

Discussion of the Paper
“The Financial and Macroeconomic Impact of the
ECB’s Expanded Asset Purchase Programme
Announcements”
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My reading of the paper

- **Most studies so far use constant coefficients linear models to assess the macroeconomic effects of the APP (announcements)**
- **This paper quantifies the macroeconomic effects of two announcements of the APP (Jan 2015 and March 2016) using a TV coefficients VAR-X with stochastic volatility and a novel? shock identifying scheme**
- **Main findings:**
 - **Significant positive effects of the APP announcements on real economy activity (in the short run) and the HICP (more persistently)**
 - **Less significant effects on financial variables (yield curve, loans, stock prices, exchange rate)**
 - **Evidence of the working of the portfolio rebalancing channel, exchange rate channel and credit channel?**

Main comments

- **VAR analysis to assess the macroeconomic impact of the APP has major drawbacks:**
 - **Quarterly/monthly data frequency, identification of the announcement shock is difficult**
- **VAR contains exogenous “dummy” variable (unexpected part of asset purchases) which allows identification of announcement shock:**
 - **Split into expected and unexpected components of asset purchases is arbitrary**
 - **Identification with policy surprise variable and zero restriction is not really new, see Jarocinski and Karadi (2017)**
 - **Small-scale VAR models lack economic interpretation**
- **Is setup general enough to be used for other announcements shocks?**
 - **Why are APP announcements in Dec. 2015 and 2016 not considered?**
- **Significance of the results is poor (except for inflation)**
 - **Inflation effect (1% after 8 months) is implausibly high**

Pros and cons of VAR analysis vs. event study approach

	VAR analysis		Event study	
Data frequency	quarterly	monthly	daily	minutes
Endogeneity/reverse causality	yes, but try to control for it		very limited	
Identification of announcement shocks	difficult		easier with high-frequency data	
Abstracting from events/developments between announcements	no		yes	
Assessment of overall effect of APP	possible		not possible	
Modelling of the transmission mechanism/macro-economy	yes		no	

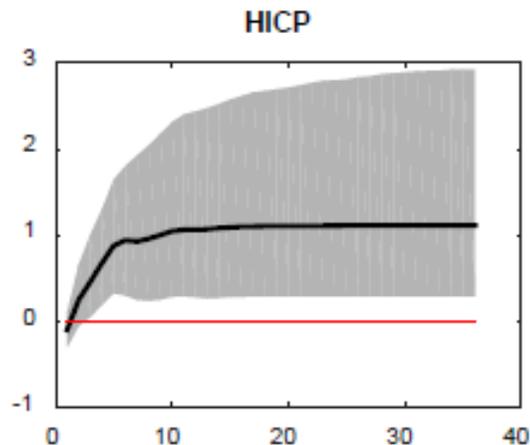
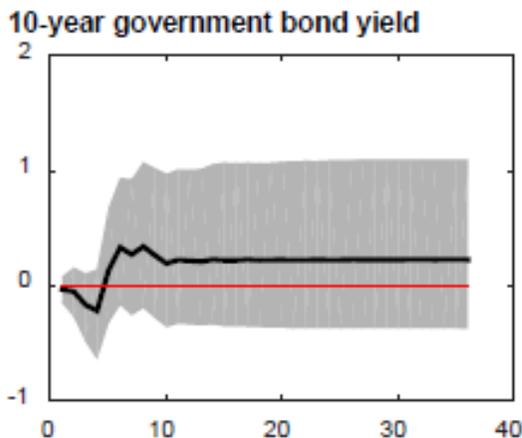
- **Identification of announcement shocks is easier the higher the frequency of the data**
- **Assessment of the overall effect of QE programmes not possible with event studies**

The modelling choices

- **VAR models contain dummy for APP announcements (exogenous) and only 3 endogenous variables:**
 - **Why is number of variables in the VAR limited to 4?**
 - **Why not include inflation and real economic activity together in the VAR to model the full transmission mechanism/macroeconomy?**
- **Even though the dummy for APP announcements is treated as endogenous in the model, it should not be interpreted as such**
- **Selection of considered APP announcements and split into expected and unexpected part of announcements are arbitrary:**
 - **APP announcement in Dec. 2015 was disappointing → according to the logic in the paper it would have been a negative shock**
 - **Reduction in purchases in Dec. 2016 would also have been a negative shock**
 - **APP announcements consist of much more than the volume of purchases: duration of the programme, eligible assets, reinvestment policy, etc.**
 - **Proportion of unexpected part of announcements is probably announcement-specific**

