



EUROPEAN CENTRAL BANK

EUROSYSTEM

International capital flows at the security level

Evidence from the ECB's Asset Purchase Programme¹

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¹The views expressed are those of the authors and do not necessarily reflect those of the European Central Bank.

The euro area recorded large net portfolio debt outflows since the launch of the APP

(EUR bn; twelve-month moving sums)

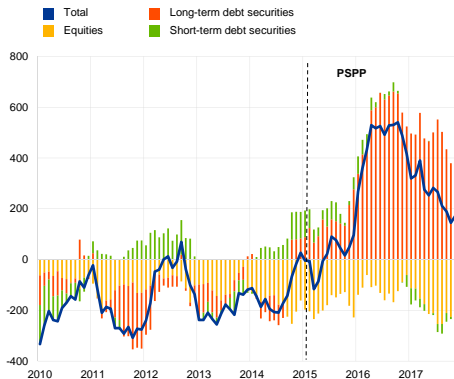


Figure 1: Breakdown of euro area net portfolio investment flows

The APP and international capital flows – our paper

- ▶ A detailed account of euro area portfolio rebalancing over the PSPP period (2015Q1 to 2016Q4)
- ▶ Analysis of capital flows (i.e. net purchases/sales) at the security level in a gravity model setting enables us to
 1. Test several hypotheses on euro area capital flows under the PSPP
 2. Analyse time-dynamics of capital flows in response to PSPP
 3. Distinguish between ‘active’ (i.e. capital flows) and ‘passive’ rebalancing (i.e. valuation changes)
- ▶ Taking into account sector and country heterogeneity

Euro area net purchases of debt securities (2015Q1-2016Q4)

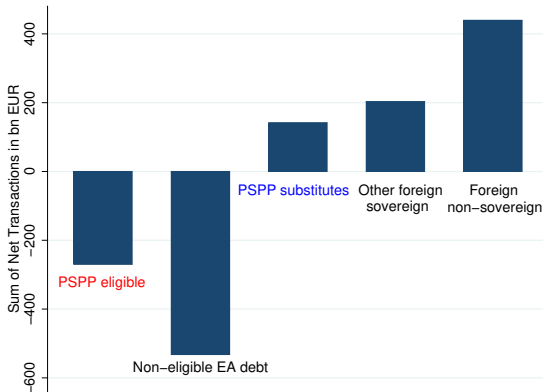


Figure 2: Net debt purchases

Euro area net purchases (intra- vs. extra-euro area) (2015Q1-2016Q4)

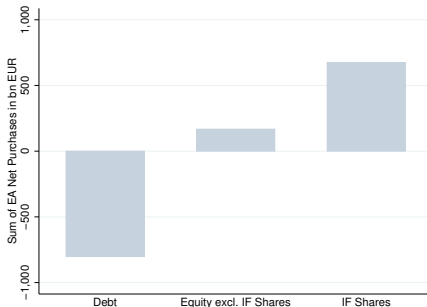


Figure 3: Net purchases by issuer location: intra-euro area

Euro area net purchases (intra- vs. extra-euro area)

(2015Q1-2016Q4)

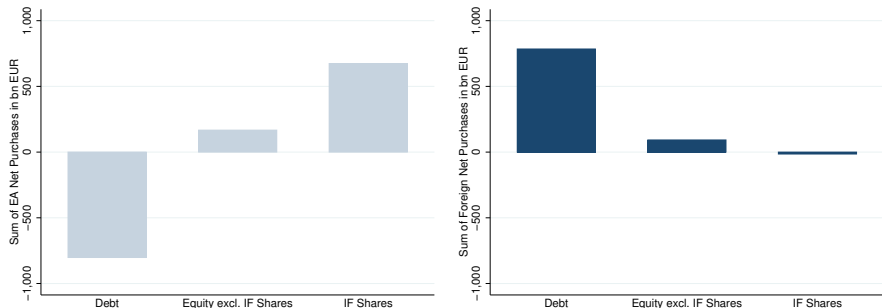


Figure 4: Net purchases by issuer location: intra-(LHS) and extra-euro area (RHS)

Findings (1)

- ▶ Our main hypotheses
 1. Rebalancing away from PSPP eligible assets towards PSPP substitutes, but not for all sectors equally
 2. Rebalancing into securities with longer maturities, but with sector heterogeneity
 3. Overall persistent home bias, but no euro preference in debt securities since the launch of the PSPP

Findings (2)

- ▶ Time dynamics
 - ▶ Net purchases of PSPP eligible securities before announcement of the programme
 - ▶ Largest rebalancing observed in the six quarters following the start of the programme
- ▶ Active vs. passive rebalancing
 - ▶ Despite significant net sales of PSPP eligible assets, no significant overall rebalancing away from these assets due to valuation gains

Conclusions

Why does this matter?

- ▶ In an increasingly integrated financial system, unconventional monetary policy will affect international capital flows
- ▶ Transmission of asset purchases to the real economy not always “direct”
 - > **constraints** and **regulations**
 - ▶ Investors look for close substitutes
 - ▶ Sectoral and country-level heterogeneity
 - ▶ Investment not always direct - flow of funds
- ▶ Portfolio Rebalancing happens over the medium term
- ▶ Measurement matters! ... because valuation matters. Stocks vs. Flows -> significantly different results

Thank You!

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