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Headline: Quantitative Tightening Around the Globe: What Have We Learned?

Article Link: https://www.chicagobooth.edu/-/media/research/igm/docs/quantitative_tightening_around_the_globe_usmpf_2024_02_12.pdf

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Tweet: An analysis finds that quantitative tightening in advanced economies has had a 4-8bps impact on government yields, but notes the risk of “a liquidity crunch [that could] have a sharper impact on financial markets.” @WenxinDu

Summary: QT announcements increase government bond yields (by 4-8bps at horizons of one year and longer), steepening the yield curve and potentially signaling a greater commitment to raising policy interest rates, but have more limited effects on most other financial market indicators. Active QT has a larger impact than passive QT, particularly on longer maturities. The implementation of QT has been associated with a modest rise in overnight funding spreads and a decline in the “convenience yield” of government bonds, but QT transactions did not significantly affect the pricing and market liquidity of government debt securities. Finally, we evaluate who buys assets when central banks unwind balance sheets. We find that increased demand by domestic nonbanks has largely compensated for reduced bond holdings by central banks. This series of cross-country results suggests that QT has had more of an impact than “paint drying”, but far less than simply reversing the effects of quantitative easing. Looking ahead, although QT has been smooth to date, frictions could increase in the future so that QT quickly evolves into more like watching “water boil.” Related: A Beautiful Replenishment and The Fed Is Tightening More Than It Says and Olivier Blanchard on Debt Explosions

Primary Topic: Fiscal Deficits

Topics: Academic paper, Business Cycle, Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Government Spending, Monetary Policy, Weekly

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