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Quantitative Easing in the Euro Area - An Event Study Approach

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Quantitative Easing in the Euro Area - An Event Study Approach

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Abstract

We examine the effects of the Asset Purchase Programme (APP) gradually introduced by the European Central Bank from September 2014 onwards. Echoing the most direct response, we study the short-term reaction of financial markets after APP press releases by looking at the development of bond yields and spreads around these releases. More precisely, we try to quantify different asset price channels such as the portfolio rebalance channel by measuring the cumulative decrease in the conditional Bond-OIS spreads resulting from APP press releases. Also, we test for the strength of different asset price channels by running event regressions for several Euro Area countries. We find that the effects in yield and spread reduction were most pronounced for the announcement on the Public Sector Purchase Programme (PSPP) but declined afterwards for every additional announcement. Possible explanations for this are the declining degree to which the ECB surprised markets and the increasingly burdensome institutional set-up of the APP.

JEL Codes: E43, E44, E52, E58, G14

Keywords: Large Scale Asset Purchase, Yield curve, Quantitative Easing, APP, Event study.

1 Introduction

After a severe drop in inflation rates and medium-term inflation expectations during 2014, the European Central Bank gradually introduced the Asset Purchase Programme (APP) with a total monthly purchase volume of between 60 and 80 billion EUR¹. In fact, headline inflation plunged to -0.6% in January 2015, with core inflation, excluding more volatile goods such as oil or energy prices, showing a clear downward trend since 2012. Being in danger of missing its inflation target in the short and medium-run, the ECB consequently emphasized that the ultimate aim of this quantitative easing (QE) program is to fulfil its mandate of maintaining price stability. Accordingly, the ECB officially stated that “(the Asset Purchase Programme) will help to bring inflation back to levels in line with the ECB’s objective”². In this respect, figure 1 may be interpreted as some first evidence that the announcement of the 60 billion EUR Public Sector Purchase Program in January 2015 may have helped to stop the deflationary downward spiral, at least temporarily. However, despite this important policy announcement by the ECB, inflation by June 2016 did not recover to its target rate of below but close to 2%, but fluctuated around 0% instead.

In comparison to other major central banks, both the US Fed and the Bank of England introduced various conventional and unconventional monetary policy measures during the global financial crisis of 2008-09, including large QE programs. Whereas both of these central banks purchased domestic government bonds on a large scale, the ECB at that time rather focused on buying covered bonds and provided exceptional liquidity measures to banks³. Because some member countries in the Euro Area were worried about potentially strong effects on inflation, other unintended consequences, or the compatibility of a QE program with European law, the European Central Bank avoided large purchases of government bonds during the financial and European debt crisis.

The early phase of unconventional monetary policy measures after 2008 has been studied intensively by the literature with three main conclusions emerging. First, the strongest reaction of markets is expected to occur upon announcement while the effects from the actual execution of the program are minor in comparison. These two effects are often referred to as “stock” versus “flow” effects. Second, among several possible channels proposed by the literature “narrow channels” (targeting just a few asset) usually seem to have stronger effects compared to “broader channels” (aiming to effect also other market segments via spill-over effects). Finally, asset purchase programs that were conducted in times of stressed markets and high uncertainty seem to have a stronger impact than programs that were announced when market conditions relaxed⁴. In this respect, it is notable that the European Central Bank started its QE program in times when financial markets were relatively calm suggesting rather minor effects from it.

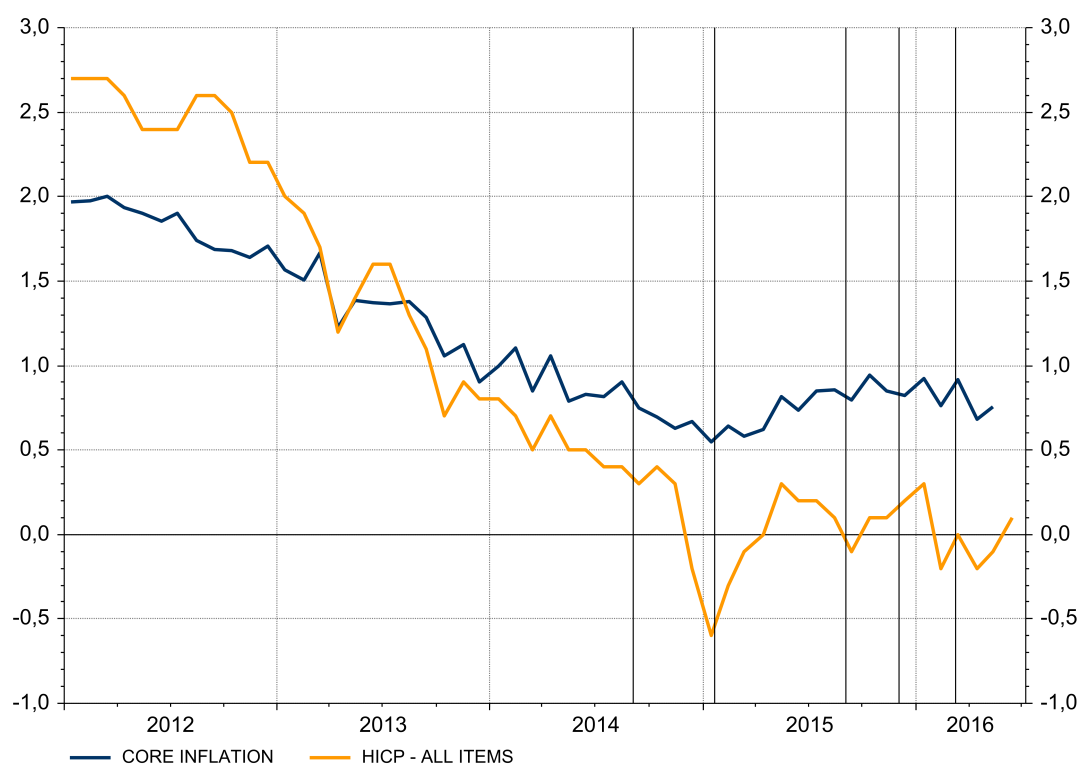
¹The initial size of 60 billion EUR per month was increased to 80 billion EUR in March 2016 and lowered again to 60 billion EUR in December 2016. See section 2 and section 5 for details.

²For more details see the ECB’s website <https://www.ecb.europa.eu/explainers/tell-me-more/html/asset-purchase.en.html>.

³These encompassed three-year loans to eligible banks, unlimited liquidity provisions via an fixed-rate full-allotment procedure, or lowering the deposit rate to zero.

⁴For a more detailed discussion see for instance Krishnamurthy and Vissing-Jorgensen (2011), D’Amico and King (2013), Joyce and Tong (2012), or Altavilla et al. (2015).

Figure 1: HCPI And Core Inflation in the Euro Area



Source: Datastream. Vertical lines indicate APP announcements

As it remains too early to judge the wider impact of the APP on macro-economic conditions in the Euro Area, this paper examines if the ECB has been successful in achieving the intermediate goal of lowering long-term bond yields. Reducing these yields should flatten the yield curve, lead to more credit to the real sector, increase aggregate demand, and, ultimately, also increase inflation. To find some first evidence whether this necessary pre-condition has been achieved, we use an event-study methodology to examine the effects of APP press releases on bond yields. More precisely, we systematically search for key ECB policy announcements and consider how selected Euro Area bond yields were affected by different asset price channels. Most importantly, we examine how the conditional Bond-OIS spread, being a proxy for the effect of portfolio rebalancing⁵, changed during our events.

Our analysis suggests that the ECB's policy had strong and desired effects on financial markets at the very beginning, but less so subsequently. As a result of the portfolio rebalancing channel and potential reduction in credit risk we estimate a cumulative reduction in yields of Euro Area government bonds ranging from 85.80 BPS for Portugal and only 5.91 BPS for Germany. In our view, possible explanations

⁵Under the assumption that assets are not perfect substitutes Tobin (1969), among others, argued that a change in the relative supply of a specific asset, e.g. due to an intervention by the central bank, must result in a change in the relative expected return of the asset, all else equal. Suppose the QE policy of the central bank leads to a rise in the price for a long-term government bond and, hence, to a drop in the expected return of an investor's portfolio. Keeping the desired expected return of her portfolio constant, the investor now needs to buy other assets with broadly similar characteristics in terms of risk or maturity to maintain the overall expected return of her portfolio. Thus, via the *rebalancing* of investors' portfolios the price and yield of other assets are also changing.

for such mild effects for some Euro Area countries are the timing of the APP program and the strict self-imposed regulations by the ECB. Notably, the ECB decision to not buy bonds trading below the deposit facility could potentially dampen positive effects from the APP program⁶. In contrast, the much stronger reductions for periphery countries like Portugal or Italy suggests that markets implicitly also lowered the risk premia for these countries.

The remainder of this paper is organized as follows. Section 2 describes some important institutional details of the ECB’s QE program. Section 3 reviews the large and growing literature on different QE programs and their success so far. Section 4 describes the theoretical considerations for measuring the portfolio rebalance channel by the Bond-OIS spread. Section 5 outlines the data set in detail with special focus on identifying event dates. Next, the reaction of bond markets is presented in section 6 followed by an event regression in section 7. Section 8 concludes.

2 APP Institutional Details

Due to the incomplete integration of the current Monetary Union the Asset Purchase Programme conducted by the ECB has some important regulations and characteristics with respect to its design. As we will argue, some of these regulations may seriously dampen the desired effects of the APP.

To begin with, the APP is actually an umbrella term for four different purchase programs: the Third Covered Bond Purchase Programme (CBPP3), the Asset-Backed Securities Purchase Programme (AB-SPP), the Public Sector Purchase Programme (PSPP), and the Corporate Sector Purchase Programme (CSPP). In total, the ECB’s asset purchases under the APP have a target rate of 60 to 80 billion Euro per month, which accumulated to 1,084,583 million Euro as of June 2016. Table 1 summarizes the main features of each program while figure 2 illustrates the cumulative purchases over time, indicating that in terms of scale the PSPP is by far the largest.

Even though the programs differ considerably by size and scope they also share some common features. First of all, all APP programs are in principal open-ended and are intended to continue until the ECB sees the inflation rate back on track on a sustained inflation path in line with the ECB’s target rate of close to but below 2%. As a benchmark the program was initially intended to last at least until September 2016, which has already been extended twice, first, to March 2017 and, a second time, to December 2017.

Secondly, important aspects to notice are the regulations concerning hypothetical losses from the ECB’s asset purchases. Unlike a national central bank the ECB is not owned by a national government but by all the National Central Banks from each member state. Talking into account this unique institutional structure of the Euro Area, the majority of the asset purchases are conducted in the home market of each National Central Bank according its respective capital share in the ECB. Subsequently,

⁶In fact, the ECB has somewhat eased this constraint in the Monetary Policy Decision of December 2016 by stating that under the APP purchases with a yield below the deposit facility “will be permitted to the extent necessary”. See <https://www.ecb.europa.eu/press/pressconf/2016/html/is161208.en.html>

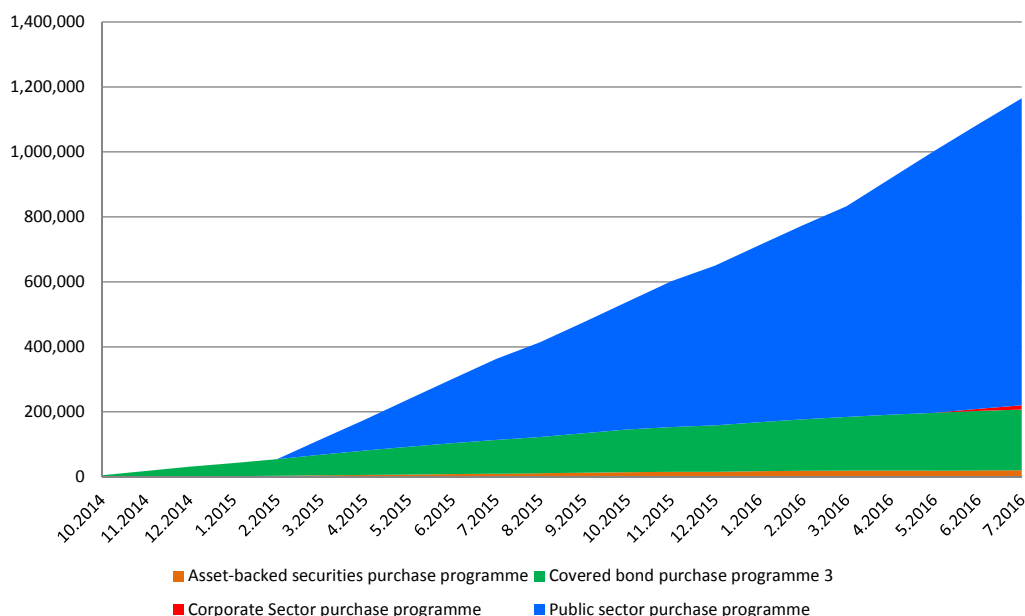
in case of a hypothetical default of e.g. a single Portuguese government bond bought by the Banco de Portugal, only the Banco de Portugal would incur the respective loss for this bond⁷. Note, however, a smaller part of asset purchases of about 20% are conducted directly by the ECB. Hypothetical losses to these purchases will be subject to loss sharing.

Table 1: Asset Purchase Programme Overview

Program	Monthly Net Purchases	Total Holdings	In Percent	Start of Program
CBPP3	3,258	183,377	16.02	October 2014
ABSPP	854	19,607	1.75	November 2014
PSPP	69,658	875,201	81.09	March 2015
CSPP	6,816	6,398	1.13	June 2016

Source: ECB; holdings at amortized cost, in euro million, at month end.

Figure 2: History of Cumulative Purchases under the APP



Source: ECB; holdings at amortized cost, in euro million, at month end.

Since the PSPP is by far the largest program it is the main focus of this paper. As the intended goal of the program is to lower long-term government bond yields (and therefore to increase investment spending and ultimately inflation) the ECB initially intended to buy only mid- and longer-term bonds with a remaining maturity of 2 to 30 years⁸. Yet, not all bonds bought by the ECB are government bonds. In fact, roughly 10% of bonds purchased are international organizations and multilateral development banks such as the EU or the European Investment Bank. Also, there is long list of regional governments or recognized government institutions, such as the German KfW or the French Caisse, which are eligible

⁷Given no other National Central Bank bought the same bond.

⁸Recently, the maturity has been lowered to one year.

for the bond buying program⁹. As already indicated the issue of collective liability and risk sharing is sensitive in the case of the ECB. Therefore, in order to avoid potential trade-offs in case of default, the ECB initially only bought bonds up to 33% per issuer and 25% per issue of a single bond, the idea being not to have a blocking minority in collective action clause assemblies. To increase flexibility, this rule was gradually increased to 33% per issue for public entities, subject to a case-by-case verification, and 50% of issuer *and* issue share for international organizations and multilateral development banks. Since the ECB does not publish a full list of bonds (and respective shares) bought, it remains unclear how strong this constraint might tightened the hands of the ECB. Some authors predicated that the ECB could hit these limits for e.g. German Bunds around March 2017¹⁰.

Additionally, another aspect jeopardizing a successful implementation of the PSPP is the current negative interest and yield environment. In order to avoid large losses from bond purchases, the ECB vowed to a self-imposed regulation of not buying bonds trading at a yield below the deposit facility rate. The ECB was the first large central bank to introduce negative interest rates by lowering the deposit facility to -0.1% in June 2014. Afterwards, the deposit facility has been lowered gradually down to -0.4% in March 2016. For details see figure 16 and 17 in the appendix. As we will see in section 5, under this constraint a large and increasing number of bonds are not eligible for the APP program¹¹. We will argue that these tight self-imposed regulations seriously constrain the ECB in a successful implementation of their QE program especially for Euro Area core countries.

3 Literature Review

A very large and continuously growing literature exists on the effects of Quantitative Easing programs. Since the start of the first QE program by the Bank of Japan in 2001 the topic raised increasing academic attention (see for instance Ugai (2006) for an early empiric assessment). However, the number of academic papers exploded after the financial crisis of 2008-09 when the US Fed, the Bank of England, the Bank of Japan, or the European Central Bank all started various kinds of asset purchasing or unconventional monetary policy measures. A strict categorization of different approaches in the literature is obviously difficult. Nevertheless, let us try to loosely group the literature into three different groups of papers: theoretical, long-term empirical and short-term empirical.

