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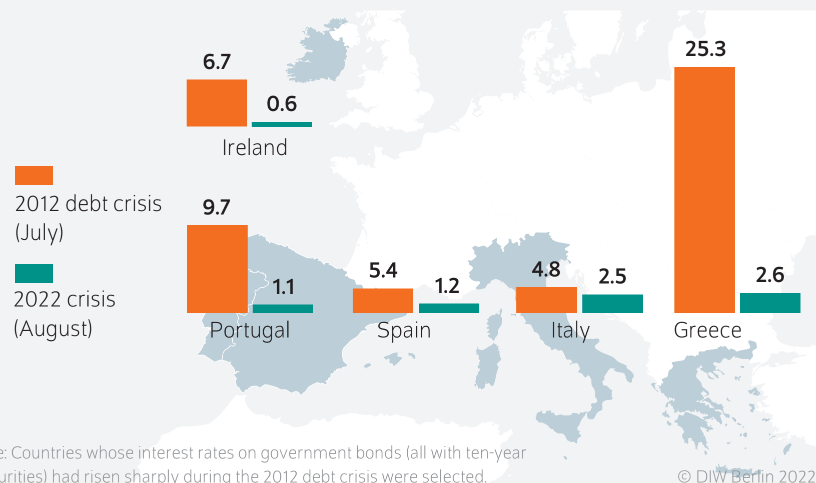
AT A GLANCE

Activation of new ECB emergency program TPI not required so far

By Kerstin Bernoth, Sara Dietz, Gökhan Ider, and Rosa María Lastra

- Tightening of monetary policy in the euro area is causing bond yields to rise more sharply in highly indebted countries than in Germany
- ECB intends to counteract in the event of a risky escalation with an emergency program, the Transmission Protection Instrument (TPI)
- Empirical model analyzes the drivers of diverging government bond yields
- No signs of market irrationalities found: current yield spreads are driven by country-specific fundamentals and general risk assessments
- TPI raises concerns from a legal perspective; ECB should clearly define and safeguard its design

Government bond interest rates in the euro area have not yet diverged as strongly as in 2012
Sovereign yield spread with respect to ten-year German government bonds in percentage points



Source: Bloomberg; authors' calculations.

Note: Countries whose interest rates on government bonds (all with ten-year maturities) had risen sharply during the 2012 debt crisis were selected.

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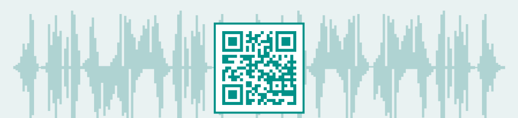
FROM THE AUTHORS

"Since the ECB has begun tightening monetary policy, government bond yields in individual countries have risen. So far, however, they have developed in line with the respective country's fundamentals, and there are no signs of market exaggerations."

— Kerstin Bernoth —

MEDIA



Audio Interview with Kerstin Bernoth (in German)
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Activation of new ECB emergency program TPI has not yet been required

By Kerstin Bernoth, Sara Dietz, Gökhan Ider, and Rosa María Lastra

ABSTRACT

Since the beginning of 2022, monetary policy in the euro area has been gradually normalizing. As a result, bond yields of highly indebted countries such as Italy and Greece are rising more sharply than those of countries with less debt, such as Germany, a development referred to as bond market fragmentation. To ensure the coherent effectiveness of monetary policy on economic developments and, ultimatley, price developments in all euro area Member States, the Governing Council of the European Central Bank announced the Transmission Protection Instrument (TPI) in July 2022. The TPI intends to make it possible to selectively purchase government bonds from countries whose interest rate increases are not considered to be justified by macroeconomic fundamentals, thus preventing a disorderly divergence in interest rate levels between countries. This Weekly Report analyzes the economic and legal aspects of this new monetary policy instrument. Estimates from the empirical model show that current yield spreads between government bonds of euro area member states cannot yet be justified as disorderly; rising yields can be explained by a worsening of macroeconomic fundamentals and stricter general risk assessments. Therefore, the requirements for activating the TPI have not yet been fulfilled. In addition, TPI raises concerns from a legal perspective.

In light of the sharp increase in inflation in the euro area since mid-2021, the European Central Bank (ECB) began to signal a normalization of monetary policy at the end of 2021. Net purchases of securities were gradually discontinued throughout the first half of 2022. Moreover, key interest rates were raised by 50 basis points in July 2022 and by a further 75 basis points in September. In response to this progressive normalization of monetary policy, bond yields of all countries are increasing, but even more sharply in highly indebted countries such as Italy, Greece, Portugal, and Spain, compared to core countries like Germany and France. This development is referred to as bond market fragmentation (Figure 1) and means monetary tightening has different effects in different Member States. In the highly indebted countries, the monetary policy course has a more restrictive and thus more dampening effect on growth and prices than in the countries with lower debt ratios. Thus, the transmission of monetary policy is not consistent across the Member States.

