Comment on

“ECB Unconventional Monetary Policy Actions”

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October 2014

It is important to distinguish between two, very different types of "unconventional" policies:

- Actions to avoid disasters (liquidity freeze-ups, bankruptcies, sovereign defaults): Most of the ECB's policies; Fed actions under Section 13(3) in 2007-08

- Large Scale Asset Purchases designed to reduce long-term interest rates and stimulate spending: Fed QE since 2009

Some research on Fed vs. ECB compares apples to oranges.

Summary of Fratzcher et al. results:

ECB unconventional policies have had only small effects on financial markets outside Europe!

See Figure 2, Panels C and D

Could the effects of some programs, especially OMT, be larger than the paper finds?

The paper examines effects on announcement days. Confidence effects from OMT grew over time.

The true counterfactual might have included sovereign default and Euro break-up, with major effects on the world economy.

QE by the Fed seems to have significant effects on emerging markets:

- Concerns of policymakers, such as Rajan (2014)
- Aizenman, Binici, and Hutchinson (2013): Bernanke tapering announcements sparked capital outflows from emerging markets, with major effects on exchange rates, equity prices, CDS spreads

These effects are puzzling.

Tapering announcements were small steps in a normalization process that was long anticipated. The effects on 10-year Treasury yields were on the order of 10 to 40 basis points.

These events should not have major effects on the fundamentals of emerging economies or the market's assessment of investment opportunities.

A hypothesis:

Investors fear that some emerging economies are on unsustainable paths and due for a correction. In this environment, a small piece of news about tapering can be the trigger for a shift in confidence.

If this is correct, we should not view tapering as the cause of instability in emerging markets. If investors are worried about fundamentals, shifts in capital flows are likely to occur regardless of monetary policy in advanced economies.

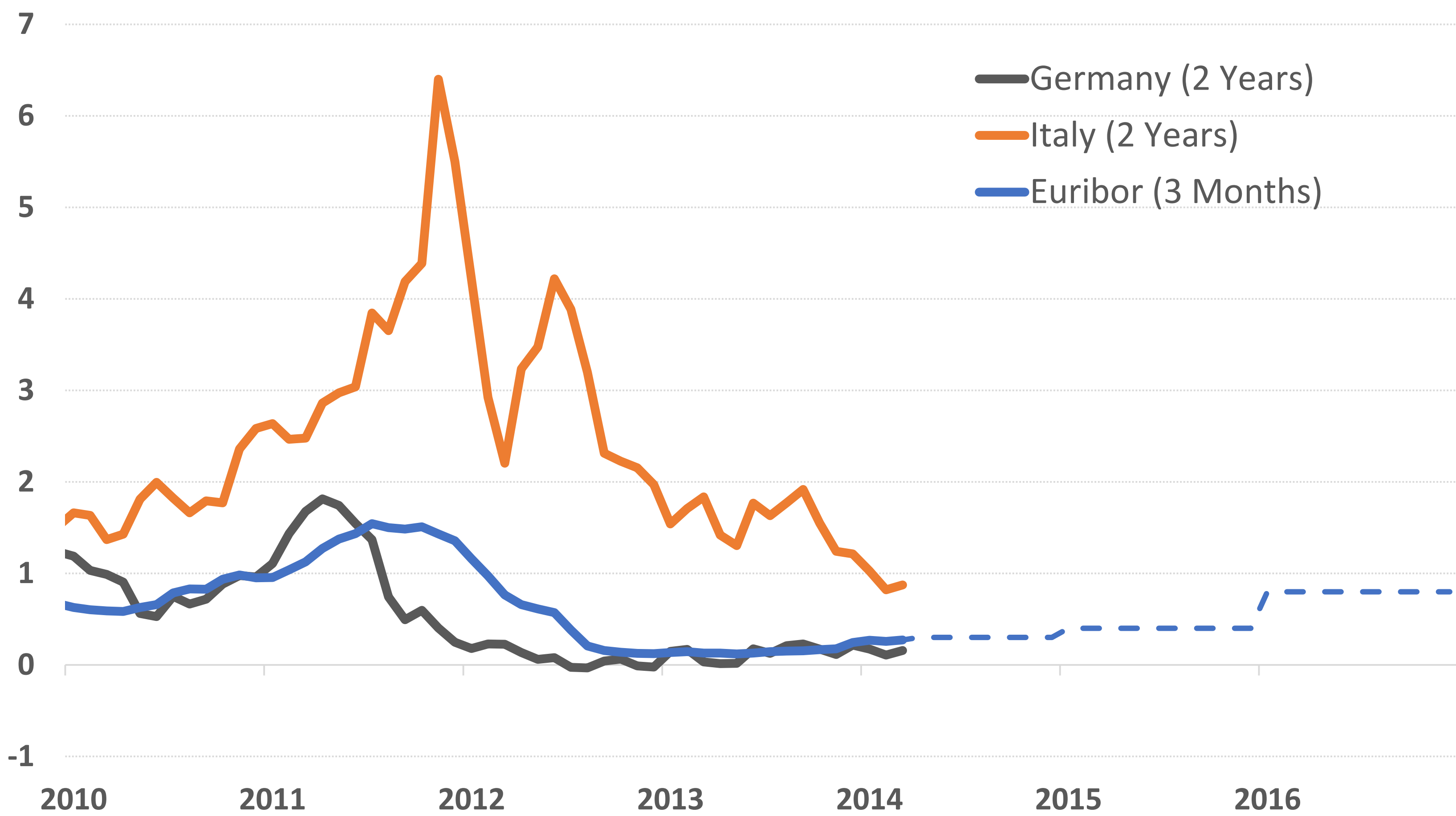
The big picture:

