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The effectiveness of the ECB's asset purchase programs of 2009 to 2012

Heather D. Gibson

Stephen G. Hall

George S. Tavlas

Abstract

We examine the impact of the ECB's Securities Market Program (SMP) and the ECB's two Covered Bond Purchase Programs (CBPPs) on sovereign bond spreads and covered-bond prices, respectively, for five euro-area stressed countries – Greece, Ireland, Italy, Portugal, and Spain. Our data are monthly and cover the period from 2004M01 through 2014M07. In contrast to previous studies, we use actual, confidential, intervention data. Our results indicate that the respective asset purchase programs reduced sovereign spreads and raised covered bond prices. The quantitative effects of the programs were modest in magnitude, but nevertheless significant. We also provide a simple theoretical model that explains why official asset purchases can reduce a country's default-risk spreads.

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