

Asset purchases and sovereign risk premia in the euro area during the pandemic

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Abstract:

We analyse the impact of ECB asset purchases on sovereign risk premia during the Covid-19 pandemic. Using an enhanced event study design, we trace the impact of asset purchases over time, distinguishing between announcements, expectations, and implementation effects. The analysis draws on a new granular cross-country dataset of the ECB's asset purchases and market expectations. We find large announcement effects, particularly in countries with lower sovereign credit ratings. Expectations about the final size of ECB asset purchases ('the stock') and actually implemented net purchases ('the flows') affected risk premia at the time of severe market stress with large cross-country variations. Overall, the ECB's asset purchases were highly effective in warding off risks of financial fragmentation in the euro area during the pandemic.

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