A first stream of literature considers how large asset purchasing programs can be built into standard New Keynesian models which mostly suggest irrelevance of such a policy as in Cúrdia and Woodford (2011). The necessary condition to break Wallace's irrelevance theorem¹² is the limitation of arbitrage, often modelled by assuming some kind of segmented asset markets, e.g. due to preferred-habitat motives as in Vayanos and Vila (2009). One example is Chen et al. (2012) where the authors aim to simulate the second Large-Scale Asset Purchase (LASP) program by the Fed, by augmenting a standard DSGE model

⁹Also note that ECB currently does not purchase any Greek government bonds.

¹⁰See Claeys et al. (2015).

¹¹See also figure (4).

¹²See Wallace (1981).

(with nominal and real rigidities) with segmented bond markets. According to the authors, their paper “wants to give LSAP programs a chance” [Chen et al. (2012), p. 290] by assuming that heterogeneous preferences for assets of different maturities exist leading to such kind of asset market segmentation. This implies that the long-term interest rate plays a role in determining aggregate demand distinctly from the expectation of short-term rates. Therefore, even if the central bank has already lowered the short-term rate to zero for an extended period and, thus, is constraint by the ZLB its monetary policy could still have a positive impact on the macro economy by directly influencing current long-term rates. By using a counterfactual evaluation what would have happened in the absence of the Fed’s LASP program Chen et al. (2012) find a modest increase in GDP of less than a third of a percentage point while inflation barely changes with or without the intervention.

A second stream of literature focuses on the long-term impact of quantitative easing. These papers often make use of various kinds of VAR estimation to study the effects on financial markets and the real economy. Examples include Schenkelberg and Watzka (2013) for the Bank of Japan, Boeckx et al. (2014), and Lewis et al. (2015) for the ECB, or Kapetanios et al. (2012) for the Bank of England. An interesting cross country analysis focusing on the long-term effects of QE is Gambacorta et al. (2014). In their paper, the authors evaluate different unconventional monetary policies from eight advanced economies and their effects on the real economy by estimating a panel VAR with monthly data. Arguing that the global financial crisis has been an important common factor in the business cycle of the sample countries, the authors try to exploit the cross-country dimension and focus on a rather short time span from January 2008 to June 2011 with monthly data. By using a mean group estimator and following the standard approach of Pesaran and Smith (1995) to account for cross-country heterogeneity in e.g. monetary policy design Gambacorta et al. (2014) find that, if the central bank is at the ZLB, an exogenous increase in its balance sheet translates to a temporary increase in output and consumer prices.

Finally, a third stream of literature examines the short-term effects on financial markets. Many papers do so by the means of event studies, or term structure models, or both. See for instance Krishnamurthy and Vissing-Jorgensen (2011), Gagnon et al. (2011), D’Amico and King (2013), and Chodorow-Reich (2014) for the Fed policy, Eser and Schwaab (2016), Szczerbowicz (2015), and Altavilla et al. (2015) for the effects in the Euro Area, or Christensen and Krogstrup (2014) for the Swiss National Bank. Also, some authors focus on international spill-over effects on other financial assets due to QE announcements such as Neely (2015) or Fratzscher et al. (2014). Our work is most closely related to Joyce, Lasaosa, et al. (2011) who examine the impact of the Bank of England’s QE policy on British gilts. More precisely, their event study investigates how QE announcements by the BoE have affected government bond markets in the short-run and how this is, in turn, has translated more widely to the prices of other financial assets. Using a two-day window, they find that asset purchases by the BoE could have lowered medium- to long-term gilt yields by about 100 basis points cumulatively, which mostly results from the portfolio rebalance effect.

Summarizing, many authors do seem to find a positive impact of asset purchase programs on financial

markets at least in the short-run. This is especially the case in times of financial crisis and general uncertainty. However, the longer-term effects on the real economy are less clear. One reason for this is obviously the fact that it is empirically harder to clearly identify the effects of a QE policy on the macro economy from other things happening at same time. Moreover, from a theoretical point of view there is no clear consensus in the literature if and how asset purchase programs may be transmitted to the real economy.

4 Measuring Asset Price Channel

With the introduction of a full scale QE program the ECB tries to fulfil its mandate of maintaining price stability. Given this target of bring inflation back on track; it might not be apparent why we focus on financial markets. From an econometric point of view, measuring the wider impact of the APP on general asset prices or macro-economic variables for a longer-term is a difficult task since it is very hard to disentangle it from other influences. This is especially true for a not fully integrated monetary union of different countries where uncoordinated national fiscal policies or regulations might support or counteract a common monetary policy. Moreover, even in the case of fully independent domestic monetary policy, the transmission mechanism of a QE program to the macro economy could be subject to long lags or be polluted by other policies and developments be it domestic or international. Thus, we should expect to see the most direct and clearest impact of the APP program on the financial markets. If the QE program by the ECB does not even prove to be effective on the financial markets, it is rather unlikely it will be effective for the rest of the economy. Put differently, one might interpret a positive response of asset prices as a necessary but not a sufficient condition for the APP program to reach its ultimate goal of raising inflation to normal levels.

Therefore, in this paper we try to answer the question if at least the necessary condition has been satisfied. In doing so, we build on a similar methodology as in [Joyce, Lasasosa, et al. \(2011\)](#) and apply it to the Euro Area taking into account the specific institutional set up of the Euro Area and the large cross country heterogeneity. More precisely, we try to identify the strength of the portfolio rebalance channel using the government Bond-OIS spread. In this framework, we think of four different channels from which the Asset Purchase Programme by the ECB could have a potential impact on government bond prices, namely the signalling channel, the portfolio rebalance channel, the liquidity premium channel, and the credit risk channel.

The *signalling channel* – sometimes also labelled as the policy news or macro news channel – reflects all new information that market participants learn from ECB press releases or policy announcement about the economy or the ECB's reaction function. Typically, after a policy announcement the President of the ECB Mario Draghi explains the decision of Governing Council in a press conference and reasons how the Council sees the underlying state of the economy. Thus, this channel also captures the expectation formation of economic agents about future ECB policy rates. A straight forward example is the Q&A

session after the press conference where Mario Draghi's answers and "signals" are frequently interpreted as direct or indirect hints about future ECB policy decisions. Note that this definition is rather broad and, therefore, includes the expected path of future short-term interest rates. Hence, as market participants are revising their perception of future term premia, this channel also directly effects a range of other financial variables such as government bond yields, the OIS rate, or even the exchange rate. However, the overall sign of this channel is uncertain in general. In fact, it could be either positive or negative depending on whether market participant pay attention to the decreased policy rates in the short-term, or, if they rather fear increased inflation in the future.

The second channel, which influences the yield of government bonds directly, is the *portfolio rebalance channel*. This channel refers directly to the response of investors which rebalance their portfolio after the announcement of the European Central Bank to purchase government bonds on the secondary market. The change in the relative expected return of the asset also changes the expected return of the whole portfolio of the investor. Therefore, as a result of imperfect substitutability between long-term government bonds and money the QE policy of the central bank can also indirectly affected the price and yield of other assets. More specifically, the ECB purchases of mid- and longer-term government bonds are expected to reduce yields on these bonds and also boost investors demand for alternative long-term investments. Moreover, since investors are now certain that future ECB purchases will happen on a large scale, the effects of this channel are likely to occur very shortly after the announcement and not just over time when actual purchases are made. In general, this channel could be persistent and potentially significant as it depends on the outstanding *stock* of bond purchases, which is considerable in the case of the Euro Area¹³.

Additionally, a central bank could improve the market functioning of bond markets via the *liquidity and credit risk premium channel*. In principle, the potential presence of the ECB in bond markets as a major buyer should decrease the risk premia for illiquidity of certain government bonds. The working of this channel has been best illustrated by Mario Draghi's famous "Whatever-it-takes" speech in July 2012 in the height of the Euro Area debt crisis. Even though the OMT program¹⁴ until today never bought a single Euro Area government bond, the very announcement was sufficient to substantially reduce the liquidity risk premia on Spanish or Italian government bonds. Since investors knew that they could always sell their bonds to the ECB when required made it significantly less costly for them to acquire them in the first place. Nonetheless, it is usually argued that this channel should be rather weak during normal times when government bond markets are deep and liquid. Put differently, this channel is likely to be temporary and the strength should depend to (potential) *flow* of purchases. As the Public Sector Purchase Programme was announced during rather calm times we would expect only minor effects from

¹³However, in traditional New Keynesian models the portfolio rebalance channel is non-existing at the ZLB. With a zero interest rate government bonds and money deposits are considered to be substitutes leading to a Ricardian equivalence type of argument. The only possibility how QE could be effective in this type of models is by changing the expected path of future short-term rates via the signalling channel. As we want to examine the strength of the portfolio rebalance channel, we are implicitly assuming financial markets to be incomplete or imperfect while being agnostic about the exact source of the friction.

¹⁴Formally announced two month later in September 2012.

it, especially for Euro Area core countries.

In our assessment how the APP program has influenced Euro Area government bond yields we utilize the Bond-OIS spread. An Overnight Index Swap (OIS) is a financial contract where a predefined fixed interest rate is swapped for a floating interest rate, which is usually linked to a compounded overnight interbank interest rate such as the Fed funds rate or the EONIA¹⁵. Since the counterparties only swap the flow of interest payments but not the principal, credit risk is not an important factor in an OIS contract¹⁶. Moreover, as the OIS market is very large and liquid¹⁷, and, as contracts are also collateralized we view the OIS rate as a proxy for the risk free rate.

More importantly, as OIS contracts involve swaps of interest payments their rate should not be directly influenced by a change in the expected supply on government bond markets (i.e. the portfolio rebalance channel), but, their rate should capture the change in the expected path of future short term rates (i.e. the signalling channel). Therefore, changes in the Bond-OIS spread reflect the effects from the portfolio rebalancing channel. This concept should become clearer when looking at the decomposed standard expression for bond yields.

First, let us break down the yields of a government bond into the expected path of future short-term interest rates, an instrument specific premium and a general term premium:

$$y(bond)_t^{n,i} = \left(\frac{1}{n}\right) \sum_{j=0}^{n-1} \mathbb{E}_t(r_{t+j}) + ISP(bond)_t^{n,i} + TP(bond)_t^n, \quad (1)$$

where $y(bond)_t^{n,i}$ represents the n -period maturity yield of country's i government bond and $\mathbb{E}_t(r_{t+j})$ is the expected path of the one period risk-free short-term rate. Additionally, $ISP(bond)_t^{n,i}$ reflects an instrument specific term premium which is due to the bond specific effects of country i . More precisely, this term captures any credit- or liquidity premia of country i , but, also any effects from supply/ demand imbalances. Furthermore, $TP(bond)_t^n$ denotes a term premium due to uncertainty about future short-term interest rates.

In a second step, let us decompose the yields implied by OIS contracts in a similar fashion.

$$y(OIS)_t^n = \left(\frac{1}{n}\right) \sum_{j=0}^{n-1} \mathbb{E}_t r_{t+j} + \underbrace{ISP(OIS)_t^n}_{\text{negligible: } \approx 0} + \underbrace{TP(OIS)_t^n}_{=TP(bond)_t^n}, \quad (2)$$

where $y(OIS)_t^n$ equals the n -period maturity rate of an OIS contract. Again $\mathbb{E}_t(r_{t+j})$ reflects all expected future risk-free short-term rates, while $ISP(OIS)_t^n$ denotes the instrument-specific premium. As described above, an OIS rate is considered to be a risk-free rate due to the absence of credit or liquidity risk, which is why this term is assumed to negligible and close to 0. Finally, $TP(OIS)_t^n$ refers to a conventional term premium due to uncertainty. In general, the uncertainty about future short-term

¹⁵For example, suppose a bank faces a contract with fixed interest payments but prefers variable interest payments – or vice versa. In such case, it could “swap” the flow of interest payment obligations with a counterparty.

¹⁶This feature has made it popular to interpret the LIBOR-OIS spread as a premium for overnight counterparty risk.

¹⁷This is certainly true for short and medium maturities. Indeed, the market for longer maturities is not as large and, thus, may involve a minor liquidity risk.

interest rates should be same for both the OIS and the government bond market. Hence, $TP(OIS)_t^n$ equals $TP(bond)_t^n$.

Finally, subtracting (1) from (2) yields a proxy for the portfolio rebalance effect:

$$Sp_t^{n,i} = y(bond)_t^{n,i} - y(OIS)_t^n = ISP(bond)_t^{n,i}. \quad (3)$$

As both the expected path about future short-term rates $\mathbb{E}_t(r_{t+j})$ and any uncertainty about this rate $TP(OIS)_t^n = TP(bond)_t^n$ cancel out, the spread yields the term $ISP(bond)_t^{n,i}$. Under the assumption that credit and liquidity premia on government bonds are negligible and not directly affected by the APP program¹⁸ a change in $Sp(bond)_t^{n,i}$ reflects demand/ supply changes from QE announcement via the portfolio rebalance channel for a given event day.

Moreover, given the specific institutional set up of the APP program and the fact the many bonds cannot be bought under current ECB regulations we calculated the change in $Sp(bond)_t^{n,i}$ as the conditional Bond-OIS spread.

$$\Delta Sp_t^{n,i} = Sp_{t+1}^{n,i} - Sp_t^{n,i} \quad \text{if } y(bond)_{t-1}^{n,i} > DF_t \quad (4)$$

Suppose a one day window for a given event date t . When using daily data, a change in the spread $\Delta Sp_t^{n,i}$ can only be affected by the APP program if the closing yield on the day before the announcement $y(bond)_{t-1}^{n,i}$ was above the new deposit facility DF_t valid from day t onward. As figure (4) reveals in detail in the next section, on several event days specific bonds have to be excluded from our analysis because they traded below the deposit facility and hence were not eligible for the APP purchases. Note, however, that in some instances bonds being previously ineligible in $t - 1$ can become eligible on event day t if the deposit facility itself has been lowered.

5 Data Set and Events

In this paper, we use daily yield data for nine different Euro Area countries: five so called core countries (Belgium, Finland, France, Germany, and the Netherlands) and four so called periphery countries (Ireland, Italy, Portugal, Spain). More precisely, for each country we look at zero coupon benchmark bonds ranging in maturity from 2 to 10 years. To calculate the Bond-OIS spread we match each benchmark bond with the corresponding OIS rate¹⁹. For the regression analysis we also included daily CDS premia and bid-ask spreads for each country and maturity. Additional control variables are the VIX volatility index and a 10 year US treasury benchmark bond. All this data is taken from Datastream.

¹⁸Clearly, this is a crucial assumption especially for some Euro Area countries. Despite the assumption being certainly credible for Germany it is shakier for e.g. Portugal or Ireland as credit risk is higher and bid-ask spread are more volatile for periphery countries. Even though we have found that liquidity premia and credit risk are not systematically influenced by our events, we cannot exclude the possibility of a reduction in credit risk for these countries. See discussion below in section 5 and 7.

¹⁹In principle, all zero coupon benchmark bonds are available also at longer maturities of up to 30 years. Unfortunately, the longest maturity available for the OIS rate is 10 years which limits our analysis accordingly.

This data is matched with news announcements of several macroeconomic variables for each country. This news data is taken from calendar function of the publicly available website tradingeconomics.com. A detailed list of these macro news variables can be found in section (7).

A crucial step in any event study is to choose “the right” events. Many different approaches have been taken in the literature. Some authors such as [Szczerbowski \(2015\)](#) or [Gagnon et al. \(2011\)](#) only look at official press releases, announcements, or decisions made by the central bank. However, we believe that this approach has two drawbacks. First, looking only at official releases does not indicate anything about the novelty of the information. If news are already widely anticipated by the market asset price do not tend to react too much, since the “new” information was already priced in²⁰. Secondly, adding to this argument, looking only at actual decision does not capture the building of expectations *prior* to an announcement. In fact, expectations of market participants about an upcoming decision could be influenced by e.g. press releases on the latest unemployment number or even by dinner speeches from the central bank’s president.

An alternative popular approach in the literature to identify events is to look at news data bases such as LexisNexis, Factiva, or Google News and to consider only these dates which yield the highest number of articles on a specific search query. This approach is for instance taken by [Altavilla et al. \(2015\)](#). Proponents of this identification strategy often argue that this procedure would better capture the expectation formation by markets and the surprise component. However, in our view this idea might also have potential downsides. Since newspaper often have a backward looking introduction, which might lead to a hit under a given search query despite the news article not reporting anything new, this method is likely to overestimate the truly relevant numbers of events²¹.