Should we worry about adverse spillovers from unconventional policies?

- Actions to avoid disaster are good for every part of the world economy.

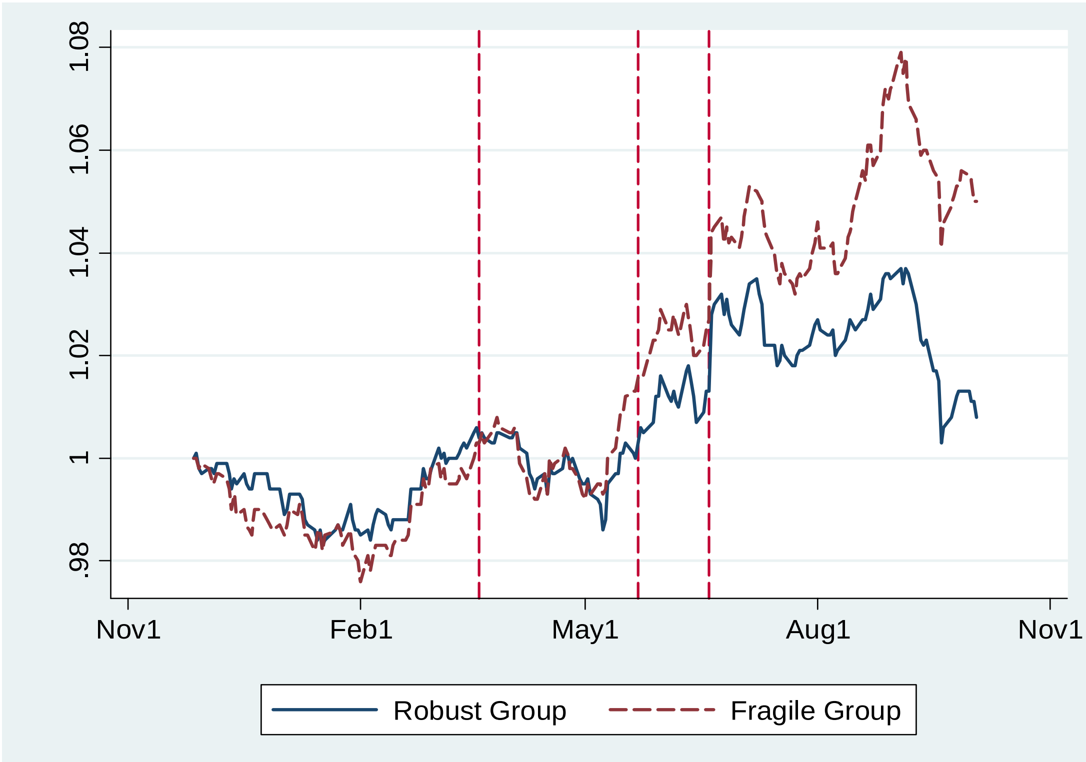
- In principle, LSAPs that influence long-term interest rates can pose challenges to other countries. However, the quantitative effects of LSAPS and their unwinding are modest. We are unlikely to see major spillovers from monetary policy as in the 1980s and 1990s.

