



EM Asset Purchases Update

MONETARY AND CAPITAL MARKETS DEPARTMENT

November 30, 2020

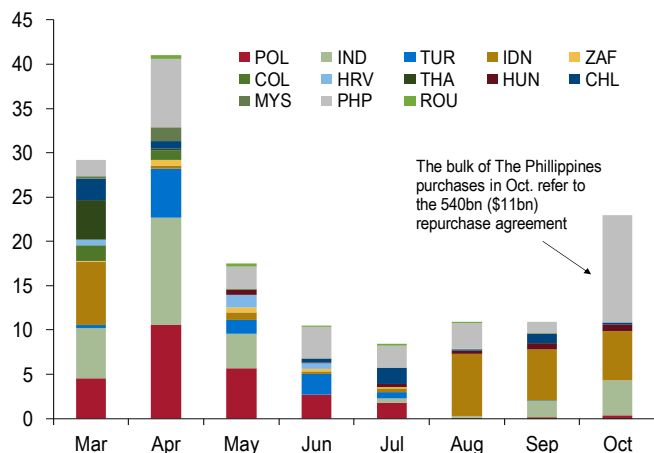
Highlights:

- **Emerging market asset purchases have slowed** in recent months in both scope and scale, as many countries have ceased significant purchases all together. Close to 20 central banks engaged in asset purchases of some form in 2020, with the peak volume and breadth of countries coming in April.
- **Several 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. Some 7 central banks have still been purchasing bonds with varied intensity over the last 1–2 months.
- **Asset purchases have been effective at reducing stress in local bond and currency markets**, with little evidence of a deteriorating inflation outlook. While risk premia have fallen since the crisis phase, high financing needs and sluggish inflows to local currency bonds have left term premia relatively high in some countries. (See forthcoming WP Sever *et al*; 2020).
- **Central bank bond holdings remain modest in most cases, with domestic banks absorbing the bulk of new local currency issuance**. However, asset purchases played a more significant role during the crisis period amid heavy foreign outflows. (See Chapter 2 of the [October 2020 GFSR](#)).
- Central bank country highlights:
 - **Chile** gained the ability to purchase government bonds in August, though it has yet to do so. It continues to purchase bank bonds at a steady but moderate pace.
 - **Poland** retains an active asset purchase program after an aggressive stance in March-July, but purchases of government and government-guaranteed bonds have slowed to a trickle.
 - **Hungary** tweaked its asset purchase programs (Oct 6) and has accelerated the pace of purchases, continuing to buy government bonds, government-guaranteed bonds, and mortgage securities. The latter includes both primary and secondary market purchases.
 - **India** has renewed asset purchases through its open market operations (OMO) portfolio since September, emphasizing the long end of the yield curve by periodically engaging in a 'twist' operation. It also began (Oct 22) purchasing State Development Loans (SDLs).
 - **Indonesia** has moved forward with more expansive primary market purchases, predominately through the execution of its burden sharing agreement beginning in August.
 - **The Philippines** has slowed the pace of secondary market purchases, reportedly to about 13% of trading volume (from ~20% in June), but it initiated a new repurchase agreement with the central government for PHP540 bn on Oct 2, after closing out the previous PHP300 bn agreement.

Overview

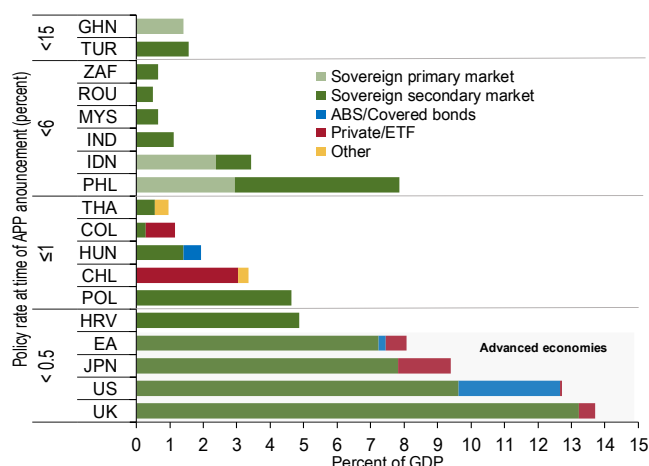
The breadth and scale of asset purchases have slowed, with some 7 central banks still active in local bond markets.

