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Ongoing Asset Purchases at Foreign Central Banks¹

In response to the economic collapse brought on by the COVID crisis, central banks provided rapid policy support including billions of dollars of asset purchases. This memo discusses advanced foreign economy central banks' ongoing asset purchase programs and the guidance they have provided about their purchases going forward. After sharply increasing asset purchases in the spring largely to address market dysfunction, foreign central banks have continued to purchase assets in large quantities, though some have slowed their purchase pace as markets have calmed. Central banks generally have shifted the rationale for purchases toward providing monetary accommodation. Most have communicated that they expect to stop net asset purchases before raising their policy rates. Some have provided state-based guidance on asset purchases, tied either to progress on economic goals or directly to guidance on the policy rate. Others have announced the size and end-dates of purchase programs, without clear guidance on conditions for extending those programs. Most retain some flexibility in their purchase pace as well as in the composition of purchases across maturities and types of assets (public or private).

Communication about Purchases

Many advanced foreign economy central banks introduced or expanded asset purchase programs in response to market functioning strains observed in the spring.² The European Central Bank (ECB) launched the Pandemic Emergency Purchase Programme (PEPP) and also added to its existing Asset Purchase Programme (APP).³ The ECB used the flexibility of the PEPP to weight its purchases more heavily toward bonds of member states, such as Italy, that faced greater pressures on financial conditions than some other euro-area countries. The Bank of England (BOE) restarted purchases of U.K. government securities, while the Riksbank increased the pace of its existing programs. The Bank of Canada (BOC), the Reserve Bank of New Zealand (RBNZ), and the Reserve Bank of Australia (RBA) all started large scale asset purchases for the first time, with the RBA also initiating yield curve control (YCC), targeting the three-year government bond yield at 0.25 percent. The Bank of Japan (BOJ) continued its yield curve control program and increased its purchases of some private assets.

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² Emerging market central banks also have bought assets but are not in the scope of this memo.

³ The existing APP consists of corporate bonds, public sector securities, asset-backed securities, and covered bonds. The PEPP includes those same assets but also waives the eligibility requirements for securities issued by the Greek government. The PEPP allocation of public sector securities across jurisdictions is guided by the capital key of the national central banks; however, purchases are conducted in a flexible manner in order to deal with the specific situation caused by the COVID-19 outbreak.

In recent months, as market functioning improved but economic activity remained weak, most central banks shifted communication about asset purchases away from emphasizing the goal of restoring market functioning and toward explicitly recognizing the need for monetary stimulus in support of the recovery.

Guidance on Purchases

Guidance on asset purchases has varied across institutions (see Appendix). Several central banks have issued guidance on purchases that is state based. The BOC and RBA have said they would continue asset purchases until they see progress toward their mandated goals. This guidance is less specific (“the recovery is well underway” or “progress is being made”) than their guidance on policy rates, which is tied to sustainably reaching the inflation target. Therefore, most analysts expect the conditions for stopping asset purchases to be met sometime before the conditions are met for raising interest rates. The BOJ’s stance is also outcome based—with an aim to achieve the 2 percent inflation target in a stable manner.⁴

By contrast, the ECB’s guidance on its existing APP is directly linked to guidance on the timing of policy rate increases, which itself is based on inflation converging to the ECB’s objective. The ECB expects purchases under the APP to “end shortly before it starts raising the key ECB interest rates.”

Other central banks have date-based guidance on their asset purchases. The BOE, Riksbank, and RBNZ have all specified maximum amounts for their bond purchase programs and timelines for completion, without specific guidance on the conditions under which they would extend those programs. For its PEPP, the ECB has specified a maximum amount and a date for completion, but that end-date is also conditional: “until at least the end of June 2021 and, in any case, until it judges that the coronavirus crisis phase is over.”⁵

Most of the central banks have indicated they would likely end net asset purchases before raising policy rates, but would continue to reinvest those purchases for some time after raising rates. The ECB says that it “intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates...” (The ECB says it “will reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2022.”) Similarly, the BOE in June 2018 said it would not unwind its balance sheet until Bank Rate had risen to 1.5 percent. However, this year, Governor Bailey said the BOE will review that guidance, noting that

⁴ Additional purchases of commercial paper and corporate bonds, which only account for a small share of the asset purchase program, will last through March 2021

⁵ PEPP has dual objectives: maintaining smooth market functioning and meeting the inflation goal.

