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The Reanchoring Channel of QE

(with Philippe Andrade, Johannes Breckenfelder, Fiorella De Fiore and Oreste Tristani)

Abstract

This paper analyses the impact of the European Central Bank's asset purchase programme on long-term inflation expectations. It documents that the announcements related to the launch of the programme have raised long-term inflation expectations towards the ECB's medium-term inflation objective. It argues that such a 'reanchoring channel' can enhance the effectiveness of the programme, especially when the policy rate is stuck at its lower bound. The channel can account for a third of the programme's inflation impact in a calibrated macroeconomic model with balance sheet constrained banks and uncertainty about the central bank's inflation target.