

Sliding Down the Slippery Slope? Trends in the Rules and Country Allocations of the Eurosystem's PSPP and PEPP

Annika Havlik* and Friedrich Heinemann**

Abstract

This study analyzes trends in the Eurosystem's rules and country allocations of the Public Sector Purchase Program (PSPP) and the Pandemic Emergency Purchase Program (PEPP). The synopsis of purchase rules reveals how the ECB Council has loosened the initially strict constraints over time and various dimensions. For the year 2020, the analysis shows that the divergences of net purchases from the ECB capital key are substantive. The analysis of the PSPP stocks since 2015 illustrates that this increasing divergence from the capital key was on its way already before the pandemic. A final step of the analysis puts the PSPP/PEPP net purchases in proportion to current fiscal indicators. These results prove that, for several euro countries, the central bank net purchases fully match even the exceptionally high borrowing requirements of 2020. The study concludes with reflections on the challenges for a program exit after the end of the pandemic.

Keywords: quantitative easing, ECB capital key, fiscal dominance, unconventional monetary policy

JEL Classification: H63, E42, H12

I. Introduction

Over the last decade, the Eurosystem has become one of the crucial players in the market for euro area government bonds. Through several programs, the ECB and the national central banks of the euro area have bought public sector securities (see Box 1). Purchases already started ten years ago during the unfolding euro area debt crisis with the Securities Market Program (SMP). The SMP was followed by the Outright Monetary Transactions (OMT) program,

* Dr. Annika Havlik, ZEW Mannheim, L7, 1, 68161 Mannheim, E-Mail: annika.havlik@zew.de.

** Prof. Dr. Friedrich Heinemann, ZEW Mannheim, L7, 1, 68161 Mannheim, E-Mail: friedrich.heinemann@zew.de.

Acknowledgement: We are grateful to the comments of an anonymous reviewer. We gratefully acknowledge financial support from the Brigitte Strube Foundation.