In our paper, we follow the event identification method of [Fratzcher et al. \(2014\)](#) to find a total of 10 event dates. In particular, we look at *all* ECB press releases from January 2014 to June 2016 and try to verify the informational value by simultaneously reviewing if these releases were covered by the Financial Times on first three pages on the next day. If this is the case, we regard this press release to be major news and included it in our list of event days illustrated shortly in figure 3 and in more detail in the appendix in figure 16 and 17.

One advantage of this method is that we are more likely to consider only truly relevant event days. Suppose a monetary decision was widely anticipated by the market, the Financial Times would most likely report about this decision, but it would probably not do it on the first three pages containing only the most relevant news of the day. On the contrary, even if during a ECB press conference no new decision with respect to monetary policy was announced but, instead, Mario Draghi hinted that the Governing Council is likely to reconsider its action in its next meeting, it is more likely that the Financial

²⁰Unless the new piece of information strongly surprise market participants.

²¹For example, the search query “Quantitative Easing <or> QE <or> Asset Purchasing Program <and> Draghi <or> ECB <or> European Central Bank” on LexisNexis delivers the highest number of hits on the 22nd of January 2015 (the day of the PSPP announcement). However, already the third highest number of hits indicates that the 05th of March 2015 (the next ECB Council Decision *after* the PSPP announcement) would be an important event. Yet, nothing was announced nor expected to happen at this Governing Council meeting so shortly after the previous announcement in January 2015. Instead, many newspapers referred to important announcement from the previous meeting.

Figure 3: Event Days from ECB Press Releases and Financial Times Headlines

Date	Kind	Summary
05.06.2014	ECB Monetary policy decisions	The Governing Council decided on a combination of measures <ul style="list-style-type: none"> • Lower the deposit facility by 10 basis points to -0.10% • Intensify preparatory work for purchases in the ABS market
04.09.2014	ECB Monetary policy decisions	The Governing Council decided to <ul style="list-style-type: none"> • Lower the deposit facility by 10 basis points to -0.20% • Announce the ABS purchase programme (ABSPP) • Announce the covered bond purchase programme (CBPP3)
14.01.2015	ECB Comments ECJ approved OMT case	We take note of the European Court of Justice Advocate General’s legal opinion in the OMT case. This is an important milestone in the request for a preliminary ruling, which will only be concluded with the judgement of the Court
22.01.2015	ECB Monetary policy decisions	ECB announces expanded APP <ul style="list-style-type: none"> • ECB purchases bonds issued by euro area central governments, agencies and European institutions (PSPP) • Combined monthly asset purchases of €60 billion
03.09.2015	ECB Monetary policy decisions	The Governing Council decided to keep the key ECB interest rates unchanged. <ul style="list-style-type: none"> • Increase the issue share limit from 25% to 33%, subject to a case-by-case verification
22.10.2015	ECB Monetary policy decisions	The Governing Council decided to keep the key ECB interest rates unchanged. Draghi: “adjust the size, composition and duration of QE”
03.12.2015	ECB Monetary policy decisions	The Governing Council decided to <ul style="list-style-type: none"> • Lower the deposit facility by 10 basis points to -0.30% • Extend the APP until the end of March 2017, or beyond • Include regional and local governments in the PSPP list
21.01.2016	ECB Monetary policy decisions	The Governing Council decided to keep the key ECB interest rates unchanged. Draghi: “there are no limits to our action”
18.02.2016	ECB Press Release	The minutes show the Governing Council was unanimous in concluding that its current policy stance “needed to be reviewed and possibly reconsidered” .
10.03.2016	ECB Monetary policy decisions	The Governing Council decided to <ul style="list-style-type: none"> • Lower the deposit facility by 10 basis points to -0.40% • Expand the monthly purchases of APP from €60 billion at present to €80 billion. • Increase the issuer and issue share limits from 33% to 50% for international organisations and multilateral development banks • Announce purchases of investment-grade bonds issued by non-banks in the corporate sector (CSPP)

Green: announcement effects (new ECB announcement and Financial Times P.1-3)
Yellow: speculation effects; (no new ECB announcement, but Financial Times P.1-3)

Times would cover such events on the first three pages.

Given this event identification strategy we broadly distinguish between two kinds of events. The first one being label as an “announcement effects” refers to actual decisions made and covered in the Financial Times on the first three pages. The second group of events is labelled as “speculation effects” and refers to press releases or announcements with no new decision which were, nonetheless, covered by the Financial Times on the next morning on the first three pages²².

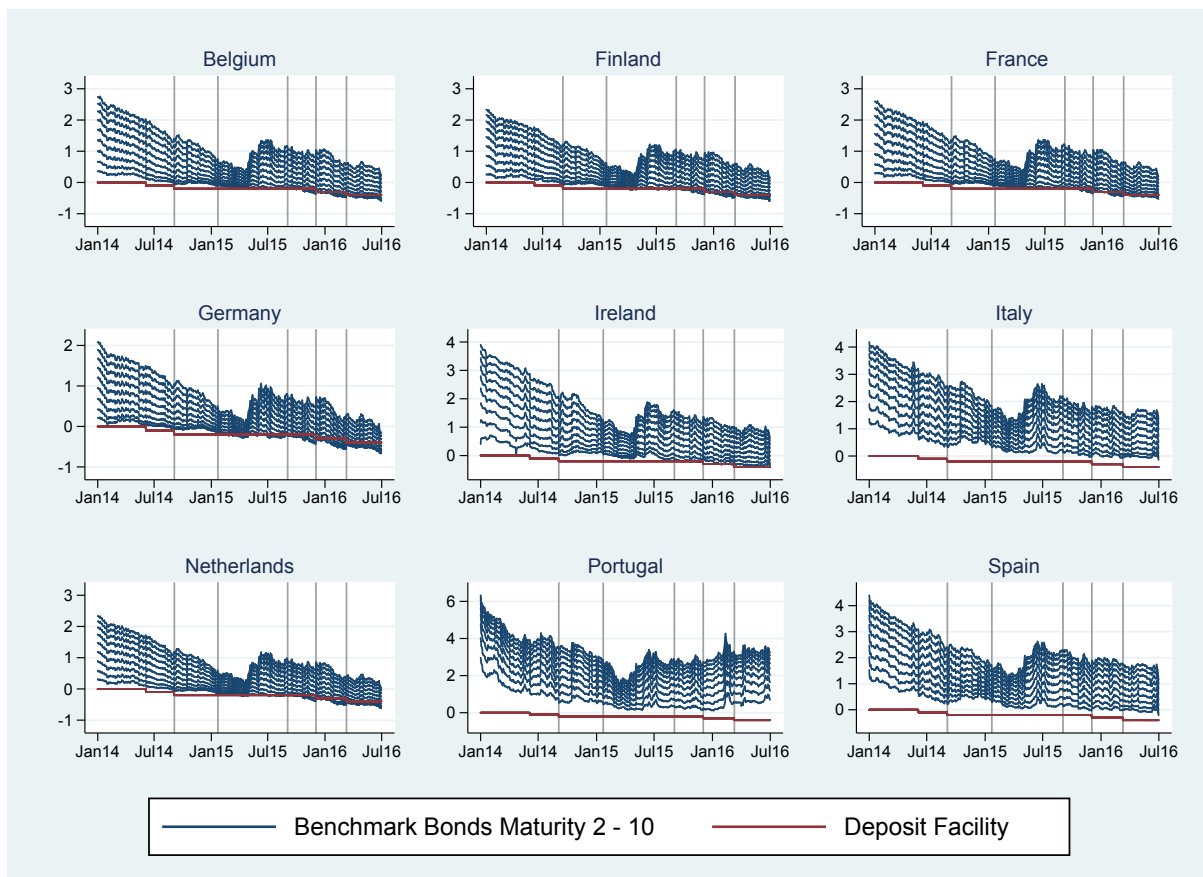
6 Descriptive Analysis

As a result of the prolonged (near) zero interest policy by several major central banks interest rate around the globe are at a historic low. Some governments such as Germany or Japan have even issued

²²To illustrate this, consider for example the 14th of January 2015. On this day the ECB issued a short press release commenting on the European Court of Justice Advocate General’s legal opinion in the OMT case. Even though the ECB did not announce anything specific in this press release the Financial Times reported about it on the next day on page 3 with the headline “Legal ruling paves way for Eurozone easing”. Since the Advocate General recommended the ECJ to approve the OMT program many market participants interpreted this as the removal of an important legal hurdle before the potential announcement of a QE program on the next Governing Council decision one week later.

10 year bonds with a negative yield. Therefore, the general downward trend in yields observed in figure 4 does not surprise. Despite yields of different Euro Area countries are still at different levels, most countries in our sample show the same strong downward trend with some 10 year bonds of Euro Area core countries being close to 0. The temporary increase across yields for Euro Area countries during the summer of 2015 can be explained by the Greek default at that time and renewed fears of a breakup of the Euro Area. After a new rescue package has been agreed upon by European policy makers, the general downward trend continued for most core countries. At the end of our sample in June 2016 even bonds with a maturity of 10 years trade at a yield of below 1% for these core countries. In contrast, the yields of countries at the periphery remained roughly stable after the Greek rescue package with 10 year yield being around 1% to 2%. Only Portugal exhibited higher yields. The second aspect to note about figure 4 is that some core country bonds, especially the ones ranging in maturity from 2 to 5 years, trade already below the deposit facility of -0.4% which implies they cannot be bought under ECB's regulations.

Figure 4: Zero Coupon Benchmark Bonds

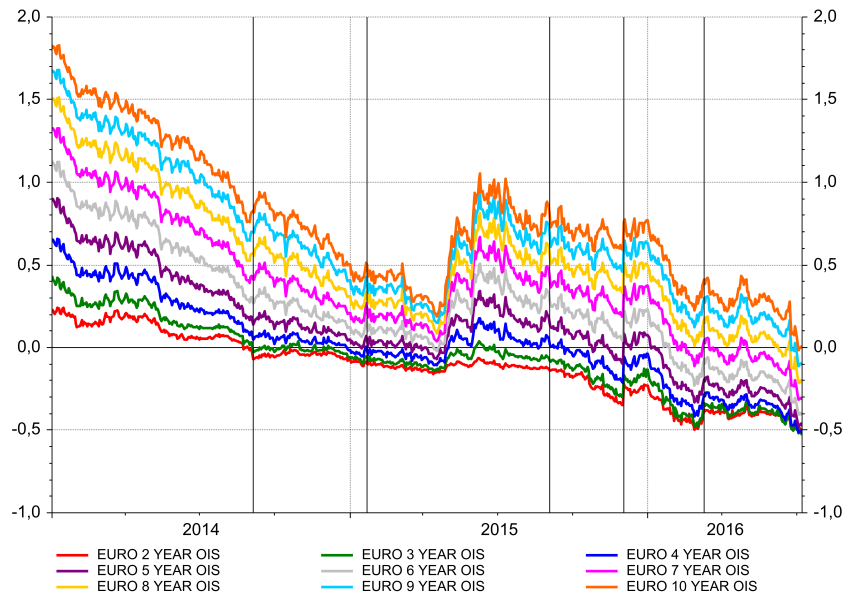


Source: Datastream. Vertical lines indicate announcement dates.
Y-axis shows bond yield. Note different Y-axis scaling.

As a result of the general downward trend in yields and the main refinancing rate of the ECB being close to or at 0%, OIS rates showed a similar development in the period investigated. Figure 5 illustrates a very similar behaviour of OIS rates compared to the one described above. Since an OIS contract

is nothing but a swap of a fixed versus a floating interest rate (such as the EONIA), the OIS rate is predominantly effected by the expected path of future short-term interest rates. Therefore, for a given maturity a negative EONIA-OIS rate can be interpreted as reflecting market expectations that negative EONIA rates will remain for an extended period of time.

Figure 5: Euro OIS Rates

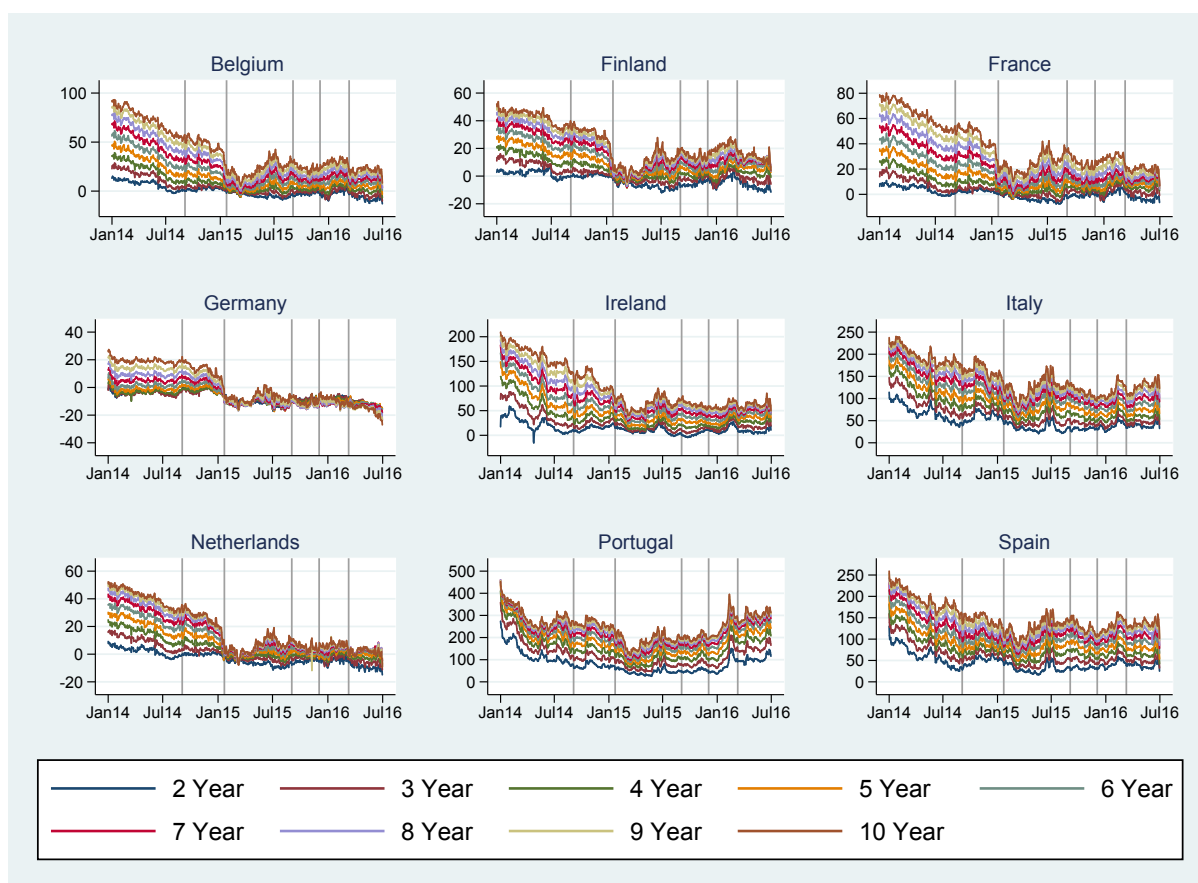


Source: Datastream. Vertical lines indicate announcement dates. Y-axis shows implied OIS yield.

As shown in section 4, one can calculate the spread between Euro Area government bond and OIS as explained in equation 3. Figure 6 displays the spread over the whole period of investigation. Let us highlight a few issues here.

First, the APP program pushed down yields of all nine countries shortly after the announcement of the PSPP program in January 2015 and, thus, strongly narrowed the Bond-OIS spread across all maturities showing the direct impact of the portfolio rebalance channel. Second, the Bond-OIS spreads for shorter maturities enter and remain in negative territory in many core countries. In particular, this is the case for Belgium, Germany, and the Netherlands. Third, in times of enhanced market stress during the Greek default in June 2015 spreads for German Bunds remained largely negative and narrow across maturities while spreads for other countries increased again, both in terms of Bond-OIS spreads and spreads across maturities. This is most pronounced for Italy, Portugal, and Spain. Fourth, after the enlargement of the PSPP in March 2016 from 60 billion Euro to 80 billion Euro monthly purchases spreads for longer maturities lowered again.

Figure 6: Daily Bond-OIS Spread by Country



Source: Datastream, own calculations. Vertical lines indicate announcement dates. Y-axis shows Bond-OIS Spread in BPS. Note different Y-axis scaling.