Nominal Interest Rates in Europe



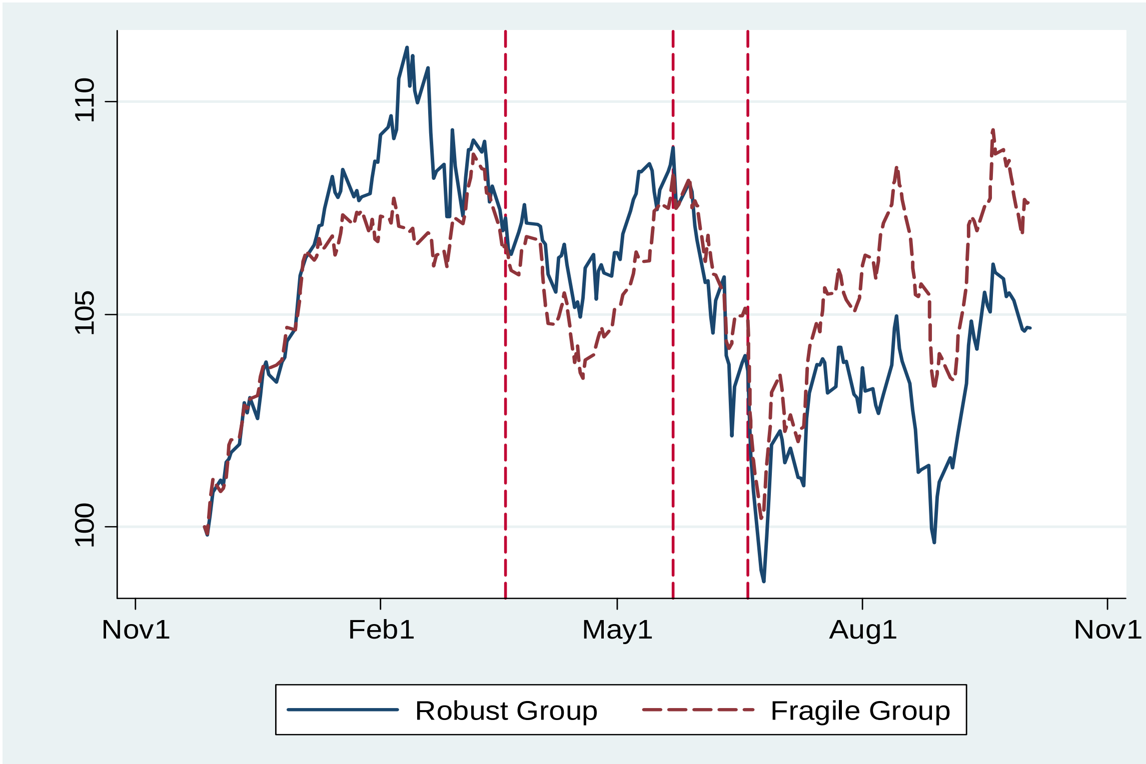
Sources: Bloomberg and ECB Forecasts.

Figure 1: Foreign Exchange Rate and Tapering "Events"



