

Asset Purchase Programs in European Emerging Markets

*Prepared by Marco Arena, Rudolfs Bems, Nadeem Ilahi,
Jaewoo Lee, William Lindquist, and Tonny Lybek*

DP/2021/021



European Department

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Cataloging-in-Publication Data

IMF Library

Names: Arena, Marco. | Bems, Rudolfs. | Ilahi, Nadeem. | Lee, Jaewoo. | Lindquist, William J. | Lybek, Tonny. | International Monetary Fund. Monetary and Capital Markets Department, issuing body. | International Monetary Fund, publisher.

Title: Asset purchase programs in European emerging markets / prepared by Marco Arena, Rudolfs Bems, Nadeem Ilahi, Jaewoo Lee, William Lindquist, and Tonny Lybek.

Other titles: International Monetary Fund. Monetary and Capital Markets Department (Series) ; DP/2021/021.

Description: Washington, DC : International Monetary Fund, 2021. | Departmental paper series ; DP/2021/021. | Includes bibliographical references.

Identifiers: ISBN 9781513593753 (paper)

Subjects: LCSH: Banks and banking, Central—Europe. | Monetary policy—Europe. | COVID-19 Pandemic, 2020—Economic aspects—Europe.

Classification: LCC HG3550.A74 2021

The Departmental Paper Series presents research by IMF staff on issues of broad regional or cross-country interest. The views expressed in this paper are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

ISBN	978-1-51359-375-3 (Paper)
JEL Classification Numbers	E52
Keywords	Monetary policy; Asset purchase programs; Quantitative easing; Emerging markets; COVID-19 pandemic; Europe
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ABSTRACT: Several emerging market central banks in Europe deployed asset purchase programs (APPs) amid the 2020 pandemic. The common main goals were to address market dysfunction and impaired monetary transmission, distinct from the quantitative easing conducted by major advanced economy central banks. Likely reflecting the global nature of the crisis, these APPs defied the traditional emerging market concern of destabilizing the exchange rate or inflation expectations and instead alleviated markets successfully. We find evidence that APPs in European emerging markets stabilized government bond markets and boosted equity prices, with no indication of exchange rate pressures. Examining global and domestic factors that could limit the usability of APPs, in the event of renewed market dysfunction we see a potential scope for scaling up APPs in most European emerging markets that used APPs during the pandemic, provided that they remain consistent with the primary objective of monetary policy and keep a safe distance from the risk of fiscal dominance. As central banks in the region move toward monetary policy tightening, the tapering, ending, and unwinding of APPs must also be carefully considered. Clear and transparent communication is critical at each step of the process, from the inception to the closure of APPs, particularly when a large shock hits and triggers a major policy shift.

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Acknowledgments

This paper was completed under the overall guidance of Jörg Decressin. The authors are grateful for helpful comments from IMF colleagues, the National Bank of Hungary, and the Central Bank of the Republic of Turkey. We would also like to thank participants at a seminar at the National Bank of Poland and a European Department Spring Meetings Seminar, in particular Croatian National Bank Governor Boris Vujčić for his role as a panelist.

The authors would also like to thank Shiqing Hua and Tan Wang for research assistance, and Rafaela Jarin for editorial assistance.

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