Social Capital and Financial Stability: The role of the ECB

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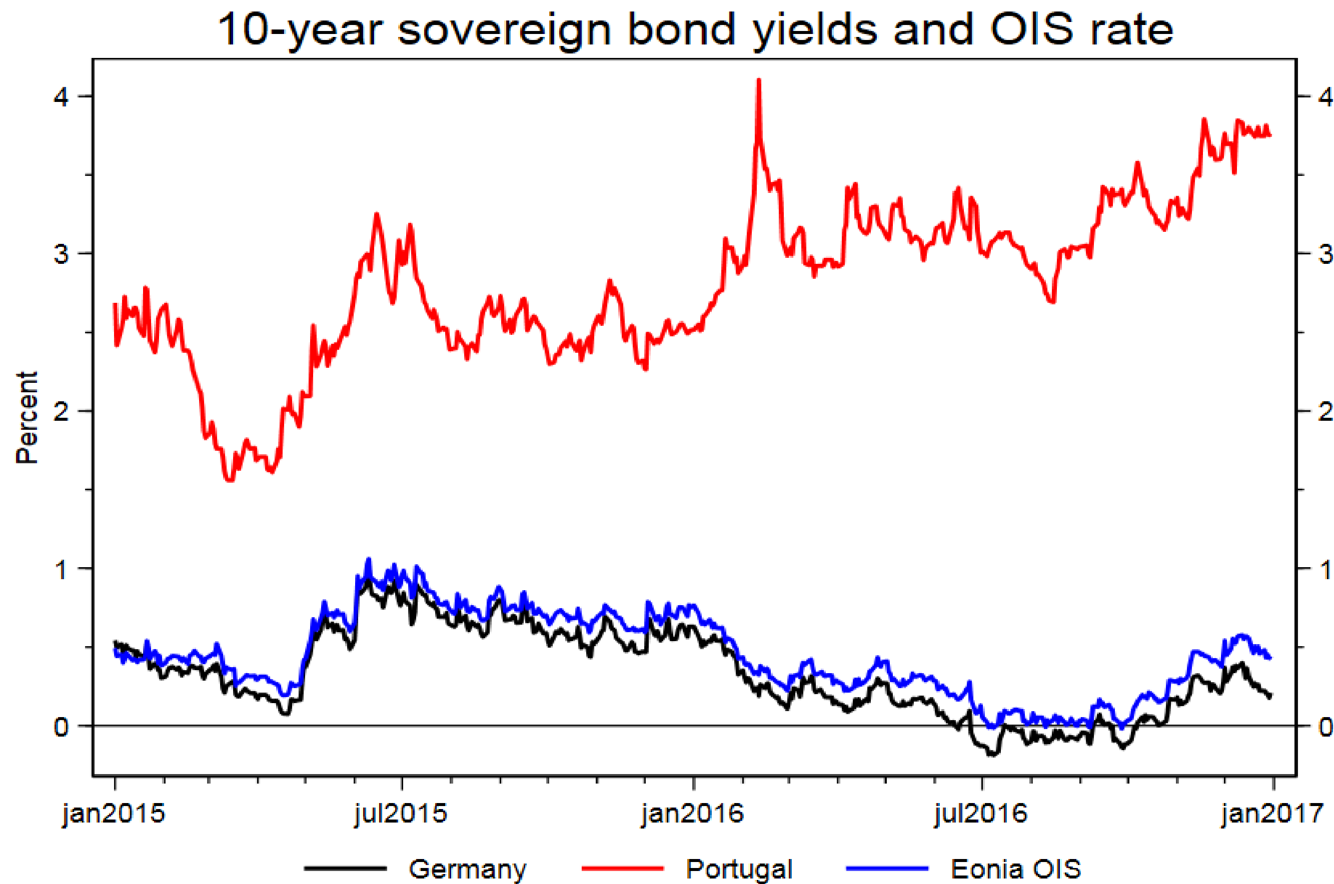
Rebuilding Social Capital: the role of Central Banks
Conference on the 175th anniversary of the Banco de Portugal

DBRS and ECB policy in Portugal in 2016



- The cause of the problem: ECB reliance on rating agencies to determine eligibility of government debt.
- The market implication: Extremely high penalty on the Portuguese people, in the form of an unwarranted spread on government debt.
- 21 October 2016: No downgrade, but: "The rating is not forever. In April, DBRS will revisit its rating, so for the next six months, Portugal's fate will again depend on a little-known credit agency based in Toronto". (FT, 24 October, 2016).

The ECB decision on 24 March 2022

- "Second, the ECB will no longer maintain the eligibility of marketable assets that fulfilled minimum credit quality requirements on 7 April 2020 but whose credit ratings subsequently deteriorated below the minimum rating threshold." (ECB, 2022.)

- Translation: ECB decided to return to the policy framework that is known to:
  - Rely on DBRS and other credit rating agencies for its monetary policy, in contrast to best practices followed by every other central bank.
  - Invite occasional avoidable crises in euro area sovereign markets.
  - Penalize the people of most member states by raising the cost of financing of government debt beyond levels warranted by fundamentals.
  - Promote economic divergences in the euro area, contrary to the ECB mandate.