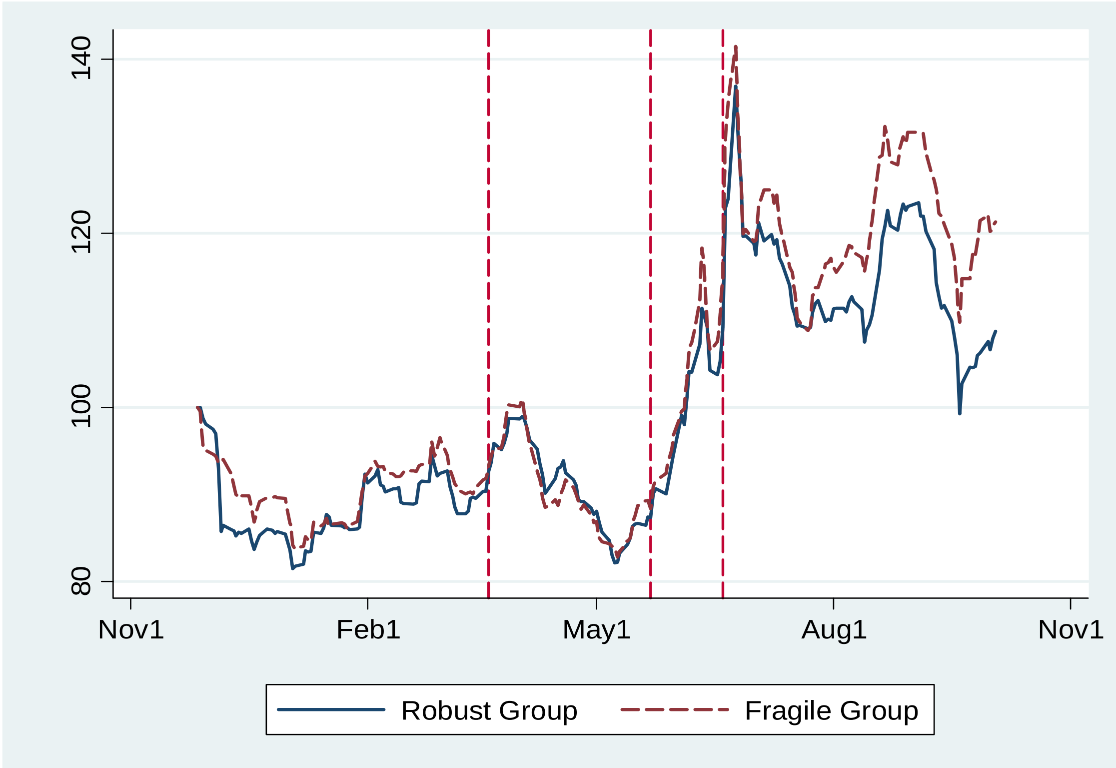
Notes: Vertical dashed lines indicate Bernanke's tapering announcement dates (20 March 2013, 22 May 2013, 19 June 2013) as described in data section. For each country, nominal exchange rate (national currency per US dollar) index is constructed by setting equal "1" at the beginning of our sample, 27 November 2012. The (unweighted) average for "robust group" (Peru, Israel, South Korea, Malaysia, Philippines, Thailand, Bulgaria, Russia, Hungary) and "fragile group" (Turkey, South Africa, Argentina, Brazil, Chile, Columbia, Mexico, India, Indonesia, Pakistan, Ukraine, Czech Republic, Latvia, Lithuania, Poland, Romania) is taken on each day over the sample.

Figure 2: Stock Market Index and Tapering "Events"



Notes: Vertical dashed lines indicate Bernanke's tapering announcement dates (20 March 2013, 22 May 2013, 19 June 2013) as described in data section. For each country, stock market index is constructed by setting equal "100" at the beginning of our sample, 27 November 2012. The (unweighted) average for "robust group" (Peru, Israel, South Korea, Malaysia, Philippines, Thailand, Bulgaria, Russia, Hungary) and "fragile group" (Turkey, South Africa, Argentina, Brazil, Chile, Columbia, Mexico, India, Indonesia, Pakistan, Ukraine, Czech Republic, Latvia, Lithuania, Poland, Romania) is taken on each day over the sample.

Figure 3: CDS Spreads and Tapering "Events"



Notes: Vertical dashed lines indicate Bernanke's tapering announcement dates (20 March 2013, 22 May 2013, 19 June 2013) as described in data section. For each country, CDS spread index is constructed by setting equal "100" at the beginning of our sample, 27 November 2012. The (unweighted) average for "robust group" (Peru, Israel, South Korea, Malaysia, Philippines, Thailand, Bulgaria, Russia, Hungary) and "fragile group" (Turkey, South Africa, Argentina, Brazil, Chile, Columbia, Mexico, India, Indonesia, Pakistan, Ukraine, Czech Republic, Latvia, Lithuania, Poland, Romania) is taken on each day over the sample.