Chart 1. EM Asset Purchases (USD billions)



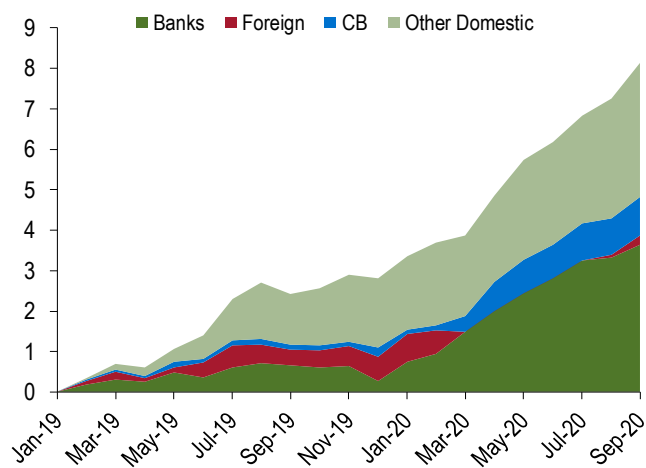
Asset purchases in EMs remain modest relative to advanced economies, with some exceptions.

Chart 2. Asset Purchases Through October, by Country, by Asset (percent of GDP)



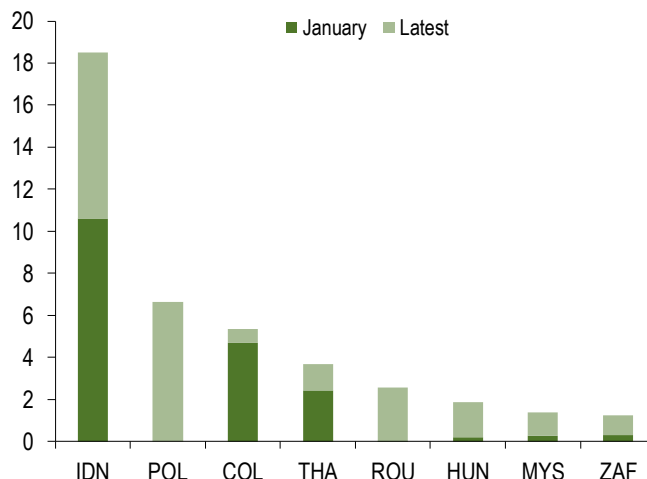
Asset purchases played a role during the crisis, but banks have absorbed much of the new local bond supply.

Chart 3. Change in Domestic Bond Holdings Since Jan. 2019 (cumulative, percent of GDP, averaged across EM sample)



Central bank share of domestic bond holdings remains modest in most cases, but has increased since January.

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

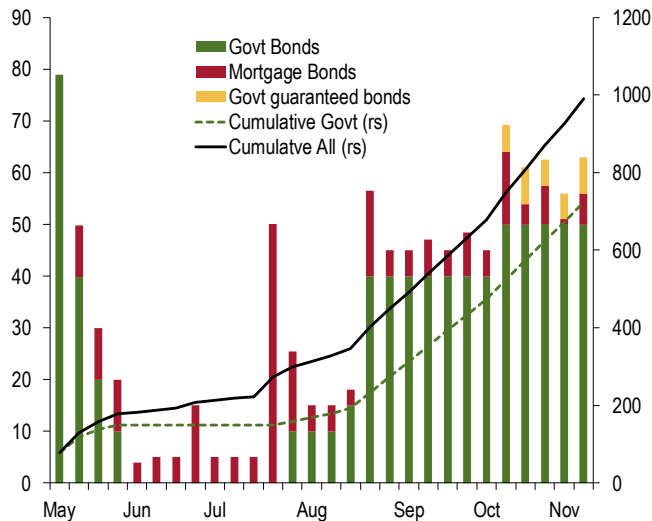


Note: See Table 1.1 for more country detail and explanations. In chart 2, sovereign includes SOE debt for Poland and Hungary. In chart 4, definitions across countries for what constitutes bonds outstanding may differ slightly. Referring to Chart 1, the number of central banks still making asset purchases does not necessarily signify a formal end to APPs elsewhere.

