



9th Annual
Macroprudential Conference,
June 18-19, Amsterdam.

DeNederlandscheBank

EUROSYSTEM

Discussion of

Asset Purchase Rules in the Euro Area and their Effects on Bond Markets

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9th Annual Macprudential Conference
Organized by the DNB, Riksbank, Bundesbank and CBI
Amsterdam, June 18-19

Great Topic and Timing

FT Alphaville **Gifts** [+ Add to myFT](#)

Britain's quantitative tightening will hurt us for a long, long time

Ugly QT needs a rethink — fast



In 2049, the Earth will look like this and the UK will still be overpaying on Entertainment

Christopher Mahon

Published MAY 16 2025

FT Alphaville **Bank of England** [Added](#)

Oh no they've posted about quantitative tightening again

QTful ones



FT Alphaville **UK quantitative easing** [+ Add to myFT](#)

The Bank of England's bond sales might finally become a hot topic. Does the OBR care?

Call of QT: Bank ops



Louis Ashworth

Published JUN 3 2025

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FT Alphaville **Monetary Policy Committee UK** [Added](#)

The Bank of England's balancing act

QT stays in the the MPC's hands... for now

[26](#) [26](#)



any excuse to listen to this BANGER again © Disney/Mulan via YouTube

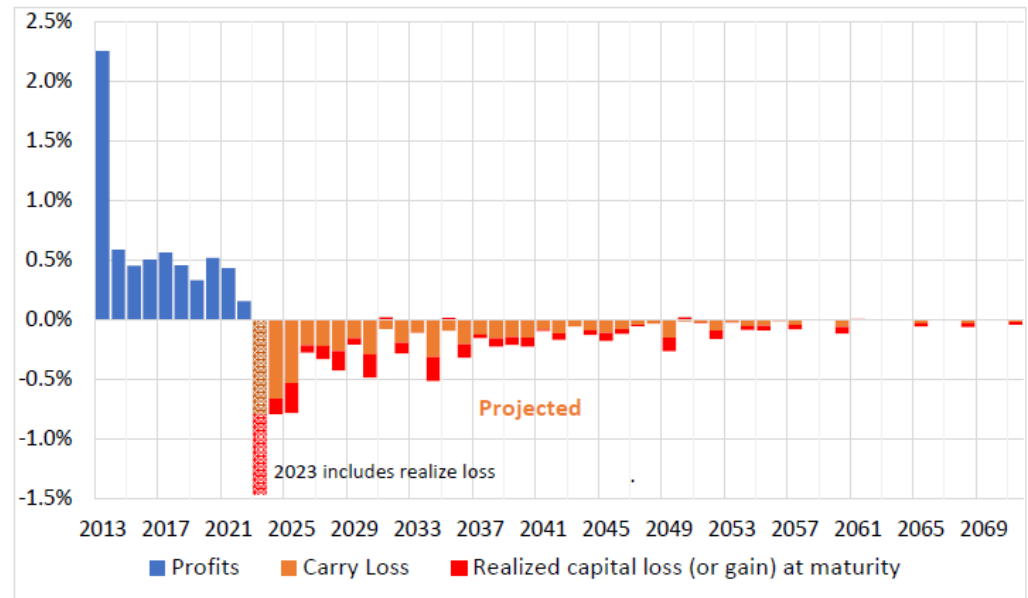
Louis Ashworth

Published JUN 11 2025

Why So Much Attention?

1. Evaluation of central bank responses to pandemic
2. Concerns about “expansion of reach” of central banks since 2008
3. Fiscal implications

Figure 2: Bank of England Asset Purchase Facility Net Profits and Losses, 2013 to 2071



Source: Stephen Cecchetti and Jens Hilscher (2024). “Fiscal Consequences of Central Bank Losses,” *NBER Working Paper 32478*, May.

Latest Thinking on Bond Purchases

1. Keep tool in “toolkit”
2. Use asset purchases “more judiciously” in future
3. Clarify goal of any purchases
4. Design framework of purchases to match goal
5. Consider costs as well as benefits

****KEY TO EVALUATION:**

BETTER UNDERSTAND CHANNELS HOW THEY WORK



Channels



Signaling (rates lower for longer)



Duration (term premia ↓)



