

## **Event studies, the random walk hypothesis and risk spreads: What role for central bank sovereign bond purchases in the euro area?**

### **QE in the euro area: has the PSPP benefited peripheral bonds?**

#### **Abstract**

The asset purchase programme of the euro area, active between 2015 and 2018, constitutes an interesting special case of Quantitative Easing (QE) because the ECB's Public Sector Purchase Programme (PSPP) involved the purchase of peripheral euro area government bonds, which were clearly not riskless. Moreover, these purchases were undertaken by national central banks at their own risk. Intuition suggests, and a simple model confirms, that, *ceteris paribus*, large purchases by a national central bank of the bonds of their own sovereign should increase the risk for the remaining private bond holders. This might seem incompatible with the observation that risk spreads on peripheral bonds fell when QE in the euro area was announced. However, the initial fall in risk premiums may have been due to expectations of the bond purchases proving effective in lowering risk-free rates. When these expectations were disappointed, risk premiums returned to their initial level. Formal statistical tests confirm that indeed risk premiums on peripheral bonds did not follow a random walk (contrary to what is assumed in event studies). Nor did the announcements of bond buying change the stochastics of these premiums. There is thus no reason to consider the impact effect to have been permanent.

#### **Link**

<http://www.ceps.eu/system/files/QE%20in%20the%20euro%20area.pdf>

# **Event studies and the random walk hypothesis: Why the end of bond buying by the ECB is a non-event**

## **Abstract**

The ending of the ECB's bond buying programme had no impact on interest rates. In this post, Ansgar Belke and Daniel Gros argue that this is because while the programme might have lowered rates when it was announced, the impact was only transitory.

The paper is joint work with Daniel Gros (Director of the Centre for European Policy Studies, Brussels)

## **Link**

<http://voxeu.org/content/event-studies-and-random-walk-hypothesis-why-end-bond-buying-ecb-non-event>

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