Country Level Asset Purchases

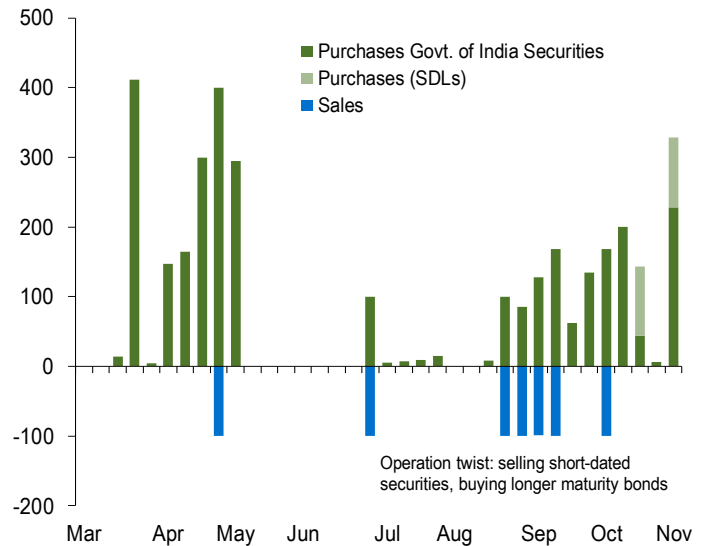
National Bank of Hungary has accelerated the pace of purchases in recent weeks, and may retain a longer lasting presence in the market relative to others.

Chart 5. Hungary
(HUF billions)



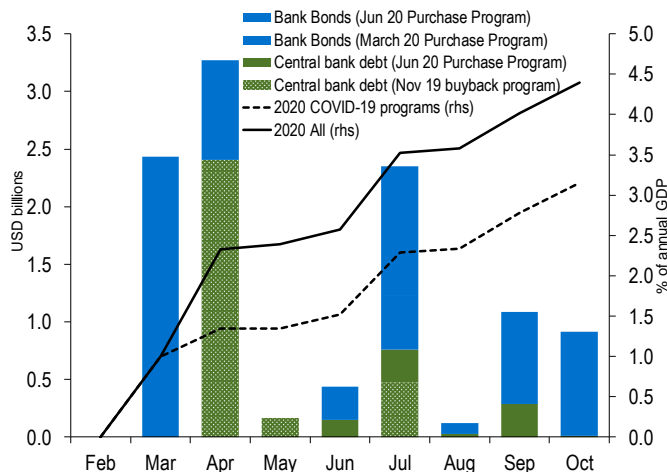
Reserve Bank of India has renewed OMO purchases, with a greater focus on long end of the yield curve, and has added State Development Loans to the portfolio.

Chart 6. India
(INR billions)



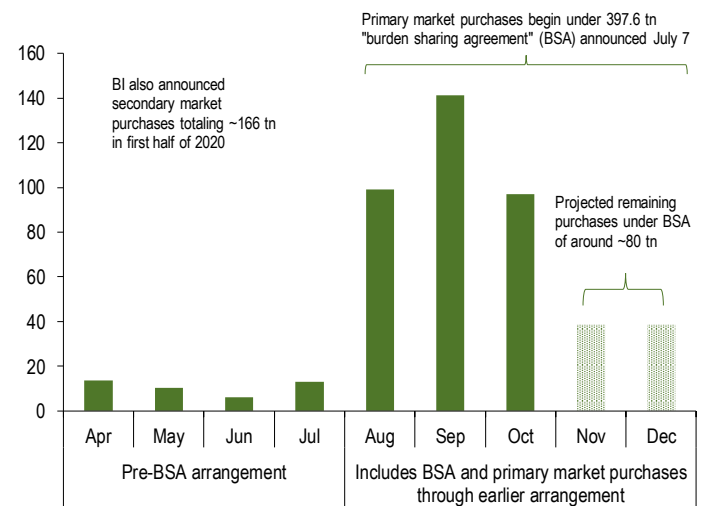
Chile's central bank continues to purchase bank bonds at steady pace, but has yet to buy government bonds.

Chart 7. Chile
(USD billions, percent of GDP)



Bank Indonesia has purchased around 80% of the IDR 398 tn burden sharing agreement through October.

