



EM Asset Purchases Update

MONETARY AND CAPITAL MARKETS DEPARTMENT

Highlights:

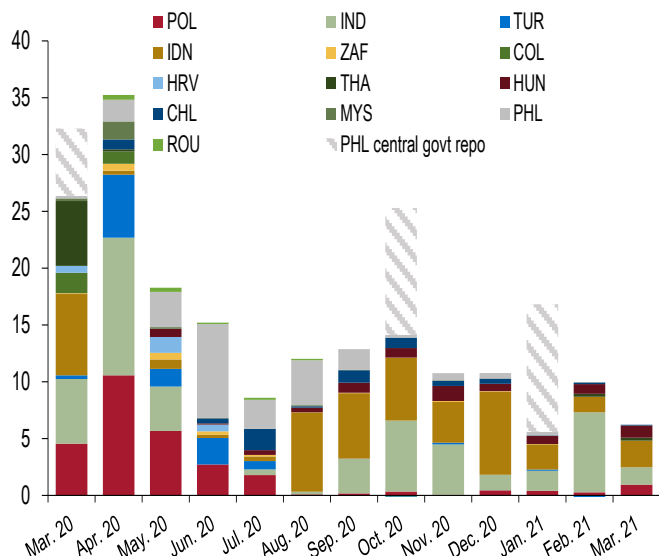
April 26, 2021

- **One Year Later:** Upwards of 20 emerging market central banks launched asset purchase programs in 2020 in response to the severe market dislocations of the COVID-19 crisis. EM asset purchases slowed in breadth and scale in the latter part of 2020 and early 2021, but emerging markets have purchased over USD\$200 bn in domestic securities since March 2020.
- **Several EM central banks continue to be active in local bond markets**, and a few have expanded, renewed, or tweaked their programs as financial conditions have changed. Around 4 major EM central banks (Poland, Hungary, India, Indonesia) have continued to purchase domestic securities in recent months at significant volumes.
- **Central bank bond purchases have declined as a share of issuance in 2021, with the exception of Hungary, and overall holdings remain modest in most cases.**
- **Major EM central bank country details:**
 - **India** has continued asset purchases through open market operations (OMO), emphasizing the long end of the yield curve by engaging in both outright purchases and 'twist' operations. Notably, the Reserve Bank of India also launched a more formal asset purchase program, the Government Securities Acquisition Program (G-SAP 1.0) in April 2021, with the intent to purchase INR 1 lakh crore (1 trillion rupees, about 0.4% of GDP) in FY Q1 starting April 15.
 - **Hungary** continues to be an active player, with the central bank (MNB) ramping up the pace of government bond purchases in 2021. The MNB continues to purchase government, mortgage, and corporate bonds through a spectrum of programs.
 - **Poland** retains an active asset purchase program, though purchases of government and government guaranteed debt have slowed substantially since summer 2020. However, the National Bank of Poland remains engaged with further purchases planned, and March-April 2021 saw the largest volumes since June 2020.
 - **Indonesia** concluded its burden sharing agreement in 2020 but continues to buy central government debt in the primary market as a non-competitive buyer in 2021. April saw the largest monthly volume of purchases in 2021.
 - **Chile** has slowed new purchases of bank bonds and debt buyback, but the central bank launched a reinvestment program in January. It also retains additional purchase capacity (\$7-8 bn) under its March 2020 and June 2020 Special Asset Program, with ongoing pension reforms and withdrawals seen as a potential trigger by markets.
 - **The Philippines** has pulled back from the large-scale asset purchases in 2020, but reupped a third repurchase agreement with the central government in January, worth PHP540 bn.
 - **Malaysia, South Africa, Turkey, Thailand** have largely wound down asset purchases, but some have sporadically intervened in the domestic market amid the spring sell off in global and EM local currency bonds. The Bank of Thailand made modest purchases in February and April for the first time in nearly a year.

