

# Spillovers of the ECB's non-standard monetary policy into CESEE economies

Alessio Ciarlone

Andrea Colabella

Discussion by Urszula Szczerbowicz (Banque de France)

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## Did the ECB's non-standard policies have an impact on on the financial markets in CESEE economies?

- Authors evaluate the ECB asset purchases impact on:
  - nominal exchange rates, long-term sovereign yields, stock market indices and portfolio inflows to CESEE economies (event study, daily and weekly data);
  - cross-border portfolio flows and international bank lending (fixed-effect panel regressions, quarterly data).
- The results show that the ECB asset programs caused:
  - an appreciation of CESEE currencies, an increase in domestic stock market indices and a moderate compression of the long-term CESEE sovereign yields.
  - an increase in international bank lending and cross-border portfolio flows to CESEE economies.

## An interesting evidence on the ECB spill-over effects

- While the impact of the Fed's quantitative programs is widely discussed, the evidence on the ECB's spill-over effects is scarce.
- Yet, studying the impact of the ECB policies in CESEE countries such as Poland, where foreign banks represent over 75% and lending in euro is high, is important for both CESEE countries (impact on their growth) and the euro zone (potential spill-back effects).

## Challenge: identification of the ECB asset purchase impact

### Event study

- Using weekly data for the portfolio flows limits the potential to capture the causal relationship between the ECB announcements and the flows as other events could occur in the same week.
- Other ECB and European policy actions were announced on the same day as asset purchases. For instance, the EFSF was announced at the same time as the SMP, 1-year LTRO when CBPP. Including separate dummies for exceptional liquidity, asset purchases and EFSF/ESM announcements could help to distinguish the effects.
- ECB announcements could have been anticipated (the start of CBPP1, CBPP2 or a release of operational details of ABSPP and CBPP3 for instance). Some discussion on the 'surprise' of the announcement component would be useful.

## Challenge: identification of the ECB asset purchase impact

### Fixed-effect Panel Regressions (1)

- To measure the effects of ECB asset purchase on capital flows authors use instrumental variables: the changes in the euro area liquidity and financial conditions (credit, M2, LT yields and sovereign spread) attributable to the ECB purchases.
- To isolate the effects of ECB asset purchase on the nominal credit for instance, they regress nominal credit on ECB asset purchases one quarter ahead.
- Then they use the difference between the actual credit and what the credit would have been without ECB purchases as an explanatory variable in portfolio flows and international lending regressions.

## Challenge: identification of the ECB asset purchase impact

### Fixed-effect Panel Regressions (2)

- Can we be sure that the changes in the euro area liquidity and financial conditions are due to the ECB asset purchases?
  - Nominal credit (monthly frequency), LT yields, yield curve slope and sovereign spreads (weekly frequency) could have been affected by other factors non included in the regression.
  - Moreover, LT yield and sovereign spreads react to ECB purchases as much as ECB purchases react to yields and spreads.
- ECB asset purchase announcement dummies are attributed to the whole quarter. Other events could have happend in this period.
- Instrumenting the ECB asset purchases with their impact on financial markets around the ECB announcements might be a good idea (Karadi and Gertler 2015).

## Economic significance of the results (event study)

- ECB dummy appreciates the nominal spot FX by 0.05% while JPMorgan volatility index depreciates it by 2.60%.
- ECB dummy reduces the nominal 10-year yield by 1.4 bp.
- The R2 is equal to 0.00 for 10-year yields, All capital flows and for Bonds.
- It would be useful to discuss numerically the coefficients (interpretation of the 0.4 stock market index coefficient and the 1.83 capital flows coefficient).

## ECB non-standard policies vs ECB asset purchases

- Before 2014 the main non-standard policies of the ECB were exceptional liquidity provisions (LTROs, FRFA). They also could have impacted the capital flows to CESEE economies. Is there a way to account for them in the paper?



# Conclusions

- Carefully done and written paper that treats an important question.
- Some discussion about the extent of the causal relationship captured would be useful.