Given the heterogenous bond yield developments, concerns arose among central bankers and financial markets that, similar to the onset of the European debt crisis in 2010, such fragmentation could jeopardize the integrity of the euro area and the single European monetary policy. To counter these risks, in June and July 2022, the ECB used redemption payments resulting from purchases of core country bonds under the Pandemic Emergency Purchase Program (PEPP) to reinvest in bonds issued by periphery countries, particularly Italy and Spain (Figure 2). This action is consistent with the ECB's announcement that flexibility in PEPP reinvestments will be the first line of defense against pandemic-related fragmentation risks.[1] However, there is still the risk that the size of the PEPP redemption payments will be insufficient to stop any divergence of the government bond yields of euro area Member States, similar to the situation during the European debt crisis from 2010 to 2012.

1 European Central Bank, "The Transmission Protection Instrument," press release from July 21, 2022 (in German; available online. Accessed on September 19, 2022. This applies to all other online sources in this report unless stated otherwise).

DOI: https://doi.org/10.18723/diw_dwr:2022-40-1

For this reason, the ECB felt compelled to put its foot down on the financial markets to prevent, or at least curb, market speculation about bond yields drifting further and further apart. On July 21, 2022, the ECB announced the Transmission Protection Instrument (TPI), which “will ensure that the monetary policy stance is transmitted smoothly across all euro area countries,” while the ECB continues normalizing monetary policy. The TPI can be activated “to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area.”[2]

The TPI allows the ECB to make secondary market purchases of securities, primarily government bonds, but also private sector securities if necessary. The prerequisite for such intervention is that financing conditions in a country have deteriorated more than would be justified by developments in country-specific fundamentals, such as government debt.

The announcement of the TPI is reminiscent of the ECB decision during the 2010 European debt crisis, when they announced the Outright Monetary Transactions (OMT) emergency program (see Box). Simply the possibility of being able to conduct such transactions calmed the markets and the instrument never had to be activated. The announcement of the TPI has ignited a heated debate among academics, central bankers, and the general public. While it has its supporters, critics doubt that further asset purchases are the right way forward from an economic perspective with inflation on the rise and the TPI being questioned on legal grounds. This Weekly Report analyzes the economic and conceptual aspects of the TPI.[3]

Fundamentals and general risk assessment determine bond yields

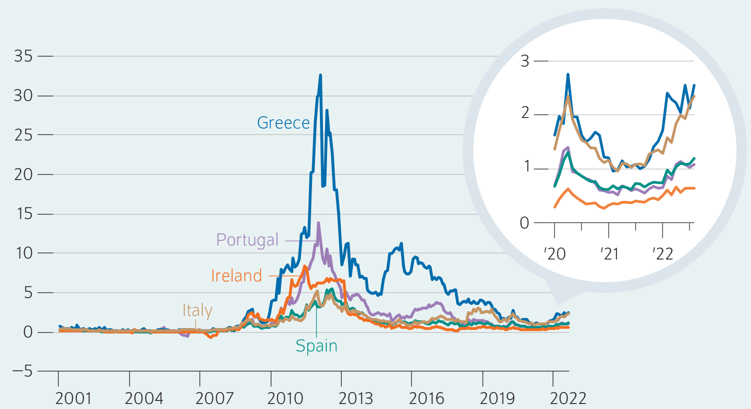
Deciding to activate the TPI is a challenging process for the Governing Council. They must determine whether the observed increase in bond yields is linked to a problem that falls within the competence of the respective Member State or if it is based on market failure that is not rooted in a Member State’s macroeconomic fundamentals, but instead lies within the monetary competence of the ECB. Therefore, it is paramount that decision makers understand what is driving government bond yield spreads in the euro area.

The general consensus in the literature is that sovereign bond yields are determined by both country-specific risk factors and international factors such as investors’ risk aversion.[4]

Figure 1

Bond yield spreads of selected euro area countries’ bonds to German bonds[1]

In percentage points



1 Ten-year government bonds.

Source: Bloomberg; authors’ calculations.