Overview

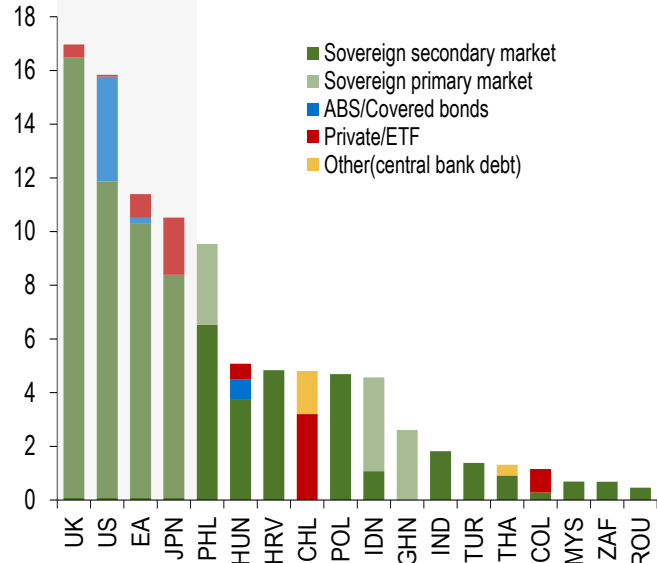
The breadth and scale of asset purchases have slowed, but several central banks remain active.

Chart 1. EM Asset Purchases (USD billions)



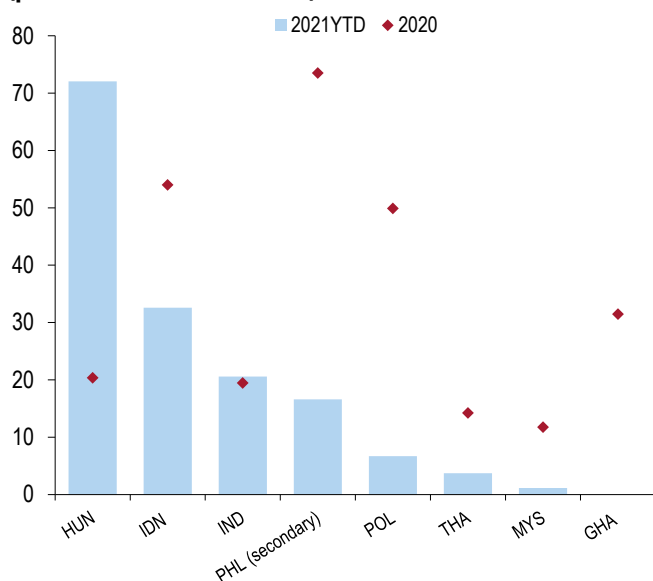
Asset purchases in EMs remain modest relative to advanced economies.

Chart 2. Asset Purchases Since March 2020 (percent of 2020 GDP, through March 2021 where available)



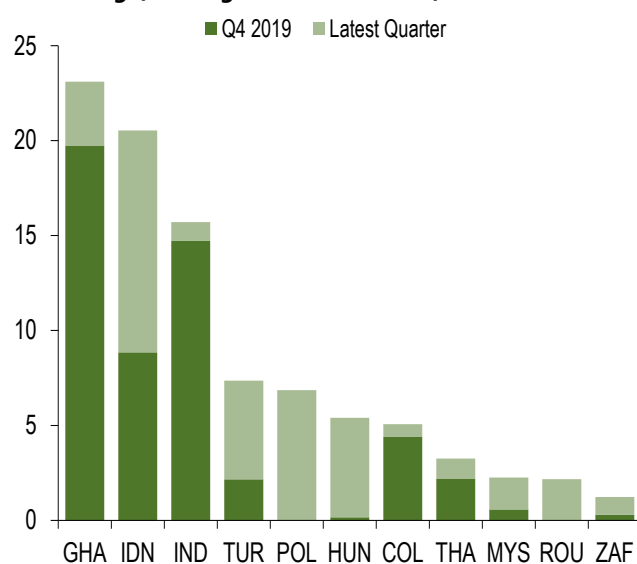
Central banks have absorbed a much smaller share of net domestic issuance YTD in 2021, with the exception of Hungary.