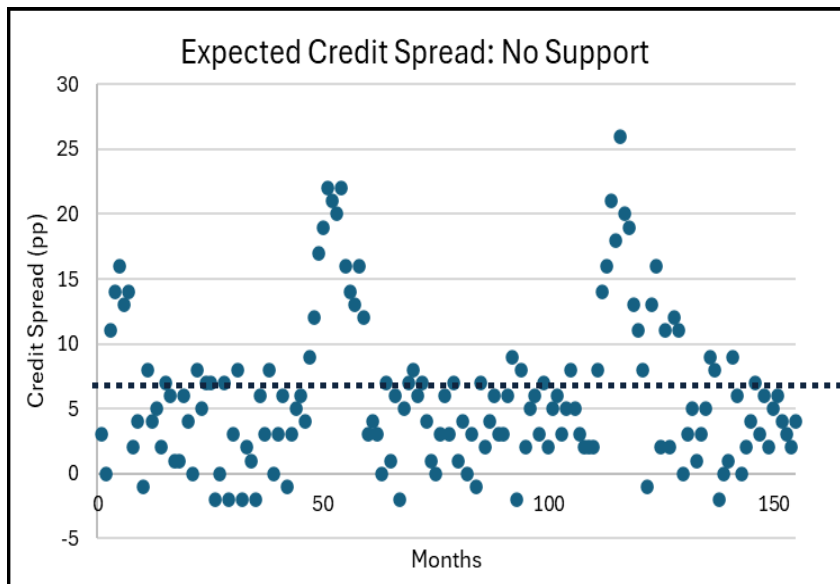
Liquidity / market functioning



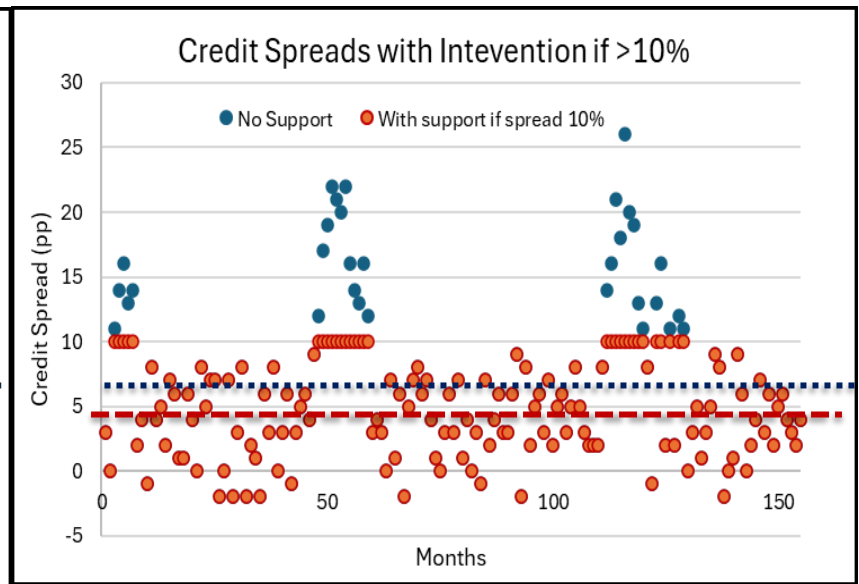
Credit risk ↓



Main Result Intuitive



Mean = 6%



Mean = 4.8%

Just moral hazard?

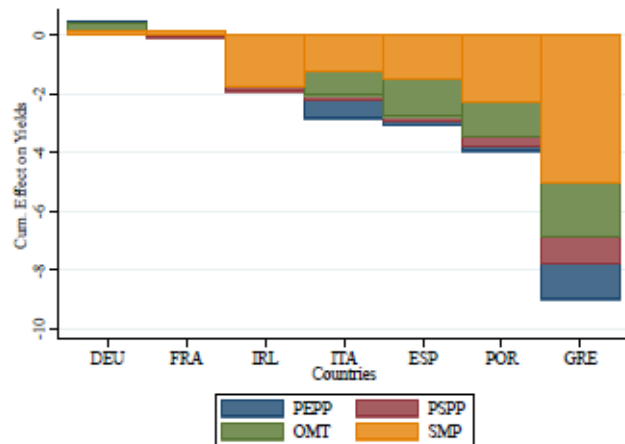
Making the Case

- Paper pulls together wide range of supporting evidence
 - Empirical patterns
 - ECB purchases vs. sovereign credit risk
 - Announcement effects of asset purchases by country/program
 - Regressions: sovereign spreads vs fundamentals
 - Options data
 - Theoretical model
- All support credit risk channel for asset purchases in EA
 - Creative use of diverse data
- **BUT also other explanations for many of these patterns**
 - Can we rule out other channels?
 - Ideas for some more convincing empirical tests