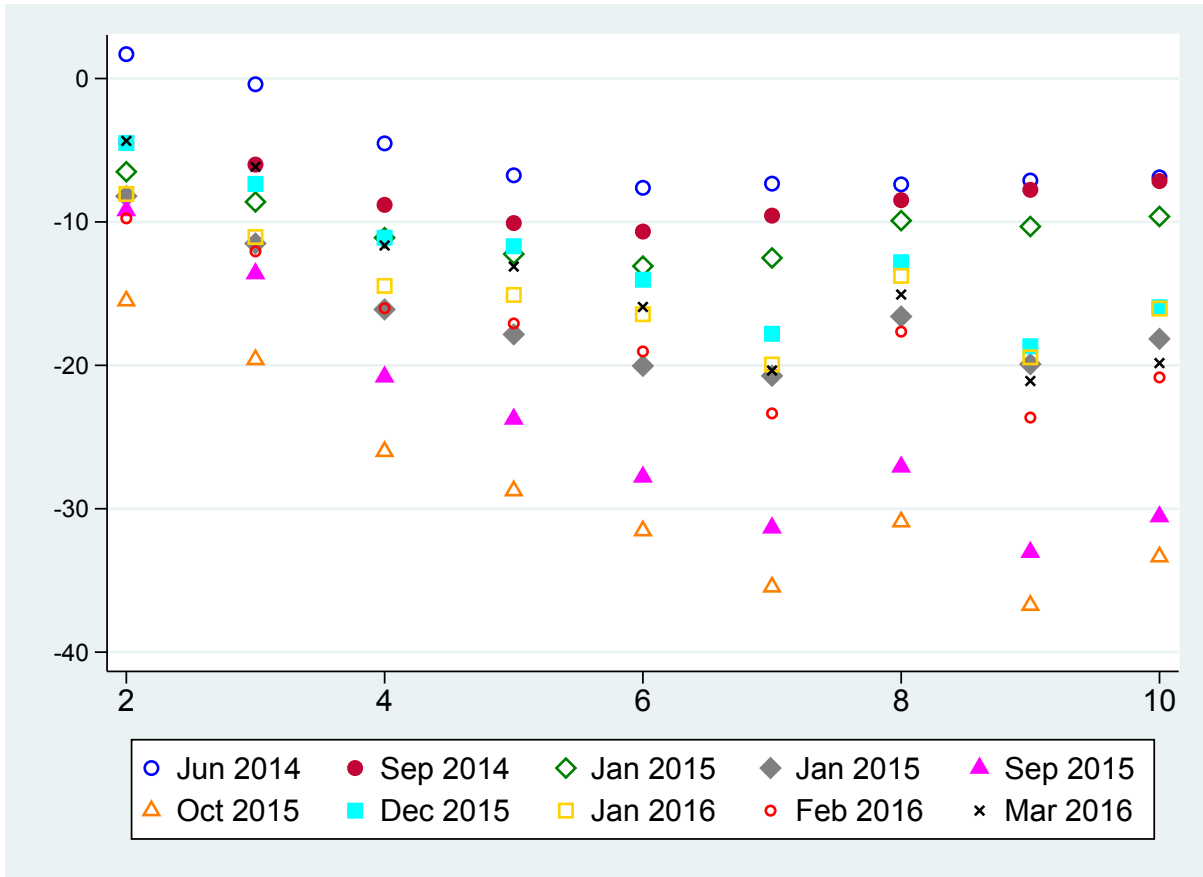
Most notably in figure 6 is the case of Germany where spreads turned and remain negative even at a 10 year maturity. Negative Bond-OIS spreads for Germany were already observed during times of high market stress as in the financial crisis of 2008-09 or the European debt crisis in 2012, yet, only for shorter maturities. At that time the negative spread was largely interpreted as flight-to-liquidity²³ and flight-to-safety considerations by the markets buying German short-term Bunds on a large scale²⁴. Taken together, we interpret this phenomenon as a mix of the direct impact from the PSPP program, decreasing the spread for most countries across different maturities, and flight-to-safety considerations by the markets for the German case keeping Bond-OIS spreads negative even for longer maturities and during the Greek crisis.

Figure 7 and figure 8 take a closer look on how the yield curve of the OIS rate (signalling channel) and the yield curve of Bond-OIS spreads (proxy for portfolio rebalancing channel) developed on the event

²³Accordingly, also the spread of German Bunds against the German KfW increased significantly.

²⁴Hence, one might discuss the role of OIS rate as *the* risk free rate. In our view, both German Bunds and the OIS-rate can be seen as a risk free rate but more in the sense of a complementary. For a more detailed discussion see also ECB (2014). As the purpose of this event study is to measure on impact of the PSPP on Euro Area bonds, and as OIS rates are not directly affected from the portfolio rebalance channel it would not make sense, in our view, to take German Bunds as the risk free rate.

Figure 7: Signalling Channel: Cumulative Total Change in OIS Rate



Source: Datastream, own calculations. Hollow symbols indicate speculation effects, solid indicate announcement effects. X-axis shows maturity, Y-axis shows the reduction of OIS Rate in BPS. Note different Y-axis scaling.

days over a two day window. In fact, selecting the window length is subject to a trade-off in any event study. On the one hand, we want to give markets sufficient time for revising their expectations and to fully understand the impact of the APP on asset prices. Given the novelty of the APP program and its unique institutional set-up, we think it is appropriate not to take high frequency data but rather look at the broader picture. On the other hand, if windows are too long they could be polluted by other information. In this case, we would not only measure the desired effect of the QE program but also other developments in the market, which are incorporated in asset prices. As a robustness test we also checked one day or three day windows²⁵. This changed the results quantitatively but not qualitatively.

In terms of cumulative changes over all identified events figure 7, in a nutshell, illustrates that in the beginning the APP had sizeable effects on the expected future rates but these positive effects vanished over time with every additional QE announcement having less effect or even a negative effect²⁶.

To explain figure 7 in greater detail, first note that each symbol illustrates the change for each maturity

²⁵See figure (9) and (10) in the Appendix.

²⁶Note that in some events the ECB's main refinancing rate has also changed. As these two distinct announcements happened at the very same time, we cannot distinguish between the effects conventional and unconventional monetary policy. However, as both are important for the signalling channel we do not consider this a problem.

of the OIS rate on a given event date over a two day window. Put differently, the cumulative change in the OIS rate is plotted as the ordinate and the corresponding maturity for each rate as the abscissa with each colour being the change in the yield curve for one event date. Secondly, as outlined in section 5 we roughly distinguish between actual announcements (solid symbols) and so called speculations effects (hollow symbols).

At first, the APP was rather efficient as each event lowered the yield curve in cumulative terms. Not surprisingly, one of the strongest reduction on the yield curve stemming from the signalling channel occurred after the announcement of the PSPP in January 2015²⁷ especially for longer maturities. This trend continued until October 2015 where no policy change was announced but Mario Draghi hinted the next Governing Council's meeting is likely to "adjust the size, composition and duration of QE". However, the December announcement in 2015²⁸ proved to largely disappoint markets as shown by a strong rise in the cumulative yield curve to levels even below these of January 2015. Afterwards, each event merely had a minor effect on the yield curve. Even the increase of the APP program from 60 to 80 billion Euros in March 2016 seemed to have again disappointed markets as the cumulative yield curve rose relative to its level in February 2016.

The overall effectiveness of the APP gives similar results when examining the cumulative change in Bond-OIS spreads in figure 8 being a proxy for the impact of the portfolio rebalancing channel. In general, figure 8 confirms the impression from figure 7 suggesting a mildly positive impact on bond yields from QE policy which, however, diminished with every additional announcement over time. Importantly, we measure a stronger reduction in the yield curve for Ireland, Italy, Portugal and Spain, whereas the reduction is much less pronounced for Euro Area core countries of Belgium, Finland, France, and the Netherlands. For Germany we measure the weakest reaction in terms of the Bond-OIS spread, suggesting the reduction of bond yields is mostly resulting from the signalling channel but not from the portfolio rebalancing channel.

In particular for short-term bonds of two or three years, the evidence suggest that the portfolio rebalancing channel has lowered the yield by only 11.81 BPS for Belgium or 8.35 BPS for Finland. In the case of Germany the cumulative change is lowest with a reduction of only 1.98 BPS. In contrast, countries at the periphery are much stronger effected by the portfolio rebalancing channel with 2 year Italian and Portuguese bonds being reduced by 50.86 BPS and 62.45 BPS, respectively. For longer maturities the portfolio rebalancing has lowered the yield curve in most core countries by roughly 25-35 BPS, with the exception of Germany. Again, long term bonds of Ireland, Italy, Portugal and Spain have been much stronger affected. The strongest reduction we measure is a decrease of 95 BPS in 6 year benchmark bonds for Portugal²⁹.

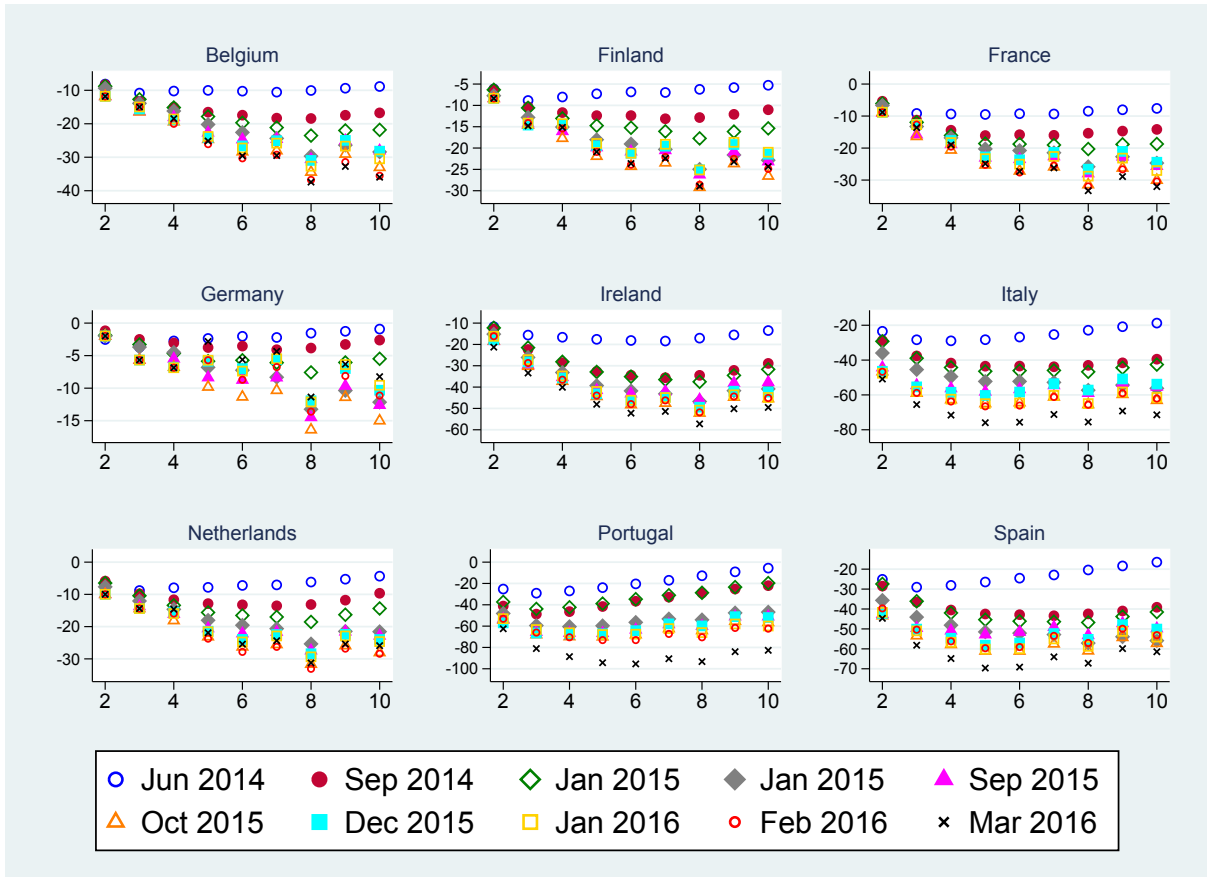
One disadvantage of this method is that we cannot directly disentangle changes in the Bond-OIS spread resulting from the portfolio rebalancing from changes in the underlying credit or liquidity risk due

²⁷ Denoted by the difference between green hollow diamonds and grey solid diamonds.

²⁸ Denoted by the difference between orange hollow triangles and turquoise solid squares.

²⁹ Figure 14 and 15 in the appendix displays the exact quantitative changes for each benchmark bond across all event dates.

Figure 8: Portfolio Rebalancing Channel: Cumulative Total Bond-OIS Spread



Source: Datastream, own calculations. Hollow symbols indicate speculation effects, solid indicate announcement effects. X-axis shows maturity, Y-axis shows the reduction of the Bond-OIS Spread in BPS. Note different Y-axis scaling.

to potential macro spill-over effects. Both could potentially influence $Sp(bond)_t^{n,i}$ which would, therefore, not only represent effects from the portfolio rebalance channel. In other words, as market participants could interpret a QE announcement by the ECB as an implicit way of easing fiscal conditions for member states or, alternatively, as lowering the likelihood of a breakup of the Euro Area, we cannot excluded the possibility of changes in the perceived credit risk for a given country. In particular, this is likely to be the case for the periphery countries. We try to disentangle these effects in the next section.

Table 2 summarizes the cumulative effects for all events for some selected maturities. Accordingly, we see the strongest average (across maturities) reduction in yields from portfolio rebalancing for Portugal (85.80 BPS), followed by Italy (69.67 BPS) and Spain (62.11 BPS). In total, German yields have only been lowered by 5.91 BPS. Note, however, that one would expect stronger effects from the portfolio rebalancing for longer maturities of 20 or 30 years which we, unfortunately, cannot measure. Also, we find rather minor effects from the signalling channel measured as the change in OIS rates.

An alternative explanation why we measure such mild effects for e.g. Germany is that the ECB rather bought longer term bonds which we could not observe in our data set. Unfortunately, the ECB does not

Table 2: Cumulative Impact of APP Press Releases on Selected Maturities in BPS

	2 Year	5 Year	10 Year	Average
Belgium	-11.81	-25.14	-35.96	-26.17
Finland	-8.35	-20.89	-24.34	-20.19
France	-8.81	-24.89	-32.04	-23.78
Germany	-1.98	-2.82	-8.23	-5.91
Ireland	-21.26	-48.05	-49.54	-44.81
Italy	-50.86	-75.94	-71.41	-69.67
Netherlands	-9.98	-21.90	-25.88	-21.46
Portugal	-62.45	-94.29	-82.68	-85.80
Spain	-44.68	-69.63	-61.45	-62.11
OIS	-4.35	-13.11	-19.84	-14.17

publish much details about the bonds bought other than some aggregate information. However, the ECB claims that it's intervention is intended to be market-neutral with respect to maturity³⁰, i.e. there is no bias towards any specific maturities. Also, the weighted average maturity bought, which is published by the ECB, is comparably low for Germany and mostly stable in the observation period suggesting that is explanation is unlikely to hold³¹.

In our view, a possible explanation for the weak effect on German bonds is that the portfolio rebalance channel might not have work to the same extend as for other countries. As theory suggest, the portfolio rebalance can only work if assets are not perfect substitutes e.g. if investors have a preferred habitat motive, whereas, if assets are perfect substitutes Quantitative Easing is doomed to fail. Given the exceptional standing of German Bunds investors might consider them as more closely to perfect substitutes of the risk free rate than other government bonds, for which we measure stronger effects. In contrast, countries with higher bond yields did show a more pronounced reduction suggesting that the portfolio rebalancing channel did, in fact, work for these countries.

7 Regression Analysis

In order to provide a more detailed analysis, we run an event study regression in a similar spirit as in [Szczerbowski \(2015\)](#) and [Altavilla et al. \(2015\)](#). Event regressions assume that markets are informationally efficient meaning that new pieces of information immediately enter into prices of stocks or bonds. Therefore, assuming that price movements are essentially characterized by a random walk in the absence of information using standard OLS techniques provides a reliable estimator to measure the significance of a single event day. Following this general approach we proceed in two steps. In a first event regression we measure how bond yields were affected by APP press releases in a more general sense. In fact, some releases positively surprised the markets, leading to a drop in bond yields, while other releases lead to an increase in bond yields as markets were largely disappointed by the new piece of information. In a second regression we roughly group these two kinds of effects and try to disentangle these broad effects

³⁰For more details see the ECB's website <https://www.ecb.europa.eu/mopo/implement/omt/html/pspp-qa.en.html>.