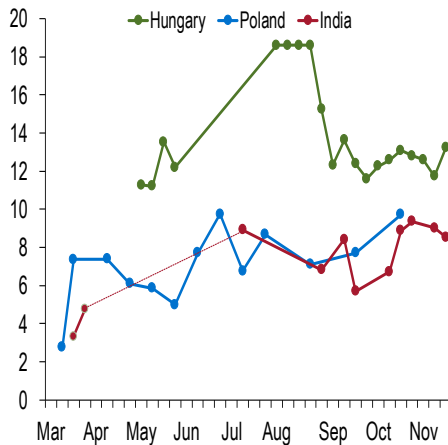
Chart 8. Indonesia Primary Market Purchases
(IDR trillion)



Asset Purchases and the Yield Curve

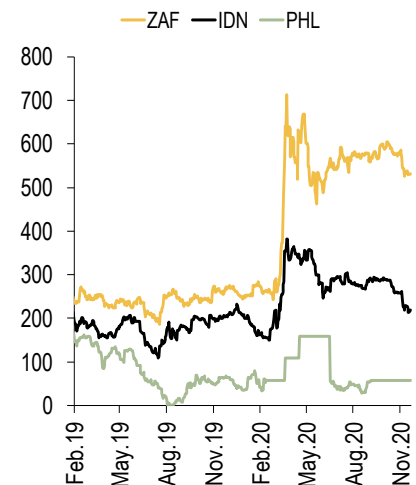
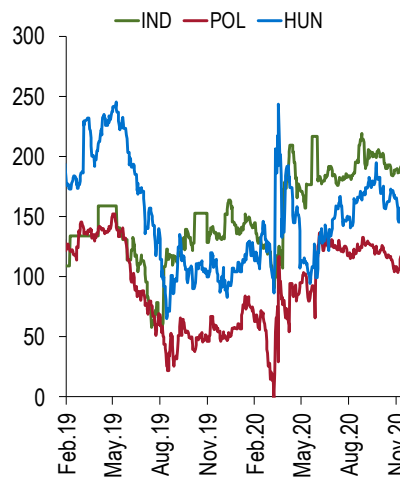
Central banks have generally targeted longer-maturity bonds amid fiscal and monetary easing ...

Chart 9. Weighted Average Maturity of Bond Purchases
(Years to maturity, weekly purchases)



... and yields have fallen in most emerging markets alongside a general improvement in risk sentiment, but the term structure remains stretched in some cases.

Chart 10. Local Currency Bond Term Structure, 10 YR Yield vs Policy Rate
(Spread, bps)

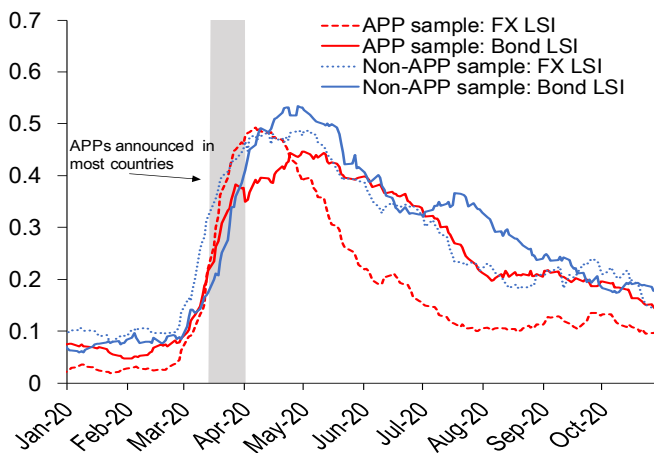


Note: Detailed data and maturity structure of India's OMO purchases in April-May are not available.

Results of Asset Purchase Programs

Local currency stress indices in countries with APPs have generally outperformed their peers ...

Chart 11. Bond and FX Local Stress Indices (LSI)
(Index)



... while market inflation forecasts for APP countries have not deteriorated versus an EM baseline.

Chart 12. Change in One Year Ahead Inflation Forecasts
(Interquartile range, median, cumulative since January 2020)