Chart 3. Central Bank Purchases Relative to Net Issuance (percent; 2021 YTD vs 2020)



Central bank share of domestic bond holdings remains modest in most cases, but has increased substantially since early 2020

Chart 4. Central Bank Share of Domestic Bonds Outstanding (Holdings as share of total)

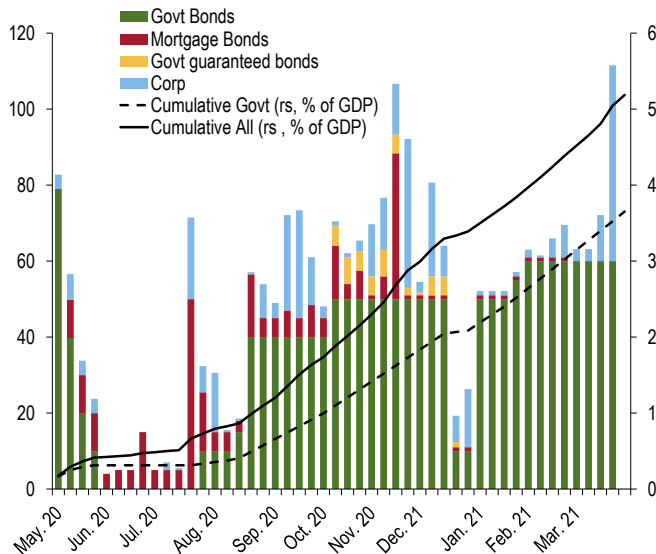


Note: In chart 2, data is through March 2021 or latest available. Primary market purchases for Philippines refer to the repurchase operation with the central government. Advanced economies asset purchase figures are calculated using the change in holdings. Ghana also had a one off liquidity operation with a state-owned bank involving government bonds not included here, worth about 0.9% of GDP. In chart 3, the data edge differs between countries.

Country Level Asset Purchases

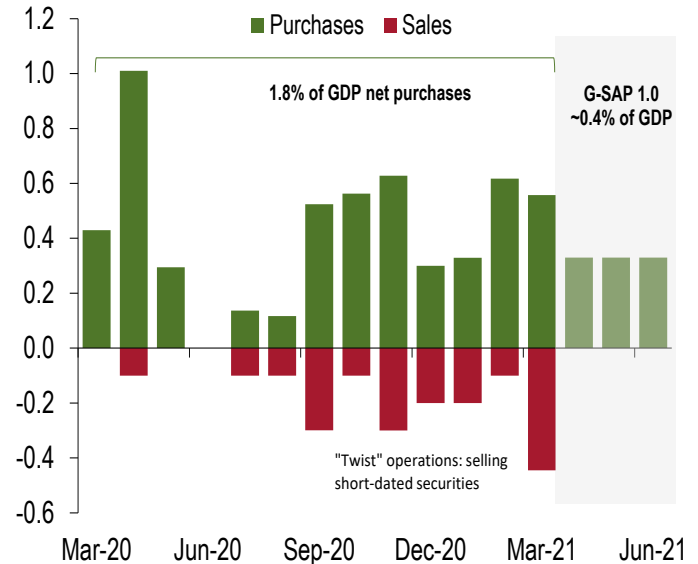
National Bank of Hungary has ramped up weekly purchases in 2021, and may retain a longer lasting presence in the market

Chart 5. National Bank of Hungary Purchases
(HUF billions, left scale; percent of GDP, right scale)



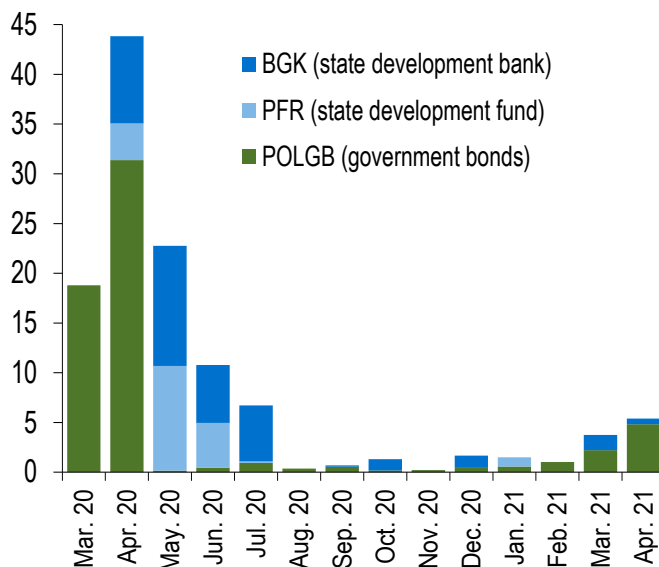
Reserve Bank of India has continued OMO purchases and twist operations, and launched a formal government securities APP (G-SAP 1.0).