³¹See figure 18 in the Appendix.

by measuring the relative strength of different channels described earlier.

More precisely, in our first model we run separate regressions on the conditional change in the bond yield $\Delta y_{t|y_{t-1}>DF_t}^{n,i}$ over a two day window for each country of some selected maturities taking the set of our ten event dummies as explanatory variables and also including a wide range control variables to measure the surprise effect of other macroeconomic news announcements for our respective period of interest. This yields the following estimator

$$\Delta y_{t|y_{t-1}>DF_t}^{n,i} = \sum_{i=1}^k \alpha_i \text{APP}_{i,t} + \sum_{i=1}^k \beta_i \text{News}_{i,t} + \gamma_i \Delta y_{t-1}^{n,i} + \epsilon_t \quad (5)$$

where $\text{APP}_{i,t}$ denotes all our identified APP Announcements and Speculation events individually, $\text{News}_{i,t}$ represents a term for all other news announcements, and ϵ_t is an error term. A detailed overview about all news variables and how they are constructed is provided in the Appendix in table 8. Not surprisingly, running several test for heteroscedasticity and autocorrelation suggest that both are very likely in our data set. The F-Test for the event dummies and control variables coefficients is jointly tested and rejected under the zero-null hypothesis. To correct for both autocorrelation and heteroscedasticity Newey-West standard errors for coefficients are used when estimating OLS. Also, $\Delta y(\text{bond})_{t-1}^{n,i}$ denotes a lag in the of change of the conditional spread to address first order auto-regression.

Table 3, 4, and 5 show the results of the basic event regression for some selected maturities, controlling for the surprise component of a wide range of other macroeconomic news releases. As we are mostly interested in the relevance and general impact for each event day we only show the respective event dummies, suppressing the output of other control variables to examine potential heterogeneous effects among APP press releases³². Our results are mostly supportive for the conclusions drawn in the previous section. Most events show the anticipated sign of a reduction of the yield. However, again consistent with previous findings, some press releases seem to have disappointed the markets leading to an increase in yields. In particular, the December announcement of 2015 has increased the yield for all countries by several basis points. For some countries, also the 3rd PSPP Announcement in March or the Speculation after the ECJ press release have increase the yield.

Another finding we can confirm from the previous section is that for the majority of case the change in the conditional yield is more pronounced for mid- and longer maturities, whereas short term maturities are usually less strongly affected. For example, this is largely the case for the first announcement of the PSPP on the 22nd of January 2015.

Finally note that there is no output produced for many two year bonds at later events due to our imposed condition that the yield of a given bond must be above the deposit facility. Currently, we have excluded these bonds as they cannot be bought by the ECB. However, we may relax this condition. One possible extension would be to examine how the spread of bonds developed which do trade below the deposit facility. Even if excluded from ECB purchases these bonds might be affected by the portfolio

³²Note that due to serial correlation of the error terms the estimator will not be efficient in this case. However, as serial correlation does generally not lead to a bias we do not consider this an issue here.

rebalance channel after announcements as investors might turn to these bonds in the second round effects.

Table 3: Event Regression on Change in Bond Yield

	(1) 2 Year	(2) 3 Year	(3) 5 Year	(4) 7 Year	(5) 8 Year	(6) 10 Year
<i>Panel A: Belgium</i>						
05.06.2014: First purchase hints	-5.089***	-7.752***	-10.81***	-10.48***	-9.819***	-8.219***
04.09.2014: ABS and CBPP3	-6.516***	-8.193***	-9.383***	-9.216***	-8.659***	-7.209***
14.01.2015: ECJ approves OMT	-0.737***	-0.805***	-2.548***	-4.462***	-5.064***	-5.734***
22.01.2015: First PSPP	-3.446***	-4.693***	-7.777***	-10.41***	-11.36***	-12.83***
03.09.2015: Limit increase	-3.788***	-4.878***	-8.470***	-10.92***	-11.61***	-12.47***
22.10.2015: Draghi hints		-5.769***	-6.619***	-7.306***	-7.547***	-7.760***
03.12.2015: Second PSPP		12.43***	16.15***	18.68***	19.55***	20.46***
21.01.2016: Draghi hints		-2.926***	-3.368***	-3.742***	-3.812***	-3.846***
18.02.2016: GC minutes release			-3.452***	-5.405***	-6.199***	-7.414***
10.03.2016: Third PSPP			5.530***	3.636***	2.939***	1.953***
Observations	452	528	645	645	645	645
<i>Panel B: Finland</i>						
05.06.2014: First purchase hints	-4.138***	-7.159***	-9.805***	-9.414***	-8.579***	-7.109***
04.09.2014: ABS and CBPP3	-6.543***	-7.418***	-8.458***	-7.884***	-6.951***	-4.945***
14.01.2015: ECJ approves OMT	-0.134	-0.846**	-2.564***	-3.919***	-4.261***	-4.707***
22.01.2015: First PSPP	-3.629***	-5.241***	-8.401***	-11.07***	-11.99***	-12.70***
03.09.2015: Limit increase		-3.004***	-6.656***	-9.801***	-10.94***	-12.28***
22.10.2015: Draghi hints			-6.938***	-7.019***	-6.853***	-6.261***
03.12.2015: Second PSPP			21.52***	24.08***	24.88***	25.53***
21.01.2016: Draghi hints			-3.087***	-2.187***	-1.658***	-0.459***
18.02.2016: GC minutes release			-3.036***	-5.052***	-5.849***	-6.926***
10.03.2016: Third PSPP		6.195***	5.465***	4.525***	4.160***	3.679***
Observations	381	533	649	649	649	649
<i>Panel C: France</i>						
05.06.2014: First purchase hints	-4.888***	-9.908***	-15.91***	-15.64***	-14.57***	-12.87***
04.09.2014: ABS and CBPP3	-5.343***	-7.668***	-9.456***	-8.362***	-7.409***	-6.297***
14.01.2015: ECJ approves OMT	-1.108***	-2.090***	-4.265***	-5.830***	-6.258***	-6.927***
22.01.2015: First PSPP	-2.703***	-4.251***	-7.097***	-10.04***	-11.30***	-12.65***
03.09.2015: Limit increase	-4.312***	-5.192***	-8.918***	-11.67***	-12.54***	-13.32***
22.10.2015: Draghi hints		-6.391***	-7.159***	-7.535***	-7.613***	-7.474***
03.12.2015: Second PSPP		19.02***	23.72***	26.91***	27.81***	27.96***
21.01.2016: Draghi hints		-3.253***	-3.648***	-3.591***	-3.529***	-3.322***
18.02.2016: GC minutes release			-2.970***	-4.755***	-5.385***	-6.076***
10.03.2016: Third PSPP		5.745***	5.237***	3.759***	3.024***	1.938***
Observations	496	594	649	649	649	649

Notes: Conditional change of bond yield over a two day window as the depended variable. The error structure is assumed to be heteroscedastic and possibly auto correlated up lag of 250 observations (i.e. daily data). Additional control variables are included but suppressed in output. Time frame is from 01.01.2014 - 30.06.2016. Number of observations varies as the spread is calculated as the conditional spread. *** = $p < 0.01$, ** = $p < 0.05$, and * = $p < 0.1$.

Table 4: Event Regression on Change in Bond Yield - Cont'd 1

	(1) 2 Year	(2) 3 Year	(3) 5 Year	(4) 7 Year	(5) 8 Year	(6) 10 Year
<i>Panel D: Germany</i>						
05.06.2014: First purchase hints	-1.144**	-4.239***	-8.305***	-8.685***	-7.966***	-6.729***
04.09.2014: ABS and CBPP3	-5.224***	-5.028***	-5.449***	-4.450***	-3.433***	-1.494***
14.01.2015: ECJ approves OMT	-0.846***	-1.411***	-2.112***	-2.966***	-3.224***	-3.462***
22.01.2015: First PSPP	-1.642***	-3.490***	-6.415***	-9.664***	-10.92***	-12.22***
03.09.2015: Limit increase		-3.837***	-6.201***	-8.806***	-9.748***	-10.82***
22.10.2015: Draghi hints			-6.448***	-6.185***	-5.921***	-5.326***
03.12.2015: Second PSPP			22.29***	24.35***	24.87***	25.12***
21.01.2016: Draghi hints			-3.487***	-2.550***	-1.876***	-0.367***
18.02.2016: GC minutes release				-3.614***	-4.211***	-5.030***
10.03.2016: Third PSPP			7.514***	6.211***	5.701***	5.052***
Observations	303	396	594	648	649	649
<i>Panel E: Ireland</i>						
05.06.2014: First purchase hints	-6.234***	-10.91***	-17.73***	-20.00***	-19.61***	-18.10***
04.09.2014: ABS and CBPP3	-5.578***	-9.185***	-12.51***	-12.51***	-11.52***	-9.054***
14.01.2015: ECJ approves OMT	-0.281	0.411*	1.682***	1.080***	0.628	-0.134
22.01.2015: First PSPP	-4.433***	-6.548***	-10.40***	-12.88***	-13.67***	-14.59***
03.09.2015: Limit increase	-4.518***	-5.897***	-8.842***	-10.84***	-11.39***	-12.03***
22.10.2015: Draghi hints		-6.891***	-7.880***	-9.880***	-10.49***	-10.76***
03.12.2015: Second PSPP	13.40***	15.63***	19.80***	22.86***	23.81***	24.65***
21.01.2016: Draghi hints	-2.078***	-2.499***	-2.147***	-2.206***	-2.265***	-2.235***
18.02.2016: GC minutes release	-0.934	-2.450***	-4.586***	-6.083***	-6.567***	-6.796***
10.03.2016: Third PSPP	4.614***	5.461***	6.338***	6.492***	6.556***	6.884***
Observations	605	649	649	649	649	649
<i>Panel F: Italy</i>						
05.06.2014: First purchase hints	-17.45***	-20.41***	-22.05***	-19.73***	-18.14***	-15.78***
04.09.2014: ABS and CBPP3	-11.26***	-15.62***	-18.56***	-20.01***	-20.08***	-19.47***
14.01.2015: ECJ approves OMT	1.004*	0.632	-0.426	-1.291**	-1.630***	-2.083***
22.01.2015: First PSPP	-9.021***	-10.46***	-12.50***	-14.70***	-15.78***	-17.75***
03.09.2015: Limit increase	-7.949***	-9.475***	-10.95***	-12.00***	-12.25***	-12.51***
22.10.2015: Draghi hints	-9.910***	-12.59***	-13.63***	-12.37***	-11.92***	-12.06***
03.12.2015: Second PSPP	12.02***	17.01***	23.58***	27.75***	29.00***	29.51***
21.01.2016: Draghi hints	-4.174***	-5.706***	-7.943***	-8.921***	-8.898***	-7.893***
18.02.2016: GC minutes release	-0.434***	-1.236***	-2.524***	-2.797***	-2.846***	-3.194***
10.03.2016: Third PSPP	1.616***	0.854***	-1.384***	-1.939***	-1.918***	-2.478***
Observations	649	649	649	649	649	649

Notes: Conditional change of bond yield over a two day window as the depended variable. The error structure is assumed to be heteroscedastic and possibly auto correlated up lag of 250 observations (i.e. daily data). Additional control variables are included but suppressed in output. Time frame is form 01.01.2014 - 30.06.2016. Number of observations varies as the spread is calculated as the conditional spread. *** = $p < 0.01$, ** = $p < 0.05$, and * = $p < 0.1$.

Table 5: Event Regression on Change in Bond Yield - Cont'd 2

	(1)	(2)	(3)	(4)	(5)	(6)
	2 Year	3 Year	5 Year	7 Year	8 Year	10 Year
<i>Panel G: Netherlands</i>						
05.06.2014: First purchase hints	-3.891***	-8.011***	-12.73***	-12.59***	-11.62***	-9.212***
04.09.2014: ABS and CBPP3	-5.323***	-7.105***	-8.896***	-9.310***	-8.655***	-5.996***
14.01.2015: ECJ approves OMT	0.195	-0.669	-2.662**	-3.918**	-4.279**	-4.650**
22.01.2015: First PSPP	-3.554***	-4.786***	-7.983***	-10.94***	-12.03***	-13.04***
03.09.2015: Limit increase		-3.470***	-7.452***	-10.29***	-11.14***	-12.21***
22.10.2015: Draghi hints			-7.373***	-7.687***	-7.728***	-7.614***
03.12.2015: Second PSPP			19.10***	20.91***	21.44***	21.62***
21.01.2016: Draghi hints			-4.051***	-3.490***	-3.043***	-2.094***
18.02.2016: GC minutes release			-3.519***	-5.617***	-6.158***	-6.598***
10.03.2016: Third PSPP			5.950***	4.599***	3.955***	2.988***
Observations	381	509	644	649	649	649
<i>Panel H: Portugal</i>						
05.06.2014: First purchase hints	-8.910***	-9.901**	-6.902*	-3.728	-1.897	0.485
04.09.2014: ABS and CBPP3	-17.26***	-19.19***	-14.98***	-13.24***	-13.15***	-13.27***
14.01.2015: ECJ approves OMT	4.705***	5.241***	4.247***	4.118***	4.655***	6.377***
22.01.2015: First PSPP	-12.86***	-17.35***	-20.88***	-21.97***	-22.20***	-22.63***
03.09.2015: Limit increase	-6.140***	-8.712***	-14.09***	-17.50***	-18.47***	-19.32***
22.10.2015: Draghi hints	-9.293***	-11.63***	-13.38***	-13.62***	-13.61***	-13.47***
03.12.2015: Second PSPP	6.063***	10.76***	16.95***	20.52***	21.54***	22.61***
21.01.2016: Draghi hints	-1.100***	-1.688***	-3.793***	-5.313***	-5.817***	-6.307***
18.02.2016: GC minutes release	-9.905***	-14.43***	-17.72***	-16.37***	-15.02***	-11.99***
10.03.2016: Third PSPP	-4.945***	-5.796*	-11.15***	-12.80***	-12.75***	-12.25***
Observations	649	649	649	649	649	649
<i>Panel I: Spain</i>						
05.06.2014: First purchase hints	-18.17***	-20.16***	-20.94***	-18.24***	-17.94***	-13.00***
04.09.2014: ABS and CBPP3	-11.93***	-14.49***	-18.99***	-21.23***	-21.50***	-21.53***
14.01.2015: ECJ approves OMT	1.189***	0.771*	-1.614***	-2.841***	-2.935***	-1.885***
22.01.2015: First PSPP	-12.01***	-13.08***	-14.14***	-16.48***	-18.06***	-21.29***
03.09.2015: Limit increase	-8.511***	-9.139***	-10.46***	-10.92***	-10.26***	-10.79***
22.10.2015: Draghi hints	-8.312***	-11.41***	-14.38***	-13.33***	-12.29***	-10.65***
03.12.2015: Second PSPP	12.12***	16.06***	21.68***	25.46***	27.85***	28.72***
21.01.2016: Draghi hints	-2.608***	-3.951***	-5.112***	-4.971***	-4.742***	-4.325***
18.02.2016: GC minutes release	-0.567***	-0.867***	-0.433***	-0.116*	-0.395***	-1.542***
10.03.2016: Third PSPP	0.898***	-0.165	-2.193***	-3.114***	-3.216***	-3.004***
Observations	649	649	649	649	649	649

Notes: Conditional change of bond yield over a two day window as the depended variable. The error structure is assumed to be heteroscedastic and possibly auto correlated up lag of 250 observations (i.e. daily data). Additional control variables are included but suppressed in output. Time frame is from 01.01.2014 - 30.06.2016. Number of observations varies as the spread is calculated as the conditional spread. *** = $p < 0.01$, ** = $p < 0.05$, and * = $p < 0.1$.

One disadvantage of the above regression on individual bonds is that each announcement dummy represents a variable with, in fact, only one observations being one while all other 647 observations are zero. However, grouping all event dummies in one dummy as sometimes proposed by the literature is not helpful here due to the fact that some events increase the yield while others decrease the yield leaving the average effect not statically significant different from zero. Alternatively, we group the events into yield increasing and yield decreasing events for each country and examine the average effect across maturities for each country in more detail.

As illustrated in section 4, the yield of bond can be influenced by several channels through QE announcements. In the following, we measure the strength of each of this channel directly for each country by estimating equation (5) taking the change in OIS rate (signalling channel), the change in bid-ask spreads (liquidity channel), the change in CDS premia (credit risk channel), and the change in the Bond-OIS spread over a two day window as the depended variable. To address serial correlation of the error terms again Newey-West standard errors are used. Note that none of the first three dependent variables are directly influenced by APP purchases. Therefore, we do not impose any additional conditions.