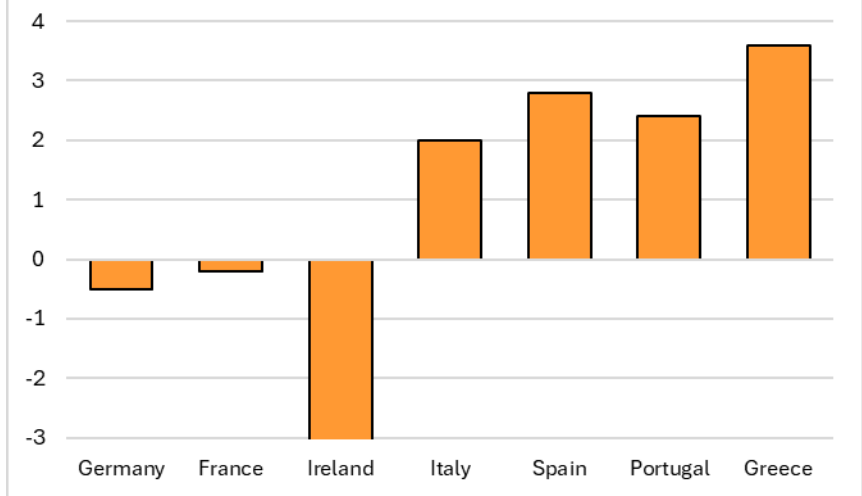
Example 1: Signaling or Credit Risk?

Panel B: Announcement Effects by Program, Select Countries



Source: Haddad, Moreira and Muir (2025)

Net Interest Payments (% of GDP) in 2009



Source: Based on data from ECB, Directorate General Statistics as reported in Dias (2010)

Example 2: Relationship Between Debt and Bond Spreads

Regressions: Spreads on 10-year Govt Bonds (vs. US Treasuries)

	HMM Results-Euro area		Euro area	
	2000-2011	2012-2023	2000-2011	2012-2023
ln(Debt/GDP)	0.09**	-0.01*	5.72**	-3.01*
Govt deficit/GDP	0.07	-0.07	0.27	-0.08***
GDP Growth (5 yrs, lagged_	-0.03	-0.02**	-0.63	-0.30*
Unemployment rate	0.13**	0.13**	0.35	0.15*
Dummy: EA * ln(Debt/GDP)				
Observations	110	130	139	107
R-squared	0.56	0.65	0.37	0.51
Number of IFS_code	10	10	12	12



Example 2: Relationship Between Debt and Bond Spreads

Regressions: Spreads on 10-year Govt Bonds (vs. US Treasuries)

	HMM Results-Euro area		Euro area		AE, non Euro area	
	2000-2011	2012-2023	2000-2011	2012-2023	2000-2011	2012-2023
ln(Debt/GDP)	0.09**	-0.01*	5.72**	-3.01*	-0.03	-1.72**
Govt deficit/GDP	0.07	-0.07	0.27	-0.08***	-0.06*	-0.06
GDP Growth (5 yrs, lagged_	-0.03	-0.02**	-0.63	-0.30*	-0.10	-0.23
Unemployment rate	0.13**	0.13**	0.35	0.15*	-0.28**	-0.01
Dummy: EA * ln(Debt/GDP)						
Observations	110	130	139	107	105	107
R-squared	0.56	0.65	0.37	0.51	0.15	0.17
Number of IFS_code	10	10	12	12	10	10



Example 2: Relationship Between Debt and Bond Spreads

Regressions: Spreads on 10-year Govt Bonds (vs. US Treasuries)

	HMM Results-Euro area		Euro area		AE, non Euro area		Full Sample	
	2000-2011	2012-2023	2000-2011	2012-2023	2000-2011	2012-2023	2000-2011	2012-2023
ln(Debt/GDP)	0.09**	-0.01*	5.72**	-3.01*	-0.03	-1.72**	-0.22	-1.52**
Govt deficit/GDP	0.07	-0.07	0.27	-0.08***	-0.06*	-0.06	0.19	-0.059*
GDP Growth (5 yrs, lagged_	-0.03	-0.02**	-0.63	-0.30*	-0.10	-0.23	-0.44	-0.28**
Unemployment rate	0.13**	0.13**	0.35	0.15*	-0.28**	-0.01	0.25	0.15***
Dummy: EA * ln(Debt/GDP)							6.27***	-1.45
Observations	110	130	139	107	105	107	245	219
R-squared	0.56	0.65	0.37	0.51	0.15	0.17	0.31	0.38
Number of IFS_code	10	10	12	12	10	10	23	23

Other Ideas

- Estimate announcement effect of Transmission Protection Instrument (TPI) in July 21, 2022
 - Clearest test aimed at addressing “unjustified increase in borrowing costs”
- Estimate effects of QT announcements?
 - Data set already available, Du, Forbes and Luzetti, 2024, “Quantitative Tightening around the World: What Have We Learned?”
 - Evidence of QT working through signaling & duration (for active QT) effects
 - QT significantly reduces convenience yields
 - Are effects of QT asymmetric to QE? No credit risk channel? Impact on convenience yields?
- When estimate announcement effects on spreads, why not include cross-country regressions with dummy interacted with credit risk?



Conclusion

- Timely and important paper
- Agree with conclusions
- But could strengthen tests to assess relative importance of credit channel vs. other channels