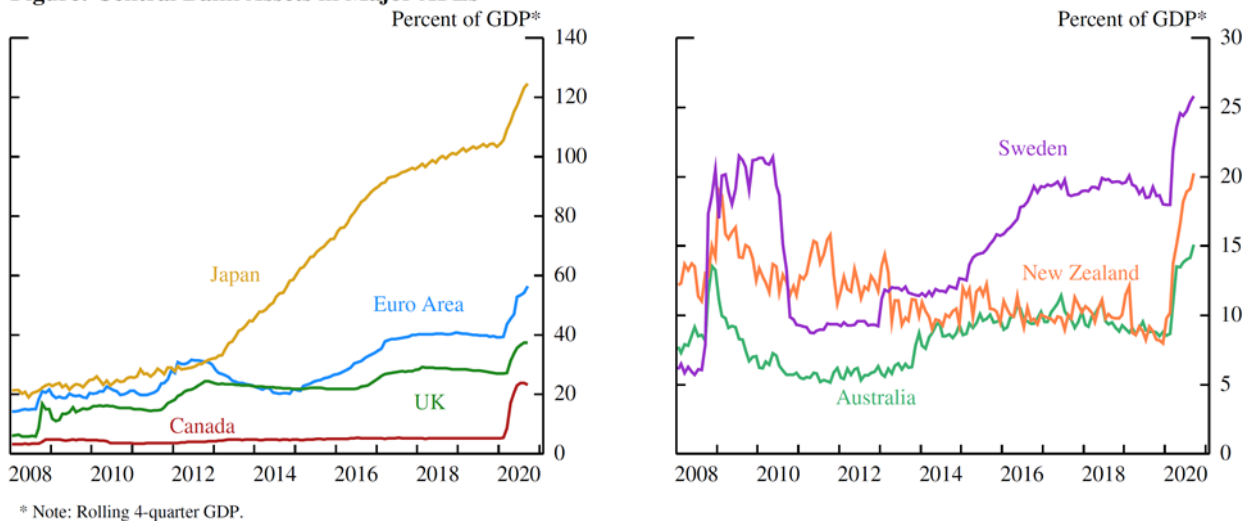
it might be preferable to ensure there is sufficient headroom to draw on the balance sheet as a tool when needed in the future, in particular during episodes of market dysfunction.

Pace of Purchases

Most central banks are setting the pace of purchases in a flexible manner (see table 1). Several (ECB, BOE, Riksbank, and RBNZ) have set a cap on total purchases and an expected date for completion, but have not announced a discrete pace for purchases. In the case of the ECB, while purchases under the PEPP are managed in a flexible manner, purchases under the existing APP, have continued at a monthly pace of €20 billion, with an additional envelope of €120 billion set to expire at the end of this year. The BOC is the only major foreign central bank that currently specifies the weekly pace of government bond purchases.⁶

Both the ECB and BOE were buying large amounts of bonds early in the crisis and have since slowed the rate of purchases as markets have calmed. The BOE reduced the pace when it extended its asset purchase program in June, while the ECB's PEPP purchases have slowed organically as market conditions improved. Both have indicated they could calibrate their asset purchases to address any renewed market stress. The BOE has said: "Should market conditions worsen materially again, however, the Bank stood ready to increase the pace of purchases to ensure the effective transmission of monetary policy." The minutes of the ECB's September monetary policy meeting suggest the pace of PEPP purchases could be reduced, given the stabilization in financial markets, allowing a buffer to be built up in case of renewed market turbulence.

Figure: Central Bank Assets in Major AFEs



⁶ The Bank of Canada will also target purchases of up to C\$500 million per week of mortgage bonds, but amount and frequency of weekly operations can be adjusted based on prevailing market conditions.

Table 1: Asset Purchase Programs of Foreign Central Banks

Central Bank	End date	Purchase cap	Targeted pace	Purchases to-date/ percent of GDP
ECB				€567.2bn/ 5 percent
PEPP	June 2021	€1,350bn	Not specified	
APP	See Appendix for forward guidance	Open-ended; Additional envelope of €120bn through end-2020	€20bn per month	€241.2bn/ 2 percent
BOJ	Open-ended	Open-ended (YCC)	Not specified	¥10.5tn/ 2 percent
BOE	End 2020	£290bn	Not specified	£230bn*/ 10 percent
BOC	Open-ended	Open-ended	C\$5bn per week	C\$150.1bn**/ 6 percent
RBA	Open-ended	Open-ended (YCC)	Not specified	A\$64.7bn/ 3 percent
Riksbank	June 2021	SEK 500bn	Not specified	SEK 233.5bn/ 4 percent
RBNZ	June 2022	NZ\$100bn	Not specified	NZ\$36.1bn/ 11 percent

*Cumulative gilt purchases to date from March through mid-September. The BOE has also bought £9.3bn worth of corporate bonds over that same period.

**In addition to government of Canada bonds, the BOC has bought provincial bonds: C\$9.8bn and mortgage bonds: C\$7.8bn to-date. The BOC has also bought corporate bonds: C\$161.6mn as well as commercial paper on a small scale. The provincial bond and corporate bond programs have limits of C\$50bn and C\$10bn, respectively, and are set to expire May 6, 2021.

