

# DANMARKS NATIONALBANK

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The ECB's purchases have the same effect in Denmark as in Germany

## Government bond spread unaffected by ECB QE



Due to Denmark's fixed exchange rate policy, the ECB's unconventional monetary policy measures have had the same effect in Denmark as in core euro area member states



Countries with floating exchange rates have also been affected by the unconventional policies – both via interest rates and via exchange rates

The yield spread between Danish and German government bonds has not been affected by the 2015 announcement by the European Central Bank (ECB) that it planned to purchase government bonds in the market.

This is the conclusion reached by economists Jakob Roager Jensen, Jakob Guldbæk Mikkelsen and Morten Spange from Danmarks Nationalbank in a Working Paper that looks into the effect of the ECB's purchase programme often denoted quantitative easing in selected euro area member states and neighbouring countries. The purpose of the purchases is to bring inflation back to a level in line with the ECB's objective.

Yields on longer-term Danish government bonds fell by just as much as their German counterparts. This reflects Denmark's fixed exchange rate policy against the euro. While yields in Denmark fell in line with those in Germany, southern European countries saw sharper declines. There has also been a spillover effect on yields in countries with a floating exchange rate against the euro. This illustrates that countries with a floating exchange rate are also affected by the measures taken by the ECB.

The analysis also shows that countries with floating exchange rates saw their currencies strengthen as a result of the ECB's purchases, which has dampened

### ABOUT NEWS



News is a news article based on an analysis, a working paper or other longer texts written by Danmarks Nationalbank.

News primarily address journalists, politicians, government officials, specialists and other persons who want to be kept updated on current topics.

the effect on the economy. The exchange rate of the Danish krone against the euro has been unchanged as Danmarks Nationalbank has intervened in the foreign exchange market.

Working Papers are the result of the research and development activities taking place at Danmarks Nationalbank. Working Papers are often of a preliminary nature and are aimed at contributing to the professional debate.

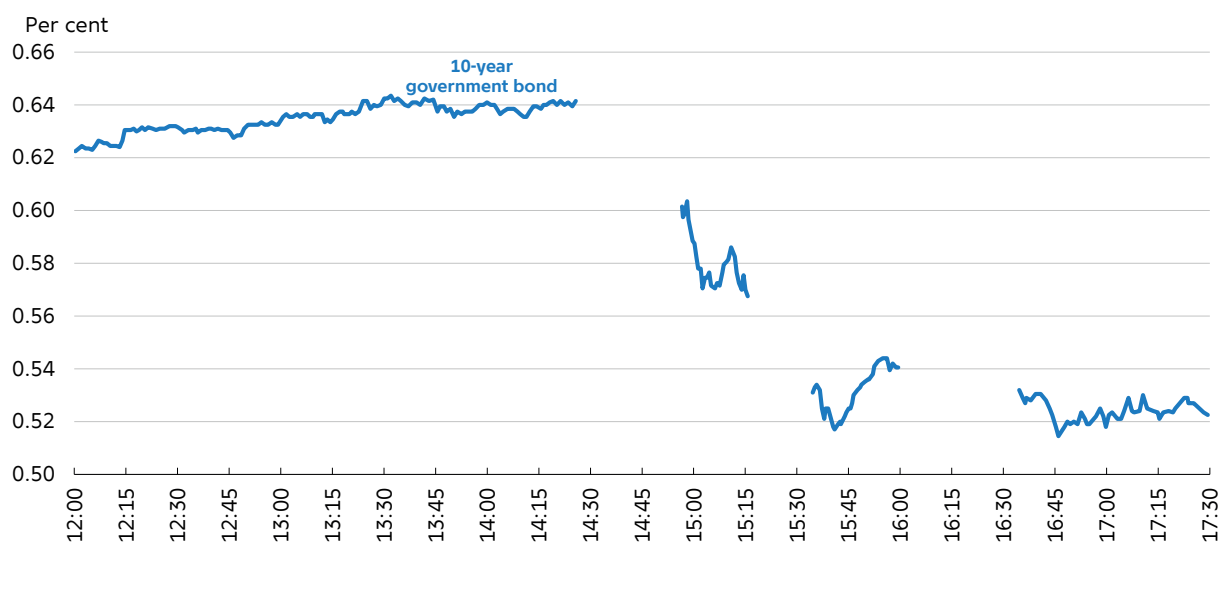
All Danmarks Nationalbank's Working Papers can be found at [www.nationalbanken.dk](http://www.nationalbanken.dk) (*link*).

### What is quantitative easing?

In normal times central banks use their monetary policy rates to affect aggregate demand in the economy, but since 2008 central banks in a number of countries have also purchased financial assets such as government bonds. The objective has been to reduce interest rates further in a situation with very low monetary policy rates. The purchases have been denoted quantitative easing, QE. They have contributed to stimulating the economy in excess of what a central bank can do using conventional measures.

**Yield on Danish 10-year government bond on 22 January 2015, when the ECB announced an asset purchase programme.**

Chart 1



Source: MTS.

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