As already discussed, talking the bond-OIS spread to measure the strength of the portfolio rebalance channel is subject to two crucial assumptions, namely no liquidity and no credit risk for a given bond. In order to account for any unobserved credit or liquidity risk we also included daily CDS premia as well daily country specific average bid-ask spreads as control variables in our event regression. Moreover, to address concerns about potential macro spill-overs which could reduce the perceived unobserved credit risk by investors' general sentiment we also include the Vix Volatility Index, which is sometimes referred to as the Fear Index. Including the Vix Index as well as a 10 year US treasury bond also gives the benefit of controlling for other unobserved news. In sum, our extended event regressions for the portfolio rebalance channel reads as

$$\Delta Sp_{t|y_{t-1} > DF_t}^{n,i} = \sum_{i=1}^k \alpha_i APP_{i,t} + \sum_{i=1}^k \beta_i News_{i,t} + \gamma_i \Delta Sp_{t-1}^{n,i} + \sum_{i=1}^k \theta X_{i,t} + \epsilon_t \quad (6)$$

where, $\Delta Sp_{t|y_{t-1} > DF_t}^{n,i}$ is the conditional Bond-OIS spread over a two day window and $X_{i,t}$ denotes all other control variables. Again details about the control variables can be found in table 8³³.

³³The list of controls is far from being exhaustive. One could also test to include other country specific control variables either account for credit risk or potential spill-overs. One starting point could be the literature related to spill-over of QE announcements on emerging markets.

Table 6: Measuring Average Effect of QE From Different Channels

	(1) OIS	(2) Bid-Ask	(3) CDS	(4) Portfolio	(5) Portfolio
<i>Panel A: Belgium</i>					
Events with Yield Increase	-3.827***	-0.510***	-0.576***	-2.998***	-2.931***
Events with Yield Drop	9.809***	-1.380***	-0.230***	0.566**	0.543**
Bid-Ask Spread					-0.0108**
Delta CDS Premia					0.0783***
Vix Volatility					0.0194***
US 10 year Bond					-0.000294
<i>Panel B: Finland</i>					
Events with Yield Increase	-3.671***	-0.0461	-0.115***	-2.681***	-2.578***
Events with Yield Drop	10.92***	0.694***	-0.533***	2.341***	2.582***
Bid-Ask Spread					-0.0125**
Delta CDS Premia					0.385***
Vix Volatility					0.00279
US 10 year Bond					0.000328
<i>Panel C: France</i>					
Events with Yield Increase	-4.154***	0.167	-0.438***	-2.913***	-2.811***
Events with Yield Drop	11.19***	-1.818***	-0.943***	2.429***	2.624***
Bid-Ask Spread					-0.0140***
Delta CDS Premia					0.191***
Vix Volatility					0.00496
US 10 year Bond					0.000808**
<i>Panel D: Germany</i>					
Events with Yield Increase	-3.808***	1.303***	-0.239**	-1.372***	-1.311***
Events with Yield Drop	10.82***	1.153***	-1.366***	3.739***	3.715***
Bid-Ask Spread					0.00382
Delta CDS Premia					-0.0448***
Vix Volatility					-0.0117***
US 10 year Bond					0.000311
<i>Panel E: Ireland</i>					
Events with Yield Increase	-4.505***	4.000***	-0.563***	-4.174***	-3.195***
Events with Yield Drop	7.121***	3.455***	-0.537***	2.262***	2.808***
Bid-Ask Spread					-0.0344***
Delta CDS Premia					0.966***
Vix Volatility					0.0397***
US 10 year Bond					0.00178***
<i>Panel F: Italy</i>					
Events with Yield Increase	-2.854***	1.124**	-5.452***	-6.415***	-0.913**
Events with Yield Drop	18.34***	1.182***	1.415***	5.535***	4.570***
Bid-Ask Spread					0.00437
Delta CDS Premia					0.689***
Vix Volatility					0.00289
US 10 year Bond					-0.00226***

Notes: Change in OIS rate (signalling channel), bid-ask spreads (liquidity channel), CDS premia (credit risk channel), and conditional change in Bond-OIS rate (portfolio rebalancing channel) each over a two day window as the depended variable. The error structure is assumed to be heteroscedastic and possibly auto correlated up lag of 250 observations (i.e. daily data). Additional control variables are included but suppressed in output. Extended model is used for the regression on the Bond-OIS spread. Time frame is form 01.01.2014 - 30.06.2016. Number of observations vary between 5805 and 5030 because the spread is calculated as the conditional spread. *** = $p < 0.01$, ** = $p < 0.05$, and * = $p < 0.1$.

Table 7: Measuring Average Effect of QE From Different Channels - Cont'd

	(1)	(2)	(3)	(4)	(5)
	OIS	Bid-Ask	CDS	Portfolio	Portfolio
<i>Panel G: Netherlands</i>					
Events with Yield Increase	-3.941***	0.267***	-0.524***	-3.156***	-3.091***
Events with Yield Drop	10.66***	3.104***	-0.0366	1.757***	1.788***
Bid-Ask Spread					0.00325
Delta CDS Premia					0.0634**
Vix Volatility					0.00593**
US 10 year Bond					-0.000869***
<i>Panel H: Portugal</i>					
Events with Yield Increase	-3.321***	-0.662	-7.382***	-9.024***	-3.641***
Events with Yield Drop	8.486***	2.034	2.892***	2.179**	2.594*
Bid-Ask Spread					0.0348***
Delta CDS Premia					0.713***
Vix Volatility					0.0580***
US 10 year Bond					-0.0112***
<i>Panel I: Spain</i>					
Events with Yield Increase	-2.919***	-6.128***	-4.325***	-6.182***	-1.148*
Events with Yield Drop	18.48***	11.21***	0.851***	3.986***	3.316***
Bid-Ask Spread					-0.000360
Delta CDS Premia					0.829***
Vix Volatility					0.00559
US 10 year Bond					-0.00102

Notes: Change in OIS rate (signalling channel), bid-ask spreads (liquidity channel), CDS premia (credit risk channel), and conditional change in Bond-OIS rate (portfolio rebalancing channel) each over a two day window as the depended variable. The error structure is assumed to be heteroscedastic and possibly auto correlated up lag of 250 observations (i.e. daily data). Additional control variables are included but suppressed in output. Extended model is used for the regression on the Bond-OIS spread. Time frame is from 01.01.2014 - 30.06.2016. Number of observations vary between 5805 and 5030 because the spread is calculated as the conditional spread. *** = $p < 0.01$, ** = $p < 0.05$, and * = $p < 0.1$.

Decomposing the different effects of QE press releases yields interesting insights in the relative strength of each channel. While the effects resulting from the signalling channel have the expected sign, are always significant, and are (with the exception of Italy and Spain) roughly equal across all countries, the heterogeneous effects of changes in credit and liquidity premia channel are more pronounced in different Euro Area countries. While the reduction in CDS rates and bid-ask spreads, following a positive APP press release, is usually around 1 BPS for most Euro Area core countries such as Finland or the Netherlands, countries at the periphery, such as Portugal, show a reduction in CDS rates of roughly 7 BPS. However, not all changes in the CDS premia and bid-ask spreads are significant or show the expected sign. Finally, our main variable of interest the bond-OIS spread as a proxy for the portfolio rebalance in the basic regression roughly confirms early finding with respect to average reduction per event day³⁴. In contrast, the extended model indicates that on average across our events yields where

³⁴See figure 10 for comparison.

lowered by between only 3.6 BPS for Portugal and 0.9 BPS for Italy via portfolio rebalancing, after controlling for liquidity premia, credit risk premia and general market sentiment. While for Euro Area core countries the basic and extended regression model do not show large differences suggesting the irrelevance of credit and liquidity premia, the differences are more pronounced for periphery countries. Neglecting a possible reduction of the instrument specific premia due to an implied reduction of credit and liquidity risk leads to higher coefficients of up to 5.51 BPS in case of Italy.

8 Conclusion

In order to fight deflationary trends in the Euro Area the ECB gradually implemented its Asset Purchase Programme from 2014 onwards. This paper examined the effects of the ECB's QE policy on government bond yields in the Euro Area through an event study.

A difficult task in any event study is to include *ex ante* expectation formations by market participants before an announcement. We have done so by not merely looking at actual APP decision but also including press releases with relevant information covered in the Financial Times.

Based on an event study on different asset price channels we found that the effects of the APP were strong in the first round but the marginal impact of every additional package decreased over time. Especially, for the QE decisions in December 2015 and March 2016 many market participants expected larger packages. In total, we calculate a reduction in yields of Euro Area government bonds due to a reduction in the instrument specific premia, a potential proxy for the portfolio rebalance channel, ranging between 85.80 BPS for Portugal and only 5.91 BPS for Germany relative to the absence of the APP program. While core countries usually showed weaker responses the reduction was more pronounced for periphery countries suggesting an implicit reduction of the credit and liquidity premia for these countries.

In our view, one explanation for such weak effects of the ECB's QE policy compared to other QE programs by other central banks is that the APP program has been announced at calm times, diminishing potential effects from the liquidity premia channel especially for core countries. For comparison [Joyce, Lasaos, et al. \(2011\)](#) found a reduction of 100 BPS from the Bank of England's QE policy, while [Gagnon et al. \(2011\)](#) found a reduction of yields between 30 and 100 BPS in the US. However, both QE programs were announced during the financial crisis of 2008-09.

A second explanation is the increasingly burdensome institutional set-up of the APP. In particular, the ECB's rule of not buying bonds trading below the deposit facility seems to significantly dampen the impact of the PSPP program for lower maturities. How strong this effect is weakening a smooth working of the APP program is left for future research.

However, the effectiveness of the ECB's QE policy must ultimately be judge by the effectiveness of bringing inflation and inflation expectation back to the target rate. Our analysis rather suggests that the ECB was not fully successful in achieving the intermediate goal of significantly lowering mid- and long-term bond yields.

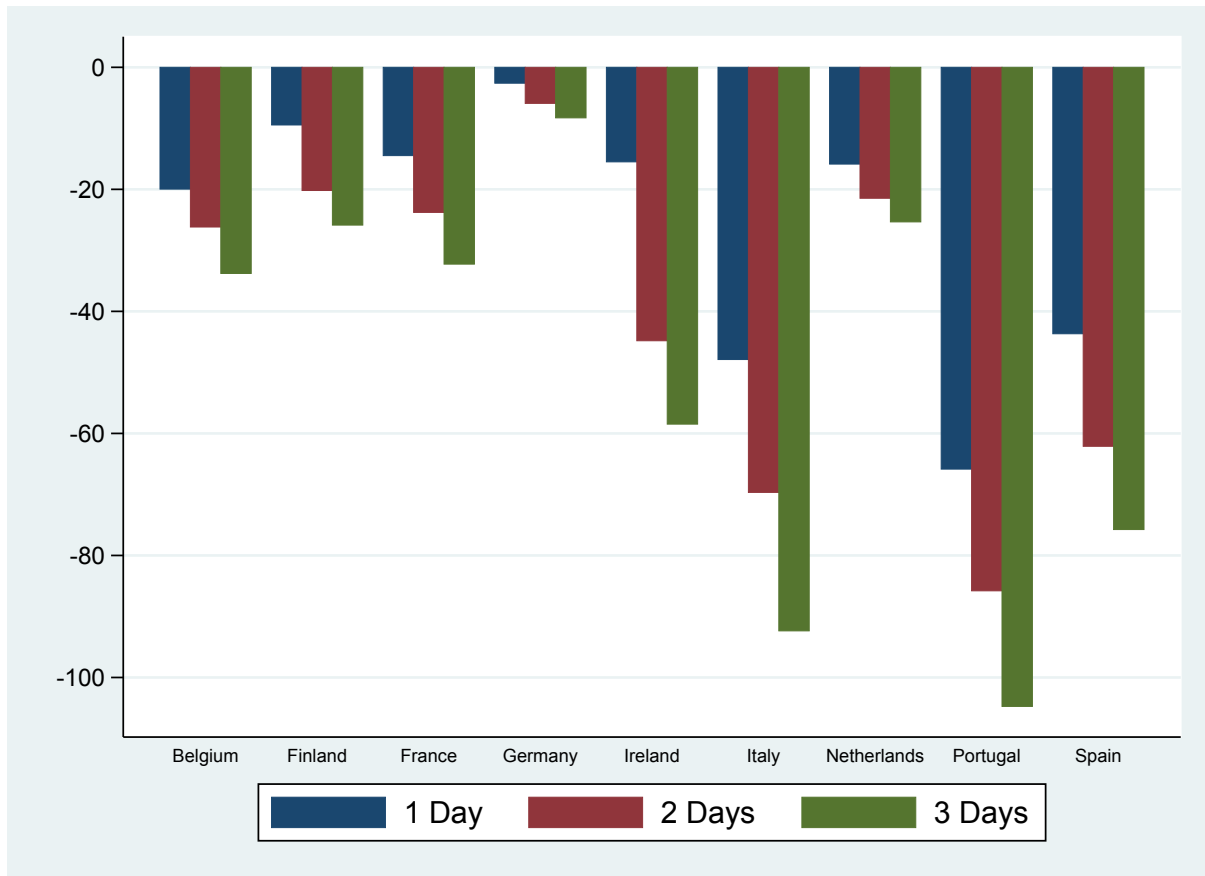
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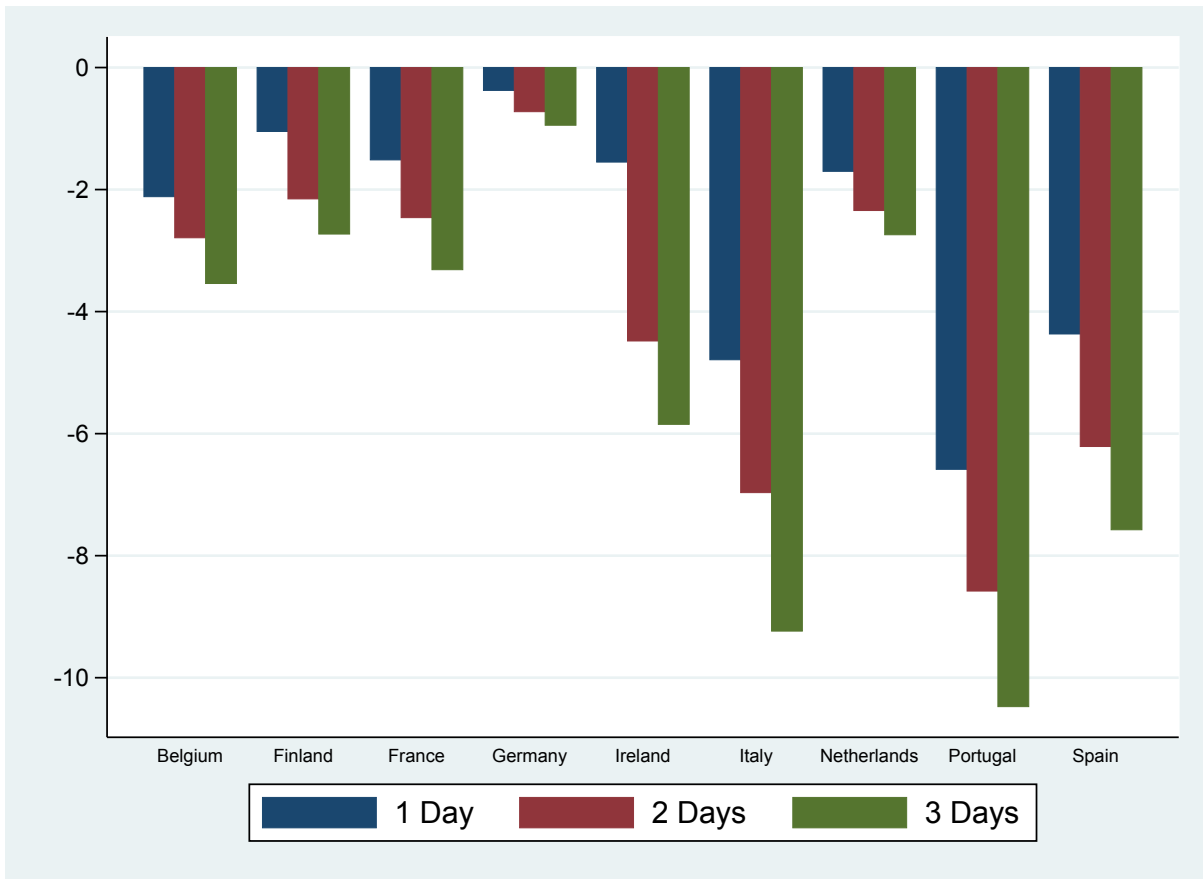
9 Appendix