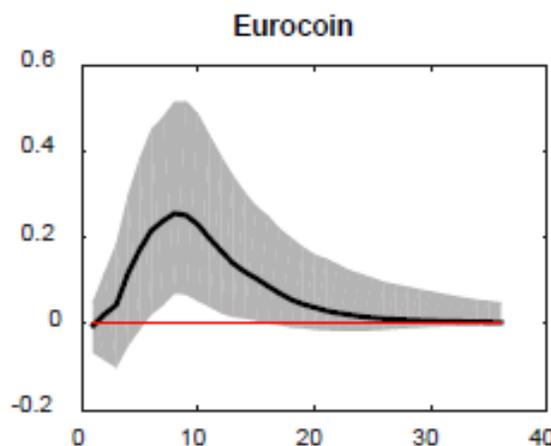
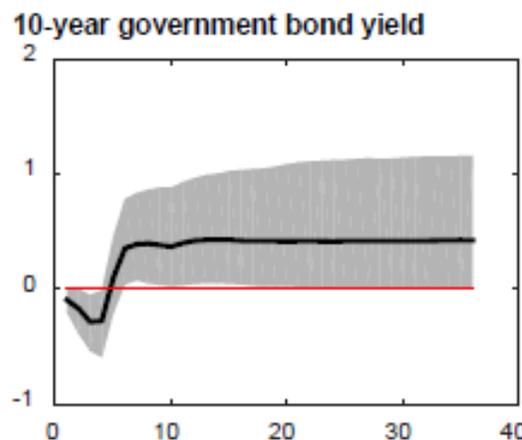
Significance of the results?

Inflation: Jan 2015 shock



- Effect on inflation should be reported in y-o-y growth rates
- 1% only for first APP announcement is implausibly high
- Andrade et al: 0,4% (total APP)
- Wieladeck et al: 0,9% (total QE)
- Blattner and Joyce: 0,3%

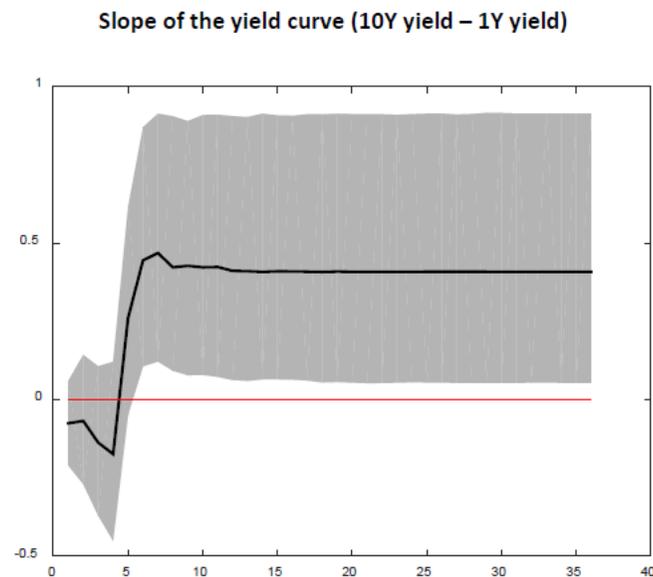
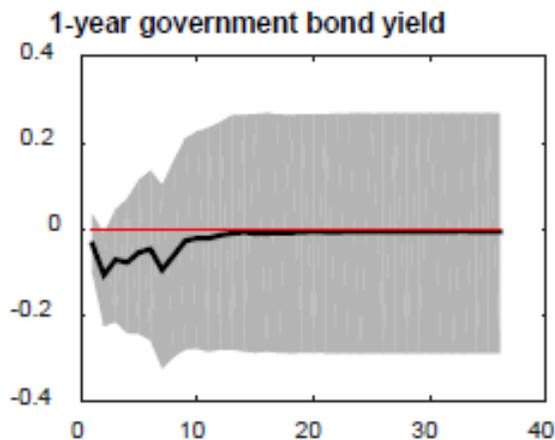
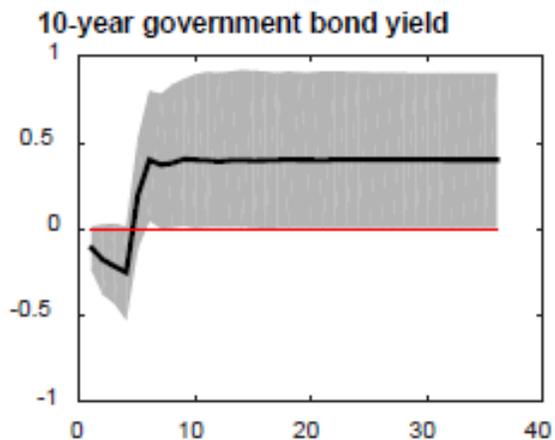
Real economic activity: Jan 2015 shock