Chart 6. Reserve Bank of India Purchases
(INR trillions)



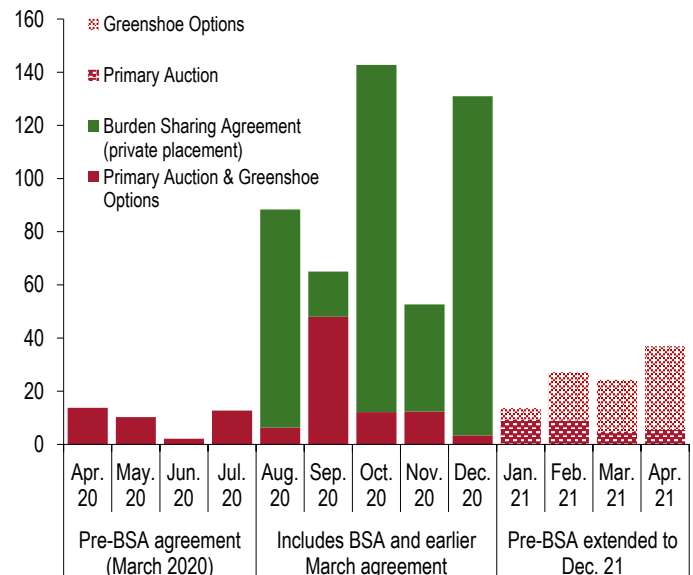
NBP purchases have picked up slightly, with plans for more, but remain modest relative to the 2020 peak

Chart 7. National Bank of Poland
(PLN billions)



Bank Indonesia concluded its burden sharing agreement in 2020, but continues to make primary market purchases.

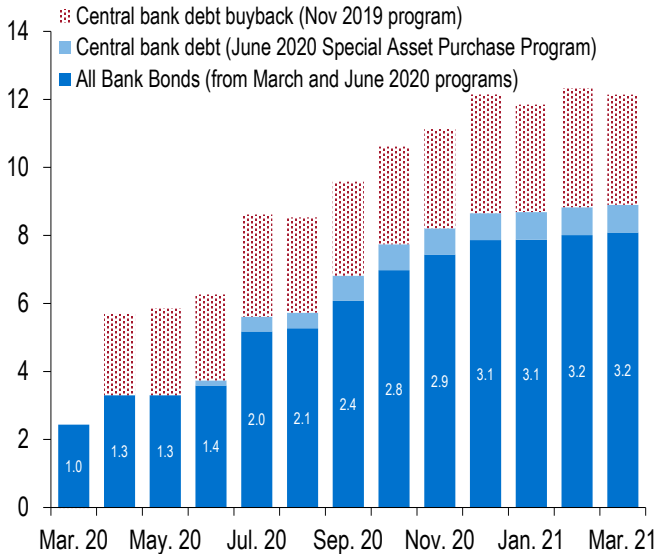
Chart 8. Bank Indonesia Primary Market Asset Purchases
(IDR trillions)



Country Level Asset Purchases (continued)

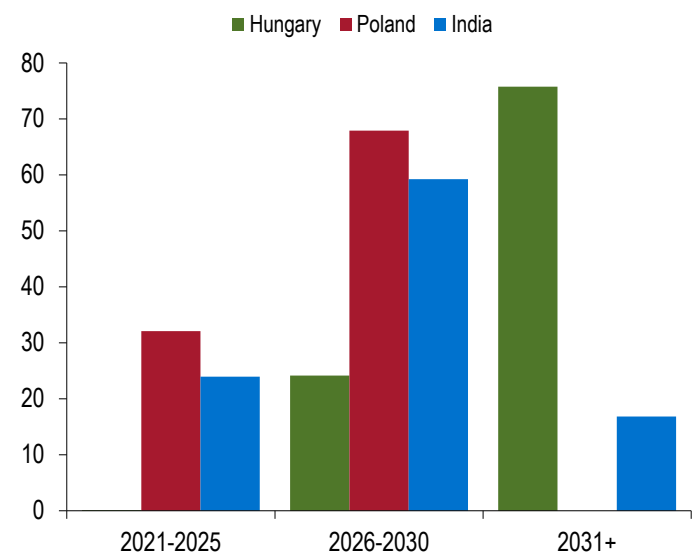
Chile's purchases have slowed, but the APP retains about \$8 bn capacity, and the central bank committed to a reinvestment program.