Figure 9: Cumulative Impact of QE Announcement Averaged Across Maturities and Sensitivity to Window Size



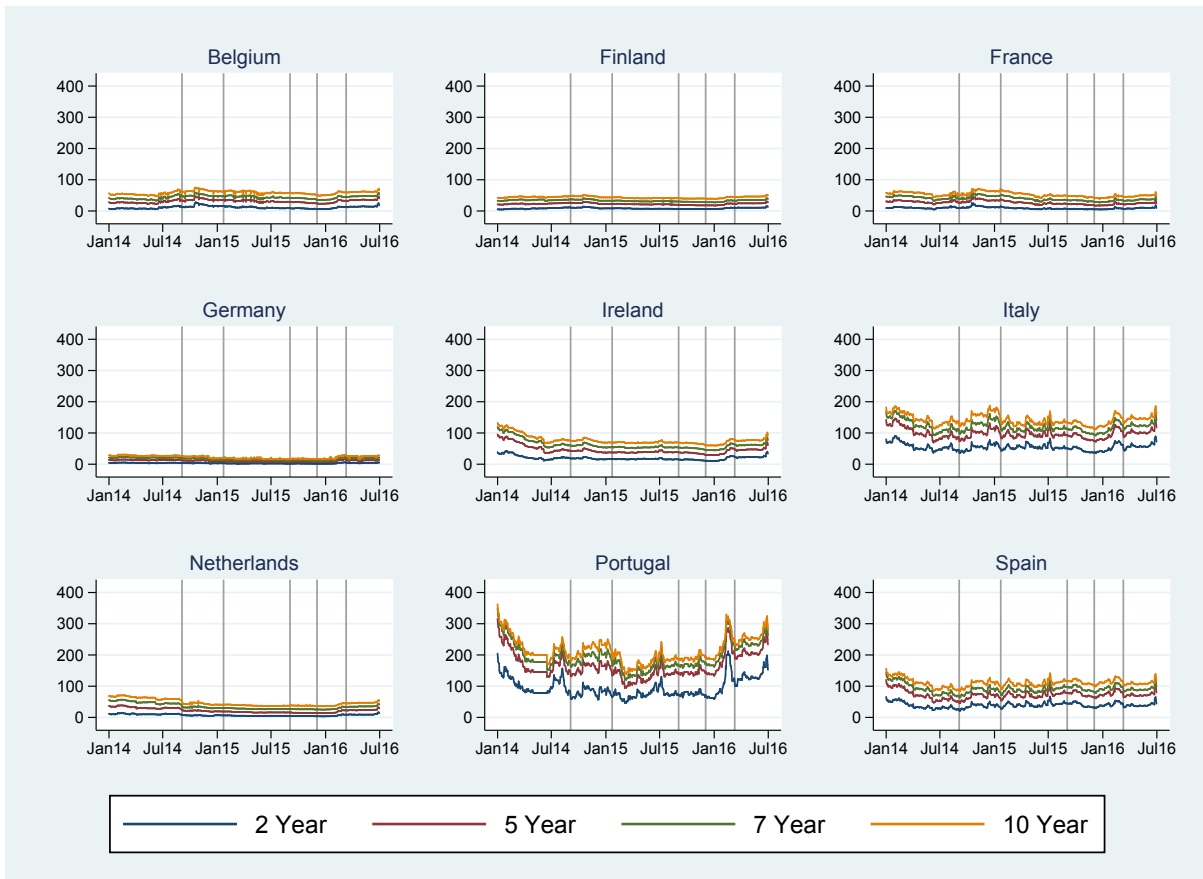
Source: Datastream. Y-Axis shows reduction in BPS for each window size. The average is calculated on the cumulative reduction across maturities for each country.

Figure 10: Average Impact of QE Announcement per Event Day and Sensitivity to Window Size



Source: Datastream. Y-Axis shows reduction in BPS for each window size. Average is calculated as the average across all event days and the average across maturities.

Figure 11: CDS Benchmarks per Country



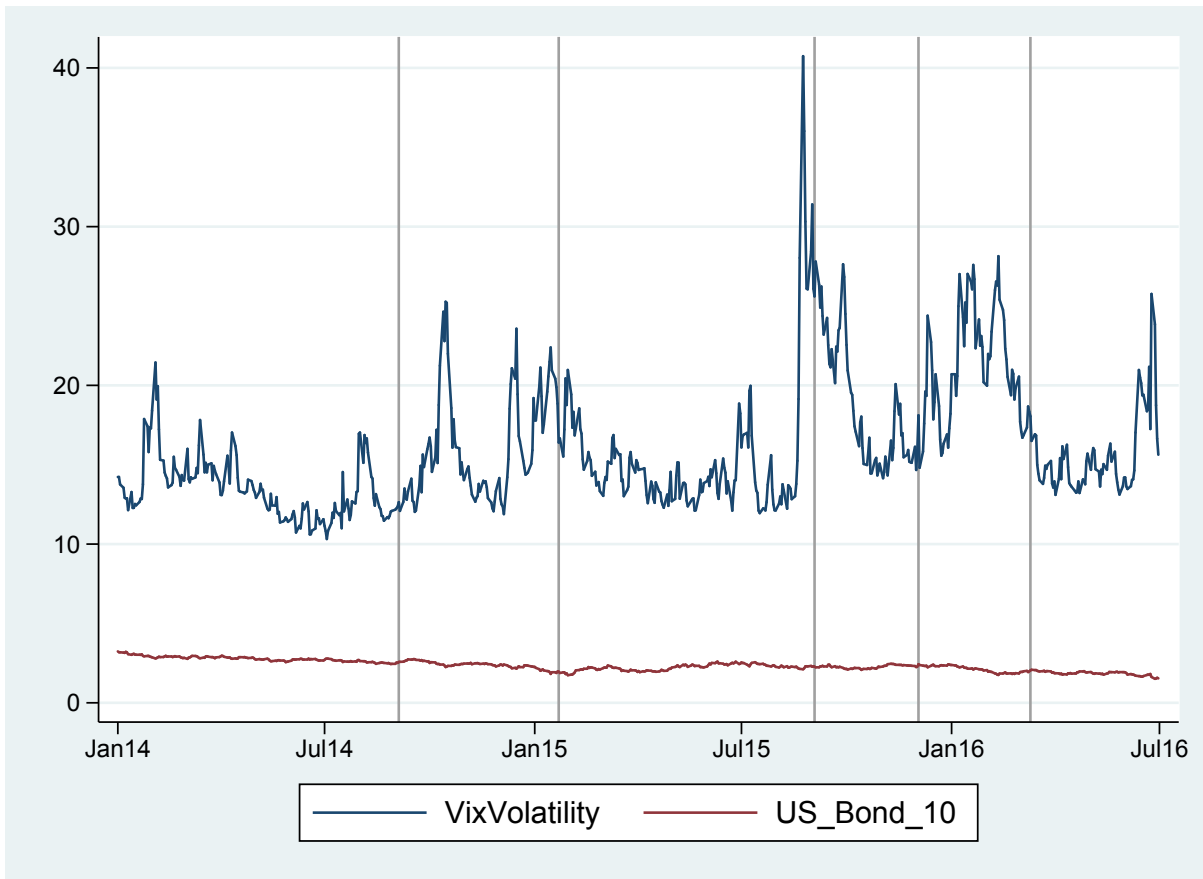
Source: Datastream. Vertical lines indicate announcement dates. Y-axis shows CDS premia.

Figure 12: Bid-Ask-Spread per Country



Source: Datastream. Vertical lines indicate announcement dates. Y-axis shows average Bid-Ask-Spreads.

Figure 13: Vix Volatility and US 10 Year Bond



Source: Datastream. Vertical lines indicate announcement dates.

Figure 14: Cumulative and Average Impact of the APP on Bond-OIS Spread in BPS – Details

	06.06.2014	05.09.2014	15.01.2015	23.01.2015	04.09.2015	23.10.2015	04.12.2015	22.01.2016	19.02.2016	11.03.2016
Belgium 02Y	-8.14	-8.34	-8.80	-9.37	-11.81	-11.81	-11.81	-11.81	-11.81	-11.81
Belgium 03Y	-10.83	-13.34	-12.70	-13.89	-16.32	-16.43	-15.59	-14.97	-14.97	-14.97
Belgium 04Y	-10.22	-15.05	-15.15	-16.18	-18.05	-19.39	-18.84	-18.57	-20.01	-18.46
Belgium 05Y	-10.02	-16.53	-17.84	-20.21	-22.68	-24.65	-24.15	-23.79	-26.09	-25.14
Belgium 06Y	-10.26	-17.43	-19.69	-22.58	-24.71	-28.35	-26.61	-27.24	-30.32	-29.57
Belgium 07Y	-10.55	-18.32	-21.13	-24.36	-24.58	-28.03	-25.05	-25.78	-29.26	-29.50
Belgium 08Y	-10.05	-18.42	-23.52	-29.66	-30.58	-34.43	-30.95	-32.68	-36.77	-37.42
Belgium 09Y	-9.38	-17.45	-22.00	-26.38	-25.03	-29.04	-24.96	-26.68	-31.44	-32.74
Belgium 10Y	-8.86	-16.74	-21.82	-28.40	-28.03	-33.01	-28.18	-30.46	-35.53	-35.96
Average	-9.81	-15.74	-18.07	-21.23	-22.42	-25.02	-22.90	-23.55	-26.24	-26.17
Finland 02Y	-6.16	-6.24	-6.34	-7.72	-8.35	-8.35	-8.35	-8.35	-8.35	-8.35
Finland 03Y	-8.85	-10.35	-10.58	-12.82	-14.25	-14.62	-14.62	-14.14	-14.14	-14.80
Finland 04Y	-8.03	-11.68	-13.04	-15.07	-16.07	-17.70	-14.41	-14.28	-15.40	-15.15
Finland 05Y	-7.28	-12.40	-14.74	-18.03	-19.86	-21.91	-19.47	-18.92	-20.90	-20.89
Finland 06Y	-6.84	-12.39	-15.24	-19.04	-20.83	-24.26	-21.23	-21.20	-23.89	-23.63
Finland 07Y	-6.97	-13.13	-16.08	-20.31	-20.53	-23.45	-19.56	-19.11	-22.10	-22.41
Finland 08Y	-6.24	-12.85	-17.73	-24.97	-26.23	-29.19	-25.10	-25.14	-28.59	-28.96
Finland 09Y	-5.82	-12.10	-16.14	-21.62	-20.86	-23.63	-19.16	-18.65	-22.53	-23.20
Finland 10Y	-5.28	-11.02	-15.38	-22.85	-23.16	-26.56	-21.44	-20.97	-24.88	-24.34
Average	-6.83	-11.35	-13.92	-18.05	-18.90	-21.07	-18.15	-17.86	-20.09	-20.19
France 02Y	-6.07	-5.37	-6.08	-6.64	-9.06	-8.81	-8.81	-8.81	-8.81	-8.81
France 03Y	-9.18	-11.27	-11.95	-13.26	-15.79	-16.35	-12.59	-12.67	-12.67	-13.59
France 04Y	-9.36	-14.42	-16.06	-16.81	-18.84	-20.60	-17.62	-18.28	-19.54	-19.00
France 05Y	-9.50	-16.08	-18.59	-20.26	-23.04	-25.27	-22.76	-23.29	-25.25	-24.89
France 06Y	-9.26	-15.81	-18.75	-20.76	-23.48	-27.14	-23.67	-25.02	-27.62	-27.29
France 07Y	-9.34	-16.01	-19.03	-21.46	-22.61	-25.86	-21.35	-22.62	-25.46	-26.19
France 08Y	-8.47	-15.35	-20.29	-25.82	-27.95	-31.43	-26.60	-28.77	-31.97	-33.33
France 09Y	-8.02	-14.69	-18.84	-22.71	-22.71	-26.22	-21.05	-23.14	-26.64	-28.90
France 10Y	-7.60	-14.16	-18.73	-24.68	-25.65	-30.02	-24.42	-27.01	-30.43	-32.04
Average	-8.53	-13.68	-16.48	-19.16	-21.01	-23.52	-19.87	-21.07	-23.15	-23.78
	06.06.2014	05.09.2014	15.01.2015	23.01.2015	04.09.2015	23.10.2015	04.12.2015	22.01.2016	19.02.2016	11.03.2016
Germany 02Y	-2.52	-1.18	-1.88	-1.98	-1.98	-1.98	-1.98	-1.98	-1.98	-1.98
Germany 03Y	-3.70	-2.50	-3.29	-3.69	-5.68	-5.68	-5.68	-5.68	-5.68	-5.68
Germany 04Y	-2.74	-3.05	-4.66	-4.49	-5.48	-6.77	-6.77	-6.86	-6.86	-6.86
Germany 05Y	-2.36	-3.75	-5.86	-6.80	-8.37	-9.82	-5.86	-5.70	-5.70	-2.82
Germany 06Y	-2.03	-3.53	-5.71	-7.24	-8.74	-11.34	-6.99	-7.38	-8.70	-5.62
Germany 07Y	-2.21	-4.09	-6.08	-8.32	-8.38	-10.33	-5.59	-5.47	-6.76	-4.34
Germany 08Y	-1.55	-3.83	-7.58	-13.24	-14.48	-16.39	-11.93	-12.11	-13.61	-11.36
Germany 09Y	-1.26	-3.28	-6.05	-10.36	-9.66	-11.39	-6.98	-6.38	-8.12	-6.31
Germany 10Y	-0.92	-2.61	-5.48	-12.15	-12.60	-15.00	-10.31	-9.55	-11.13	-8.23
Average	-2.14	-3.09	-5.18	-7.59	-8.37	-9.86	-6.90	-6.79	-7.62	-5.91
Ireland 02Y	-11.70	-12.79	-12.24	-15.16	-18.50	-18.35	-17.78	-16.20	-16.14	-21.26
Ireland 03Y	-15.63	-22.37	-21.50	-26.08	-29.64	-30.22	-28.22	-27.12	-28.69	-33.39
Ireland 04Y	-16.63	-28.52	-28.14	-33.16	-35.40	-37.23	-35.72	-34.75	-36.54	-40.08
Ireland 05Y	-17.60	-32.66	-32.89	-39.28	-41.46	-44.36	-43.19	-42.03	-43.96	-48.05
Ireland 06Y	-18.14	-34.45	-35.10	-41.77	-43.06	-48.23	-46.25	-46.13	-47.97	-52.22
Ireland 07Y	-18.41	-35.60	-36.50	-43.15	-42.02	-47.51	-44.76	-44.90	-46.22	-51.39
Ireland 08Y	-17.06	-34.49	-37.51	-46.74	-45.88	-52.13	-49.41	-50.81	-51.84	-57.24
Ireland 09Y	-15.53	-32.15	-34.50	-41.68	-38.10	-44.70	-41.92	-43.61	-44.41	-50.15
Ireland 10Y	-13.49	-28.90	-31.68	-40.85	-37.76	-45.38	-42.31	-44.86	-45.12	-49.54
Average	-16.02	-29.10	-30.01	-36.43	-36.87	-40.90	-38.84	-38.93	-40.10	-44.81
Italy 02Y	-23.46	-28.76	-29.22	-35.94	-44.27	-46.61	-46.42	-47.53	-46.70	-50.86
Italy 03Y	-28.33	-37.61	-38.91	-45.45	-54.44	-58.94	-55.37	-57.89	-58.85	-65.53
Italy 04Y	-28.94	-41.71	-44.23	-49.48	-56.27	-62.71	-58.45	-62.45	-63.77	-71.59
Italy 05Y	-28.28	-43.49	-46.41	-52.22	-58.20	-64.93	-60.30	-65.00	-66.55	-75.94
Italy 06Y	-26.77	-43.44	-46.05	-52.23	-56.79	-64.41	-58.34	-64.63	-66.10	-75.67
Italy 07Y	-25.32	-43.82	-45.92	-52.78	-54.51	-61.13	-53.54	-60.26	-61.16	-71.22
Italy 08Y	-22.86	-43.00	-46.72	-57.29	-58.98	-65.50	-57.21	-64.98	-65.66	-75.55
Italy 09Y	-20.83	-41.58	-44.39	-54.33	-53.09	-59.67	-50.82	-58.29	-59.01	-69.24
Italy 10Y	-18.76	-39.48	-42.56	-56.21	-55.36	-63.08	-53.80	-61.43	-62.06	-71.41
Average	-24.84	-40.32	-42.71	-50.66	-54.66	-60.78	-54.92	-60.27	-61.10	-69.67