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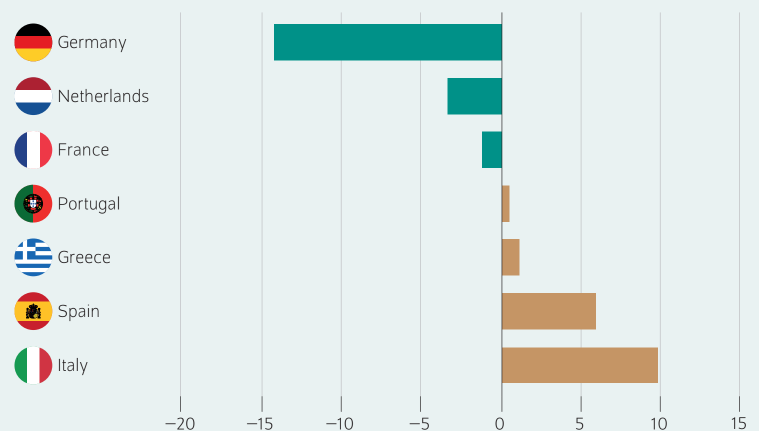
The bond yield spread is nowhere near as divergent as it was during the European debt crisis.

Figure 2

ECB net purchases of government bonds in June and July 2022[1]

In billions of euros



1 Purchases under the PEPP.

Source: European Central Bank.

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In summer 2022, the ECB used redemption payments from purchases of core country bonds under the PEPP to reinvest in bonds issued by peripheral countries.

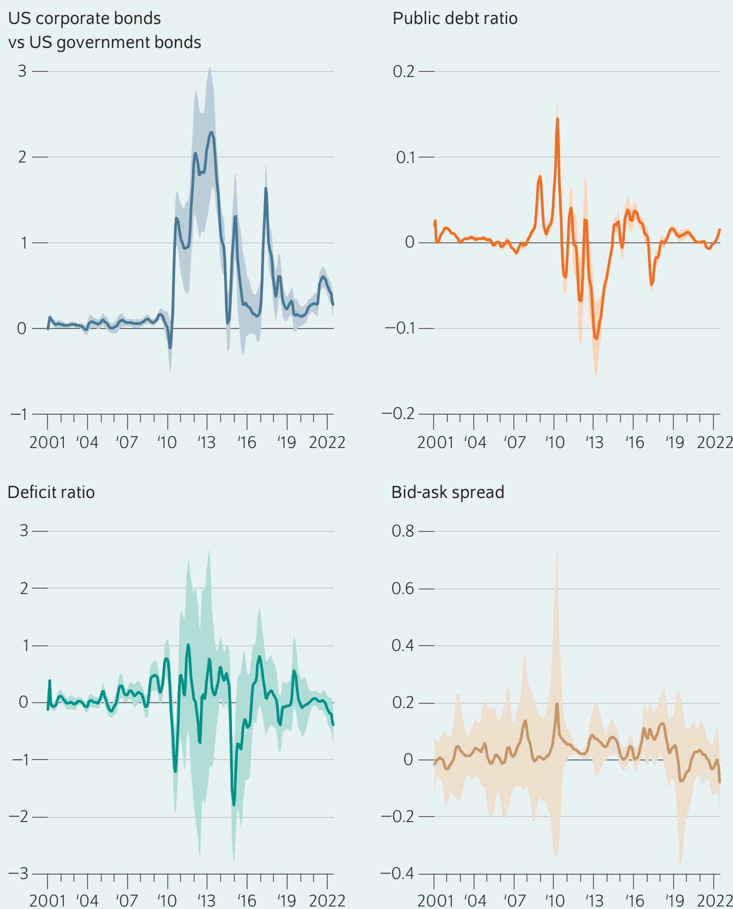
2 European Central Bank, “The Transmission Protection Instrument.”

3 This Weekly Report is based on a study conducted by the authors upon request of the European Parliament’s Committee on Economic and Monetary Affairs (ECON) in advance of the Monetary Dialogue with the ECB President on September 26, 2022: Kerstin Bernoth, Sara Dietz, Gökhan Ider, and Rosa Lastra, “The ECB’s Transmission Protection Instrument: A Legal & Economic Analysis,” *Monetary Dialogue Papers* (September 2022) (available online).

4 For a more detailed literature overview, see Kerstin Bernoth, Jürgern von Hagen, and Ludger Schuknecht, “Sovereign risk premiums in the European government bond market,” *Journal of International Money and Finance* 31, no. 5 (2021): 975-995 and Kerstin Bernoth and Burcu Erdogan, “Sovereign bond yield spreads: A time-varying coefficient approach,” *Journal of International Money and Finance* 31, no. 3 (2012): 639-656. For a current look at bond fragmentation, see Ignazio Angeloni and Daniel Gros, “How can the ECB deal with the risk of fragmentation?” *CEPS Policy Insights* no. 2022-27 (2022). (available online).