Composition of Purchases

Government securities make up the bulk of foreign central banks' asset purchases (see Table 2). Nonetheless, many central banks, such as the ECB, BOJ, and BOE, have allocated small purchases to corporate bonds and commercial paper in order to directly support businesses affected by the pandemic. Others, including the BOC, RBA, and RBNZ, have allocated some purchases to provincial/local government bonds as well. The BOC and Riksbank have also purchased mortgage-backed securities.

Most foreign central banks have continued to purchase government securities across the yield curve⁷ as they did earlier in the pandemic, with the exception of the RBNZ, which focuses its purchases on longer-dated securities only. The RBA initially allocated its purchases across the curve to address market dysfunction from March to May, but it has not regularly conducted purchases in recent months as markets have calmed. Nonetheless, following its August meeting, the RBA purchased short-dated securities as part of its yield curve control program to “ensure that the yield on 3-year bonds remains consistent with the target” and said that “further purchases will be undertaken as necessary.”

Although some central banks, such as the ECB and BOE, have communicated a shift in focus toward providing monetary accommodation as market volatility dissipated, they have continued to purchase securities across the yield curve. The BOE has stated that it intends to purchase securities evenly across maturity sectors but the size of the auctions will be kept “under review in light of market conditions.” Similarly, the BOJ has generally continued to purchase Japanese government bonds (JGB) across the curve. Nonetheless, the BOJ has purchased fewer super-long-dated bonds (with a maturity of more than 10 years) relative to their supply, with the aim of steepening the long end of the JGB yield curve and supporting financial-institution profitability.

Table 2: Composition of Asset Purchase Programs

Central Bank	Types of securities	Duration
ECB	Public sector securities, corporate bonds, asset-backed securities, covered bonds, and commercial paper	across the curve
BOJ	Mostly government securities and equity ETFs, some corporate bonds, and commercial paper	across the curve
BOE	Government bonds and corporate bonds	across the curve
BOC	Public sector bonds, provincial bonds, mortgage bonds, corporate bonds, commercial paper	across the curve
Riksbank	Government bonds, municipal bonds, corporate bonds, covered bonds, and commercial paper	across the curve
RBA	Central and semi-government securities	initially across the curve, now focused on shorter-dated securities to maintain YCC
RBNZ	Central and local government securities, inflation indexed bonds	long-dated securities

⁷ “Across the yield curve” refers to central bank purchases of securities across all maturity sectors of the yield curve depending on market conditions, rather than focusing on a specific maturity range such as long-dated securities.

Market Expectations

Given recent increases in COVID-19 cases in many jurisdictions, expected slow recoveries, and persistent downward pressures on inflation, market participants expect foreign central banks to provide additional accommodation through asset purchases, as this is generally seen as the preferred tool in the near term. As a result, markets expect some foreign central banks to expand the size and extend the timeline of asset purchases, including the ECB and the BOE by the end of this year and sometime next year for the RBNZ. Market analyst forecasts are for an increase of €400 billion to €1 trillion in asset purchases for the ECB and about £100 billion for BOE. For the BOC, market participants expect the bank to continue asset purchases for some time, consistent with its open-ended commitment and guidance that it will calibrate the pace of purchases based on progress toward its mandate. Similarly, the BOJ and RBA are expected to employ asset purchases flexibly as needed to maintain their yield curve targets.

Appendix: Recent Forward Guidance on Policy

Central Bank	Policy Rates	Asset purchases
ECB	...to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.	PEPP: ...until at least the end of June 2021 and, in any case, until it judges that the coronavirus crisis phase is over. APP: ...run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.
BOJ	...and also it expects short-and long-term policy interest rates to remain at their present or lower levels.	...The Bank will continue with [QQE with YCC] aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner.
BOE	...The Committee does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.	...The Committee expects that programme to be completed, and the total stock of asset purchases to reach £745 billion, around the turn of the year.
BOC	...The Governing Council will hold the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2 percent inflation target is sustainably achieved.	...This QE program will continue until the recovery is well underway and will be calibrated to provide the monetary policy stimulus needed to support the recovery and achieve the inflation objective.
RBA	...will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.	...The yield target will remain in place until progress is being made towards the goals for full employment and inflation.
Riksbank	...The repo rate is held unchanged at zero per cent, and is expected to remain at this level in the coming years.	...The framework for the asset purchases made by the Riksbank since the crisis began is being extended from SEK 300 billion to SEK 500 billion up to the end of June 2021.
RBNZ	...The Committee agreed unanimously to keep the OCR at this level for at least 12 months.	...expand the LSAP programme to purchase up to a maximum of \$100b by June 2022.

Source: Central bank monetary policy decisions and statements in 2020. ECB: Sep 17, BOJ: Sep 17, BOE: Sep 16, BOC: Sep 9, Riksbank: Sep 1. For the RBA, guidance on policy rate is from the Oct 6 statement, for the yield target guidance is from the Sep 1 statement. For the RBNZ, guidance on policy rates is from the Mar 16 statement, for asset purchases from the Aug 12 statement.