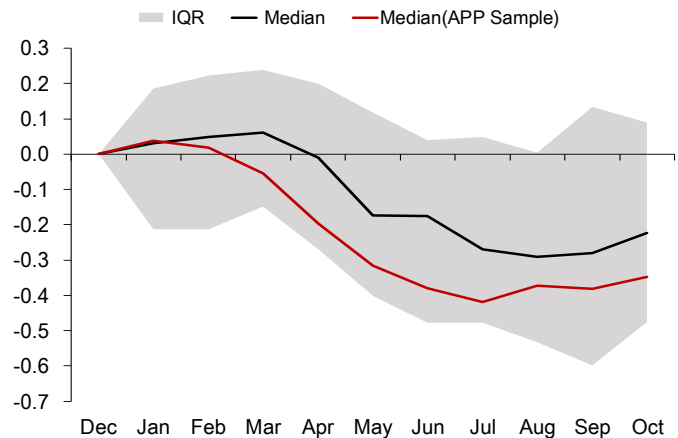


Table 1.1. Country Summary

Country	Primary Objectives	Asset Type	Target or Limit Size (Local currency unless specified)	Market	Latest Estimate of Purchases	Length of Purchases (observed)	Significant Program Announcement Dates	GG 2020 Deficit (% GDP)
COL	Provide liquidity to the financial sector	Govt., private sector bonds	10 tn private, up to 4 tn govt.	Secondary	1.1	Mar.–Apr.	Mar. 23, Apr. 14	-9.5
CHL	Facilitate monetary policy transmission, ease financial conditions	Bank, central bank, and govt bonds*	\$16 bn*	Secondary	3.6	Mar.–present	Mar. 16, Mar. 31, Jun. 16, Aug. 12	-8.7
HRV	Stabilize domestic bond market	Govt bonds	Not specified	Secondary	4.9	Mar.–Jun.	Mar. 13	-8.1
GHA	Finance budget deficit	Govt bonds	5.5 bn (up to 10 bn)	Primary	1.4	May	May 15	-16.4
GTM	Finance budget deficit	Govt bonds	11 bn	Both	1.9	Apr.–Aug.	Apr. 8	-5.6
HUN	Facilitate monetary policy transmission at longer maturities, provide financial sector liquidity	Govt., Govt. guaranteed, and mortgage bonds (MBs)	1 tn in govt (raised to 2 tn), 300 bn in MBs, but no strict upper limit	Both (only MBs in primary)	2.3	May–present	Apr. 7, Apr. 28, Jul. 21, Aug. 25, Oct. 6	-8.3
IND	Stabilize domestic bond market	Govt. bonds	Not specified	Secondary	1.3	Mar.–present	Mar. 18	-13.1
IDN	Stabilize domestic bond market, provide liquidity to the financial sector, finance budget deficit	Govt bonds	Initially not specified, with direct "burden sharing" of 397.6 tn later announced	Both	3.9	Mar.–present	Mar. 31, Jul. 7	-6.3
MYS	Provide liquidity to financial sector	Govt bonds	Not specified	Secondary	0.7	Mar.–Jun.	Mar. 25	-6.5
PHL	Provide liquidity to financial sector, stabilize bond market, finance budget deficit	Govt bonds, including repurchase agreement	300 bn repo, replaced later by 540 bn repo, secondary market purchases not specified	Both	5.1 (8.1)*	Mar.–present	Mar. 23, Mar. 24, Sep. 14	-8.1
POL	Strengthen monetary policy transmission at longer maturities, stabilize domestic bond market, provide liquidity to financial sector	Govt., SOE bonds	Not specified	Secondary	4.6	Mar.–present	Mar. 17, Apr. 8	-10.5
ROU	Provide liquidity to financial sector	Govt. bonds	Not specified	Secondary	0.5	Mar.–Aug.	Mar. 20	-9.6
ZAF	Stabilize domestic bond market	Govt. bonds	Not specified	Secondary	0.7	Mar.–present	Mar. 25	-14.0
THA	Stabilize domestic bond market	Govt., central bank bonds	Not specified	Secondary	1.0	Mar.–Apr.	Mar. 19, Mar. 22	-5.2
TUR	Provide liquidity to financial sector, strengthen monetary policy transmission mechanism, secure credit conditions	Govt. bonds	Not specified, but OMO portfolio limited to 10 percent of balance sheet	Secondary	1.5	Mar.–Jul.	Mar. 31	-7.9

Note: Estimates are latest available, through October or early November. Program dates are not exhaustive, but generally reflect the first purchase date or a significant announcement. Length of purchases reflects ongoing significant purchases or central bank comments, and does not reflect a formal declaration in most cases. Papua New Guinea, Jamaica, Sri Lanka, and the Bank of Central African States are not included, but they announced asset purchases of various forms. Brazil outlined plans to purchases corporate bonds in June, but has yet to do so. India total is purchases net of sales.

*Chile's central bank did not gain the legal ability to purchase government bonds until August 12. Only assets purchased under the Special Asset (June 16) and Bank Bond (March 16) Purchase Programs are included, and not the Nov. 2019 central bank debt buyback, which would add around 1.2% of GDP in 2020.

**Indonesia includes staff estimates of secondary market purchases, the full 397.6 tn July burden sharing agreement, and other primary market purchases.

***The Philippines includes estimates of secondary market purchases and the short-term repurchase agreement of 540 bn (3.0% of GDP) with the central government added in parentheses (but not the earlier closed out 300 bn agreement).