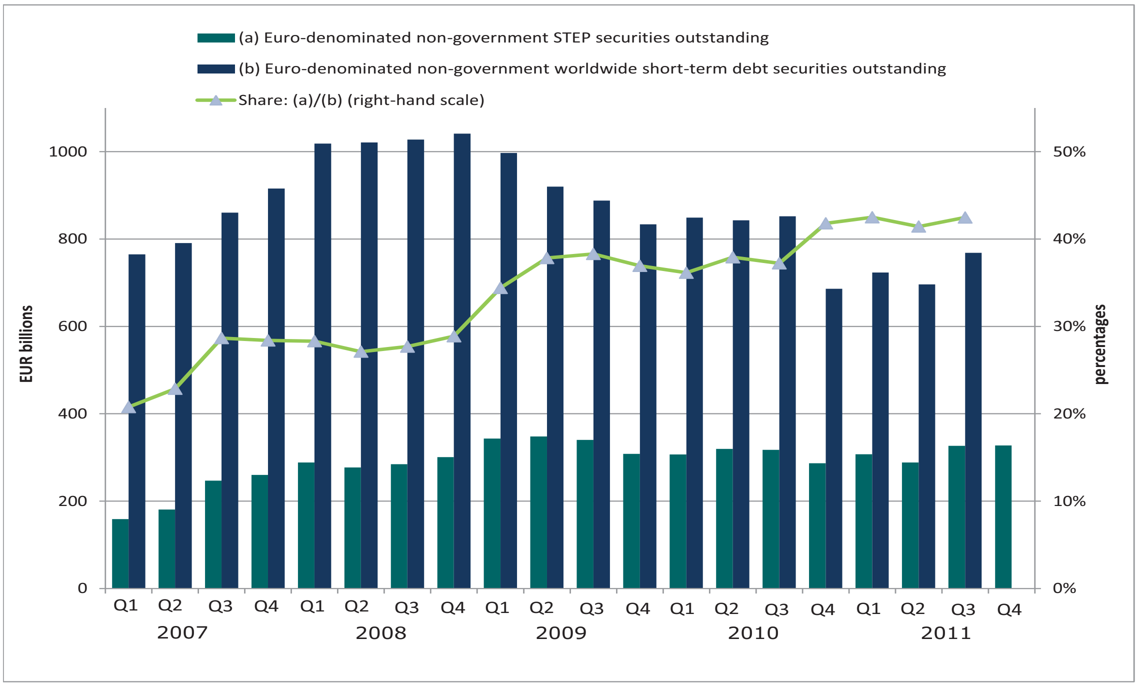
The European Central Bank (ECB) and the Eurosystem national central banks continue to support the Short-Term European Paper (STEP) initiative that was launched in June 2006 by acting as catalysts, thereby fostering the integration of the euro area's financial system. The regular publication of detailed statistics on the STEP market by the ECB contributes to the transparency in this market and allows the impact of related decisions taken by the ECB's Governing Council to be assessed.

In October 2008, the ECB's Governing Council decided to temporarily expand the list of assets eligible as collateral in Eurosystem credit operations to include STEP-labelled securities issued by credit institutions, i.e. certificates of deposit. This measure was discontinued at the end of 2010. The end of this exceptional measure could thus have had a negative impact on the development of STEP securities, especially those issued by monetary financial institutions (MFIs), as shown in the analysis conducted for the first months of 2011 in the previous article[1].

The detailed STEP statistics published by the ECB on a weekly basis[2] however show that the STEP market has proved its robustness following the discontinuation of the specific measure at the end of 2010.

The total outstanding amounts of STEP-labelled programmes fell for the first semester of 2011, but have since risen sharply, to reach €443.5 billion at the end of December 2011 stemming from 169 STEP-labelled programmes. This level almost corresponds to the highest level observed during the first three quarters of 2009. The relative positive development of STEP-labelled securities needs to be compared with an adequate benchmark for euro-denominated short-term debt securities (Chart 1) in order to assess the developments in the STEP market in 2011. Chart 1 highlights the decrease in the ratio of STEP securities denominated in euro and issued by non-government sectors to euro-denominated issuance of debt securities by worldwide non-government in the second quarter of 2011. However, the strong increase in the outstanding amounts of STEP programmes for the third quarter and even more for the fourth quarter can be seen as a further sign of the success of the initiative in supporting financial market integration.