Figure 15: Cumulative and Average Impact of the APP on Bond-OIS Spread in BPS – Details
(cont'd)

	06.06.2014	05.09.2014	15.01.2015	23.01.2015	04.09.2015	23.10.2015	04.12.2015	22.01.2016	19.02.2016	11.03.2016
Netherlands 02Y	-6.72	-5.88	-6.49	-7.66	-9.98	-9.98	-9.98	-9.98	-9.98	-9.98
Netherlands 03Y	-8.80	-9.80	-10.42	-12.04	-13.71	-14.38	-14.38	-14.39	-14.39	-14.39
Netherlands 04Y	-7.95	-11.66	-13.39	-14.62	-16.11	-18.11	-15.53	-15.93	-15.93	-14.60
Netherlands 05Y	-7.82	-12.86	-15.60	-18.03	-20.56	-23.13	-21.42	-21.59	-23.72	-21.90
Netherlands 06Y	-7.22	-13.23	-16.53	-19.56	-22.14	-26.27	-23.95	-24.74	-27.83	-25.43
Netherlands 07Y	-7.06	-13.55	-17.00	-20.62	-21.66	-25.54	-22.45	-22.88	-26.27	-24.35
Netherlands 08Y	-6.17	-13.14	-18.54	-25.35	-27.44	-31.64	-28.41	-29.36	-33.07	-31.23
Netherlands 09Y	-5.29	-11.79	-16.30	-21.46	-21.58	-25.88	-22.38	-22.88	-26.82	-25.39
Netherlands 10Y	-4.35	-9.65	-14.37	-21.56	-22.85	-28.03	-23.98	-24.64	-28.39	-25.88
Average	-6.82	-11.28	-14.29	-17.88	-19.56	-22.55	-20.28	-20.71	-22.93	-21.46
Portugal 02Y	-25.22	-41.17	-37.32	-48.09	-53.36	-54.25	-56.96	-53.01	-53.11	-62.45
Portugal 03Y	-29.10	-48.74	-43.85	-59.42	-65.53	-67.96	-66.50	-63.19	-66.01	-81.03
Portugal 04Y	-26.99	-46.36	-42.34	-60.45	-66.41	-69.81	-67.31	-66.21	-70.44	-88.56
Portugal 05Y	-23.88	-41.61	-38.88	-59.63	-66.61	-69.98	-67.18	-67.88	-73.07	-94.29
Portugal 06Y	-20.40	-36.68	-34.72	-56.46	-63.43	-67.95	-64.23	-67.54	-73.07	-95.42
Portugal 07Y	-17.02	-32.86	-31.06	-53.21	-58.36	-62.28	-57.84	-62.31	-67.30	-90.54
Portugal 08Y	-12.74	-28.96	-28.71	-54.05	-59.92	-64.08	-59.79	-66.07	-70.48	-93.25
Portugal 09Y	-9.09	-25.22	-23.43	-47.56	-51.05	-55.38	-51.12	-57.99	-61.67	-83.97
Portugal 10Y	-5.62	-22.06	-19.67	-46.84	-51.09	-56.50	-51.93	-59.88	-62.34	-82.68
Average	-18.90	-35.96	-33.33	-53.97	-59.53	-63.13	-60.32	-62.68	-66.39	-85.80
Spain 02Y	-25.11	-28.50	-27.43	-35.65	-42.58	-43.36	-42.26	-41.67	-39.66	-44.68
Spain 03Y	-29.04	-36.55	-36.10	-44.06	-49.56	-53.41	-50.07	-50.97	-50.36	-58.18
Spain 04Y	-28.13	-40.49	-41.96	-48.11	-50.85	-57.80	-54.66	-56.65	-56.20	-64.84
Spain 05Y	-26.44	-42.51	-45.36	-51.48	-52.84	-61.06	-58.11	-60.13	-59.65	-69.63
Spain 06Y	-24.51	-42.85	-46.11	-52.10	-51.54	-61.05	-57.05	-59.91	-59.08	-69.16
Spain 07Y	-22.91	-43.38	-46.35	-52.82	-49.08	-57.49	-52.30	-54.99	-53.47	-64.02
Spain 08Y	-20.39	-42.45	-46.76	-57.10	-53.20	-60.97	-55.22	-58.70	-57.05	-67.20
Spain 09Y	-18.38	-40.98	-43.79	-53.93	-47.19	-54.24	-47.84	-51.22	-49.91	-59.87
Spain 10Y	-16.47	-39.12	-41.52	-55.88	-49.79	-57.21	-50.05	-54.08	-53.11	-61.45
Average	-23.49	-39.65	-41.71	-50.13	-49.63	-56.29	-51.95	-54.26	-53.17	-62.11

Figure 16: Event Days – Details

Date	Kind	Summary
05.06.2014	ECB Monetary policy decisions	The Governing Council decided on a combination of measures <ul style="list-style-type: none"> • Lower the main refinancing operations by 10 basis points to 0.15% • Lower the marginal lending facility by 35 basis points to 0.40% • Lower the deposit facility by 10 basis points to -0.10% • Conduct a series of targeted longer-term refinancing operations (TLTROs) • Announced Purchases in the ABS market • Continue to conduct the MROs as fixed rate tender procedures with full allotment for as long as necessary
06.06.2014	Financial Times, P.1	Mario Draghi became the first major central banker to cut a key interest rate below zero as he unveiled a series of radical measures to stave off a crippling bout of deflation, and signalled his willingness to take further action. (...) Mr Draghi indicated that policy makers were still willing to embark on some kind of quantitative easing if ultra-low inflation persists.
04.09.2014	ECB Monetary policy decisions	The Governing Council decided today to <ul style="list-style-type: none"> • Lower the main refinancing operations by 10 basis points to 0.05% • Lower the marginal lending facility by 10 basis points to 0.30% • Lower the deposit facility by 10 basis points to -0.20% • Start purchasing non-financial private sector assets under an ABS purchase programme (ABSPP) • Start purchases under the covered bond purchase programme (CBPP3)
05.09.2014	Financial Times, P.1	Mario Draghi startled markets yesterday, cutting interest rates to a record low and pledging to buy hundreds of billions of euros of private sector bonds in a dramatic move to save the eurozone from economic stagnation. The euro fell to its lowest level in more than a year (...) after what amounts to the ECB's last gambit short of full-scale quantitative easing .
14.01.2015	ECB Comments ECJ approved OMT case	We take note of the European Court of Justice Advocate General's legal opinion in the Outright Monetary Transactions (OMTs) case. This is an important milestone in the request for a preliminary ruling, which will only be concluded with the judgement of the Court
15.01.2015	Financial Times, P.3	The removal of a big legal hurdle to government bond buying by the European Central Bank pushed the euro to a nine-year low yesterday and paved the way for policy makers to press ahead with quantitative easing next week. A top adviser to the European Court of Justice bolstered the case for aggressive action by the ECB next Thursday, after he said an earlier, more controversial sovereign debt-buying plan lay within the ECB's mandate. The final decision on the Outright Monetary Transactions programme, expected in four to six months, is likely to follow the advocate-general's opinion.
16.01.2015	Financial Times, P.1	"Franken-Shock": The European Central Bank is next week expected to embark on a sovereign bond buying programme aimed at reviving growth and saving the euro-zone from the ravages of deflation. A launch of full-blown quantitative easing would precipitate massive demand for the Swiss franc, widely seen as one of global markets' stronger havens — and would have made it increasingly difficult for the SNB to defend its currency ceiling.

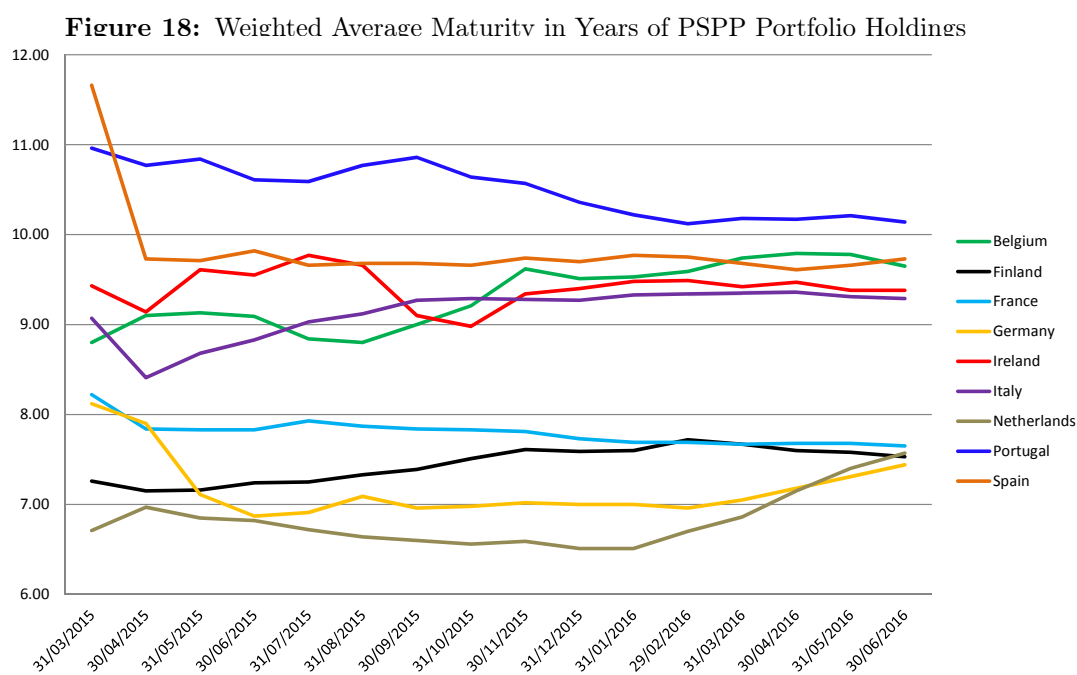
Date	Kind	Summary
22.01.2015	ECB Monetary policy decisions	ECB announces expanded APP <ul style="list-style-type: none"> • PSPP: ECB purchases bonds issued by euro area central governments, agencies and European institutions • Combined monthly asset purchases of €60 billion • Purchases at least until September 2016 • Hypothetical losses of ECB purchases will be subject to loss sharing. The rest of the NCBs' additional asset purchases will not be subject to loss sharing
23.01.2015	Financial Times, P.1	The European Central Bank launched a €60bn-a-month bond-buying programme that was far bigger than investors had expected , in its long-awaited bid to revitalise the eurozone economy and counter deflation. (...) "Expectations work only if there is a certain credibility," he said at the bank's Frankfurt headquarters. "Today we are showing that that credibility is deserved."
03.09.2015	ECB Monetary policy decisions	The Governing Council decided to keep the key ECB interest rates unchanged. <ul style="list-style-type: none"> • Increase the issue share limit from the initial limit of 25% to 33%, subject to a case-by-case verification
04.09.2015	Financial Times, P.1	Mario Draghi buoyed investors yesterday as he opened the door for further quantitative easing should global market tremors and the emerging markets slowdown threaten eurozone recovery. The euro and eurozone government bond yields plunged after the ECB president indicated it stood ready to extend the "size, composition and duration" of its €1.1tn bond-buying programme. (...) In a sign of policymakers' willingness to reinforce their QE package, the ECB raised the purchase limit of a single country's debt stock from 25 per cent to 33 per cent.
22.10.2015	ECB Monetary policy decisions	The Governing Council decided to keep the key ECB interest rates unchanged.
23.10.2015	Financial Times, P.1	The ECB signalled it would expand its €1.1tn quantitative easing programme in December and cut its deposit rate (...) Mario Draghi said policymakers' measures would need to be "re-examined" at its December 3 vote. He said the central bank stood ready to adjust the "size, composition and duration" of its QE programme .

Green: announcement effects (new ECB announcement and Financial Times P.1-3)
Yellow: speculation effects; (no new ECB announcement, but Financial Times P.1-3)

Figure 17: Event Days – Details (cont'd)

Date	Kind	Summary
03.12.2015	ECB Monetary policy decisions	The Governing Council decided to <ul style="list-style-type: none"> Lower the deposit facility by 10 basis points to -0.30% The main refinancing operations and marginal lending facility remain unchanged Extend the APP until the end of March 2017, or beyond Include regional and local governments in the PSPP
04.12.2015	Financial Times, P.1	But these measures (...) disappointed investors who had hoped for deeper rate cuts and more monthly bond purchases. (...) More aggressive stimulus would probably have run into stiff German-led opposition (...). While support for the package was not unanimous, Mr Draghi said a “very large majority” were in favour of the measures.
21.01.2016	ECB Monetary policy decisions	The Governing Council decided to keep the key ECB interest rates unchanged.
22.01.2016	Financial Times, P.1	Mario Draghi signalled that the European Central Bank was prepared to launch a fresh round of monetary stimulus as soon as March (...). The ECB has “the power, the willingness, the determination to act” and “ there are no limits to our action ” to bring inflation up to its target of just below 2 per cent, he said.
18.02.2016	ECB Press Release	The minutes show the governing council was unanimous in concluding that its current policy stance “ needed to be reviewed and possibly reconsidered ”.
19.02.2016	Financial Times, P.1	Mario Draghi, the ECB president, has won wide support for further policy action next month (...). Markets are expecting the ECB’s deposit rate to be cut another 10 basis points to minus 0.4 per cent next month, while the €60bn quantitative easing programme launched a year ago is likely to be increased in scope.
10.03.2016	ECB Monetary policy decisions	The Governing Council decided to <ul style="list-style-type: none"> Lower main refinancing operations by 5 basis points to 0.00% Lower marginal lending facility by 5 basis points to 0.25% Lower deposit facility was lowered by 10 basis points to -0.40% Expand the monthly purchases of APP from €60 billion at present to €80 billion. They are intended to run until the end of March 2017, or beyond, if necessary The issuer and issue share limits for securities issued by eligible international organisations and multilateral development banks will be increased to 50% Include investment-grade euro-denominated bonds issued by non-bank corporations in the list of assets (CSPP) Launch a new series of TLTRO II
11.03.2016	Financial Times, P.1	The European Central Bank has unleashed a bigger-than-expected package of measures to stimulate the eurozone economy, with expanded quantitative easing, incentives to banks to increase lending and further interest rate cuts.

Green: announcement effects (new ECB announcement and Financial Times P.1-3)
 Yellow: speculation effects; (no new ECB announcement, but Financial Times P.1-3)



Source: ECB

Table 8: Overview Control Variables

Variable	Belgium	Finland	France	Germany	Ireland	Italy	Netherlands	Portugal	Spain	Euro Area
Business Confidence	X	X	X	X		X	X	X	X	X
Consumer Confidence	X	X	X	X	X	X	X	X	X	X
GDP QoQ final	X	X	X	X	X	X	X	X	X	X
GDP QoQ flash	X	X	X	X		X	X	X	X	X
GDP YoY final	X	X	X	X	X	X	X	X	X	X
GDP YoY flash	X	X	X	X		X	X	X	X	X
Industrial Production YoY	X	X	X	X	X	X	X	X	X	X
Inflation MoM	X	X	X	X	X	X		X	X	X
Inflation YoY	X	X	X	X	X	X	X	X	X	X
Manufacturing PMI			X	X	X	X	X		X	X
Retail Sales MoM	X	X	X	X	X	X	X	X	X	X
Retail Sales YoY	X		X	X	X	X	X	X	X	X
Unemployment Rate	X	X	X	X	X	X	X	X	X	X
ZEW Economic Sentiment										X
Bid-Ask Spread	X	X	X	X	X	X	X	X	X	
CDS premia	X	X	X	X	X	X	X	X	X	
Vix Volatility	X	X	X	X	X	X	X	X	X	
US 10 Year Benchmark	X	X	X	X	X	X	X	X	X	

Notes: Surprise components of news announcements are calculated as actual value – forecast value on the day of each announcement. All non-announcement days are zero. News data is taken from calendar function of the publicly available website tradingeconomics.com. To make different national business confidence and consumer confidence indices more comparable surprise component is calculated as percentage deviation from forecast value. Euro Area news apply for all nine countries. Bid-ask spreads are calculated as the daily average bid-ask spreads for a large subset of national bonds.