Chart 9. Banco Central de Chile Purchases (USD billions; percent of GDP, labeled)



Central banks have generally targeted longer-maturity bonds, though India and Poland have taken a more balanced approach.

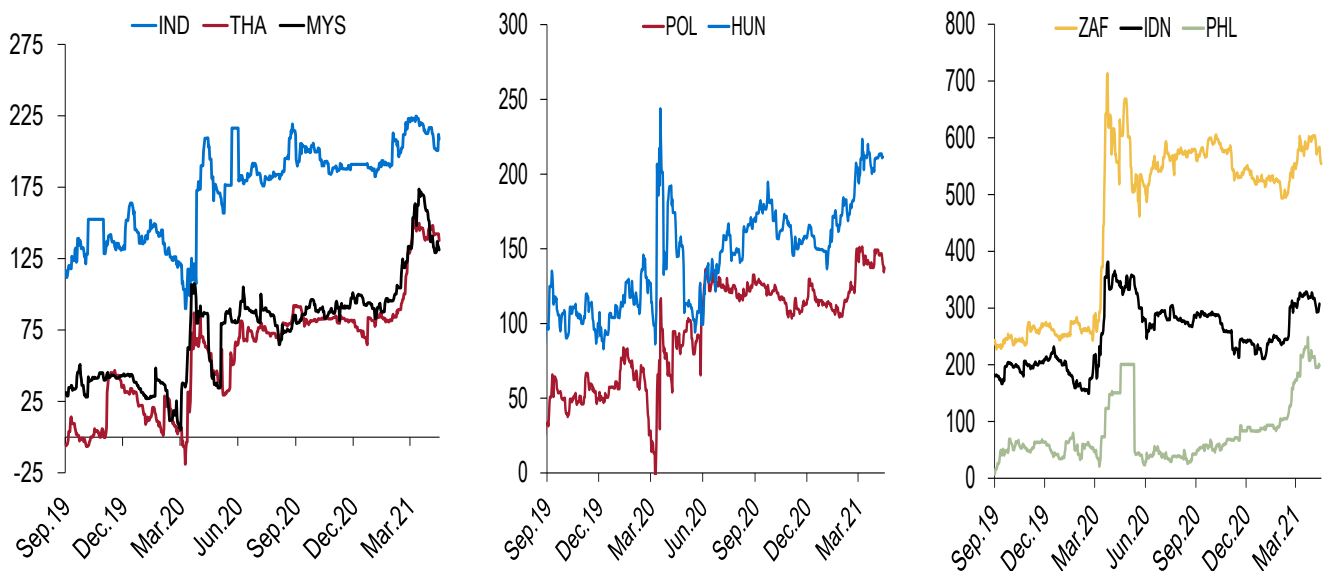
Chart 10. Maturity Structure of Bond Purchases (purchases weighted by maturity date)



Yield Curves

The sell off in US Treasuries and EM local currency bonds has renewed pressure on yield curves amid heavy financing needs, focusing renewed attention on asset purchases in some cases.

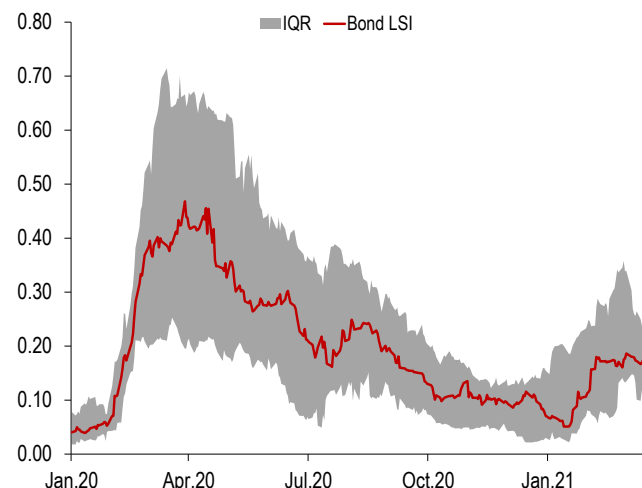
Chart 11-13. Local Currency Bond Term Structure, 10 Year Yield vs Policy Rate (spread, bps)



Conditions of Asset Purchase Programs

Local bond markets showed renewed signs of stress in March.