Chart 1: Comparing outstanding amounts for STEP securities with a benchmark



In order to investigate further whether the discontinuation of the temporary measure of the ECB had a negative impact on STEP-labelled programmes issued by credit institutions, the developments of those securities relative to the overall issuance of STEP securities were assessed until the end of December 2011 for outstanding amounts (Chart 2) as well as for the number of programmes (Chart 3).

At the end of December 2011, 79% of the total outstanding amount of STEP securities was issued by MFIs and 15% by the general government sector. The MFIs' share has decreased since April 2011 almost back to the level in December 2010, while it was expected that the discontinuation of this exceptional measure at the end of 2010 might have a negative impact on securities issued by MFIs. The evolution of the share of the MFIs sector was mirrored by the evolution of the share of the general government sector. Indeed the share of the issuance by the general government sector increased from 5.8% in April 2011 to 15.1% in December 2011. The distribution among the sectors is thereby almost the same as that in December 2010, i.e. before the discontinuation of the ECB's temporary measure.

Chart 3 reinforces the fact that the sectoral distribution did not differ significantly from the figures at the end of 2010. Indeed 19 STEP labels were withdrawn by end December 2011 , of which 13 were MFIs but this was almost offset by new STEP labels granted during this period. Out of twelve new STEP labels, eight programmes refer to MFIs. The withdrawal of STEP programmes issued by MFIs does not seem to have had a negative impact on the volume of the STEP market, especially for the MFIs.

Chart 2. Outstanding amounts of STEP securities issuance by sector

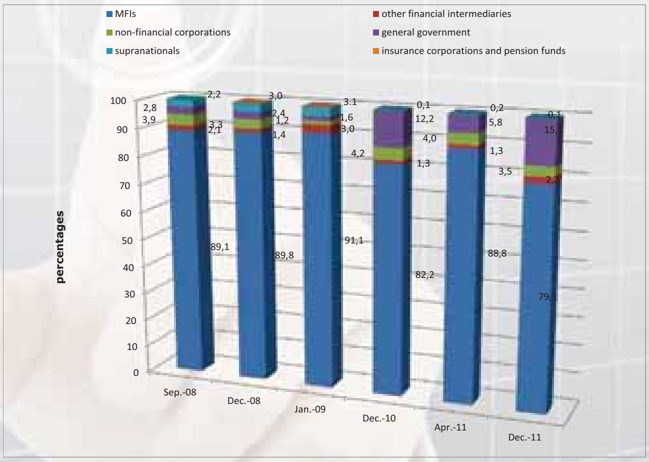
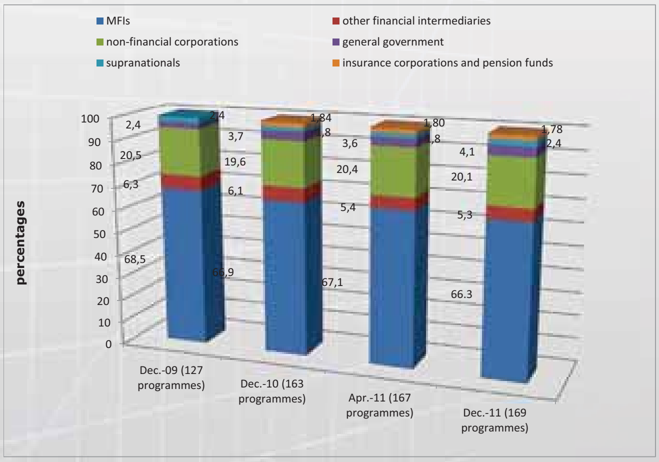


Chart 3. Number of STEP programmes by sector



The STEP statistics show that the development of the STEP market until the end of December 2011 supports the view that STEP securities have continued to develop robustly.

On 20 September 2011 the ECB's Governing Council approved a new version of "The implementation of monetary policy in the euro area – general documentation on Eurosystem monetary policy instruments and procedures"[3] and adopted Guideline ECB/2011/14 on monetary policy instruments and procedures of the Eurosystem. This means that STEP-labelled securities issued by credit institutions will be again eligible as collateral for the ECB's monetary policy operations as of 1 January 2012.

Giuseppina Borea - Sandrine Corvoisier, European Central Bank

[1]For more details, please refer to Corvoisier, S. and Petit, V., "Further signs of the robustness of the STEP market", Euribor EBF Newsletter, June 2011.
[2]http://www.ecb.europa.eu/stats/money/step/html/index.en.html.
[3]For more details, please refer to the Sections 6.2.1.5 and 6.2.1.6 of the General Documentation http://www.ecb.int/ecb/legal/pdf/en_ecb_2011_14_f_sign.pdf.