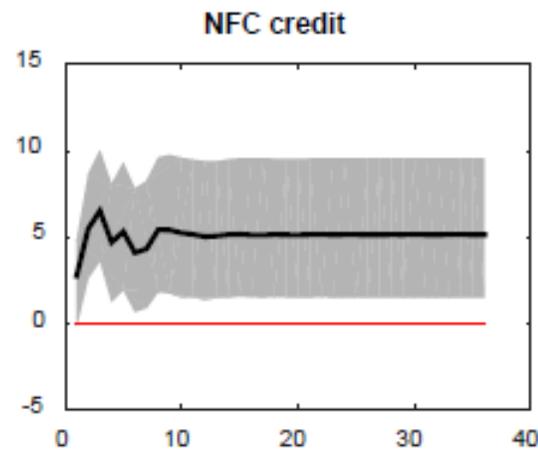
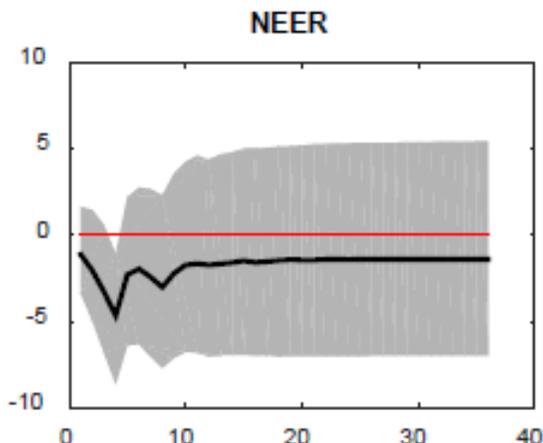
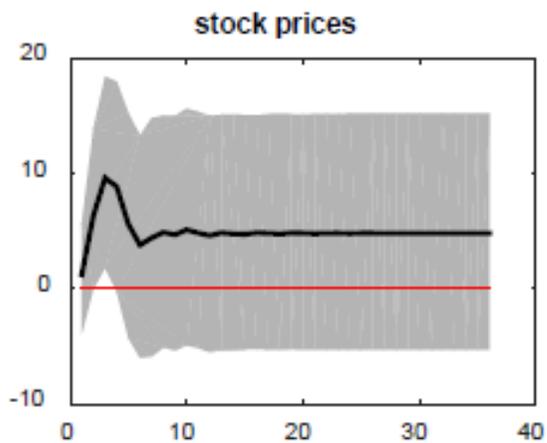
- Only significant between 8 and 12 months
- Insignificant for March 2016 shock

Significance of the results?

Interest rates and yield curve: Jan 2015 shock



Financial variables: Jan 2015 shock



Minor comments

- **As an alternative to the Eurocoin indicator industrial production or interpolated GDP could be used**
- **Results of the time-varying and non-linear features of the model are not discussed and linked to actual occurrences**
- **The effect of the announcement of a second set of TLTROs in March 2016 is not controlled for**
- **Why not enter the spread of short-run and long-run interest rates directly in the VAR?**

Conclusions

- **The paper combines VAR analysis with elements of event studies to identify announcement shocks**
- **This could be a fruitful avenue for future research but results need to be interpreted carefully**
- **Extend analysis to other QE announcements (also before 2015)**