Chart 14. EM Bond Market Local Stress Index (LSI) (Index)



Inflation forecasts for active APP countries remain mostly aligned with the EM baseline.

Chart 15. Change in 2021 Inflation Forecasts (Interquartile range, median, cumulative since June 2020)

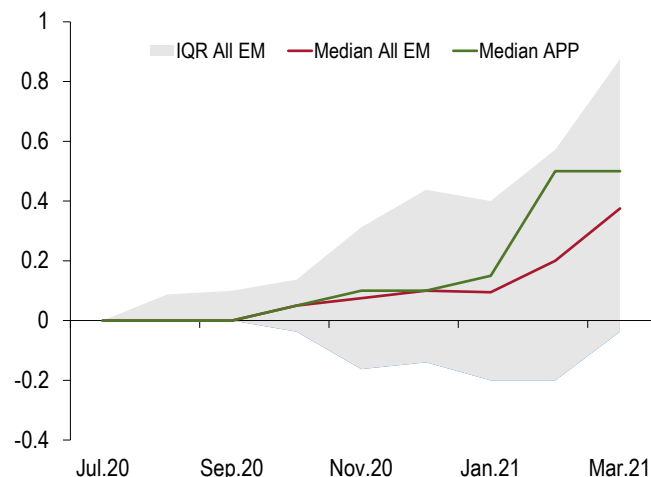


Table 1. Major Emerging Market Central Bank Asset Purchases

Country	Asset Type	Market	Purchase Size through March 2021 or latest (% of 2020 GDP)	Government 2020 Deficit (% GDP)	Government 2021 Deficit (% GDP)	Recent Purchases
COL	Govt., private sector bonds	Secondary	1.2	-6.9	-8.3	No
CHL	Bank, central bank, and govt bonds*	Secondary	4.7*	-7.1	-2.3	Yes
HRV	Govt bonds	Secondary	4.9**	-8.0	-3.9	No
GHA	Govt bonds	Primary	2.6	-16.0	-12.6	No
HUN	Govt., Govt. guaranteed, mortgage, and corp. bonds	Both	5.1	-8.5	-6.5	Yes
IND	Govt. bonds	Secondary	1.8	-12.3	-10.0	Yes
IDN	Govt bonds	Both	4.6	-5.9	-6.1	Yes
MYS	Govt bonds	Secondary	0.7	-5.1	-4.4	Yes
PHL	Govt bonds, including repurchase agreements	Both	6.4 (9.4)***	-5.5	-7.4	Yes
POL	Govt., SOE bonds	Secondary	4.7	-8.2	-4.7	Yes
ROU	Govt. bonds	Secondary	0.5	-9.7	-7.1	No
ZAF	Govt. bonds	Secondary	0.7	-12.2	-10.6	No
THA	Govt., central bank bonds	Secondary	1.3	-4.7	-4.9	Yes
TUR	Govt. bonds	Secondary	1.4	-5.4	-5.7	No

Sources: Local media; national sources; and IMF staff estimates.

Notes: Several other EM central banks executed asset purchases in some form, including: Costa Rica, Papua New Guinea, Jamaica, Sri Lanka, and the Central African Economic and Monetary Community. *For Chile, purchases include those under the Special Asset (June 16) and Bank Bond (March 16) Purchase Programs that were in direct response to the COVID-19 crisis (worth about 3.4% of GDP) as well as the central bank debt buyback under the November 2019 program authorization (1.3% of GDP). Chile's central bank did not gain the ability to purchase government bonds until Aug. 12 but has yet to do so. **Country authorities noted this figure is reported as nominal purchase values.***Philippines includes staff estimates of secondary market purchases and the 3 month repurchase agreement of 540 bn (3.0% of GDP) with the Bureau of Treasury added in parentheses. The BSP closed out previous agreements worth 300 bn and 540 bn in September and December respectively. ****Ghana purchase includes only the COVID-19 relief bond program worth 10 bn cedis. bn = billion, tn = trillion. Deficit is defined as general government net lending/borrowing, percent of fiscal year GDP, from the World Economic Outlook database.