Figure 3

Influence of risk aversion, debt ratio, government deficit, and liquidity on government bond yield spreads in the euro area
In percentage points



Notes: The debt ratio and the expected deficit ratio (twelve months ahead) serve as measures of credit/default risk. Liquidity risk is measured via the bid-ask spread. Risk aversion is measured with the spread of the yield on US corporate bonds with low credit ratings over US government bonds.

Sources: Bloomberg; OECD Economic Outlook; Eurostat; authors' calculations.

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Yield development is significantly influenced by the degree of general risk aversion and a country's debt level.

This Weekly Report focuses on the extent to which a change in the yield spread is due to a change in macroeconomic fundamentals, such as a country's fiscal position, and the extent to which it reflects a change in the markets' valuation of these fundamentals. To do this, a non-parametric fixed-effects panel model is estimated.[5] While this analysis cannot provide a clear answer to the question of whether or not market adjustments in sovereign bond yields are unwarranted, it does provide an indication of the underlying drivers of the current rise in bond yields and assesses the current risk premium levels relative to past crisis periods.

The data sample contains the sovereign bond yields of ten euro area Member States (Austria, Belgium, Finland, France, Greece, Ireland, Italy, the Netherlands, Portugal, and Spain) from January 2001 to June 2022. The yield spreads of the individual countries are calculated as the yield difference of their ten-year benchmark government bonds versus the ten-year German government bond. The variables that measure a country's fiscal situation, the debt-to-GDP ratio and the projected (12-month-ahead) deficit-to-GDP ratio, are used to estimate credit risk. The bid-ask spread, which is the difference between the bid and ask prices, is used as a measure of liquidity risk. All three variables are expressed in differences to the benchmark country, Germany. Finally, the US corporate bond yield spread is used as an indicator of investors' risk aversion, as it reflects the general uncertainty in the market. A greater yield spread indicates a higher general perception of risk in global markets.

Global risk aversion and debt-to-GDP ratio explain sovereign bond yield differences

The degree of investors' risk aversion plays a significant role in explaining sovereign bond yield spreads in the euro area, as the model results show (Figure 3, left upper panel). With few exceptions, the coefficient on the US corporate bond spread was positive, suggesting that interest rate differentials between euro area countries and Germany increase with global risk aversion. At the time of the euro's introduction,[5] global risk aversion initially played only a minor role in explaining interest rate differentials across Member States. With the onset of the global financial crisis in 2008, the influence of the global risk factor on euro area yield differentials increased dramatically, even more so during the European debt crisis in 2010. The impact of global risk aversion began to weaken again around the time the ECB began quantitative easing in 2015. Since then, it has remained at a significantly higher level than in the period before the financial crisis. This suggests that the financial markets view Germany as a safe haven, especially in times of crises, and prefer German government bonds, resulting in rising yield spreads in the euro area.

At the start of the monetary union, financial markets clearly perceived differences in government debt levels and priced them into bond yields (Figure 3, top right panel). However, this market-disciplining effect weakened in the subsequent years and disappeared altogether in 2005. With the onset of the financial crisis in mid-2008 and the European debt crisis in 2010, when financial markets became concerned about the sustainability of Greek, Irish, and Portuguese debt, markets again took sovereign debt into account in their risk assessment, and more so than ever before. An increase in the government debt ratio was punished with high yield spreads.

With the announcement of the Securities Market Programme (SMP) in May 2010, debt levels abruptly lost their influence on bond yield spreads. The estimated coefficient became insignificant or occasionally even significantly negative. This dynamic became even more pronounced following Mario Draghi's famous "Whatever it takes" speech and the

5 2001 was selected as a reference year because it is the year that Greece joined the euro area.

Box

TPI has many similarities with OMT, but is less strict

The Transmission Protection Instrument (TPI) announced in July 2022 has relevant similarities to Outright Monetary Transactions (OMT), the emergency program announced during the European debt crisis in 2012 (Table), which is still available as a possible monetary policy tool. Both programs aim to safeguard the singleness of monetary policy by counteracting distortions in the monetary policy transmission resulting from rising yield spreads of government bonds of certain Member States.

However, there are some key differences in the eligibility criteria, purchase parameters, and sterilization measures, i.e., those measures designed to prevent a change in the monetary base resulting in excess liquidity in the banking sector due to asset purchases. The TPI's eligibility criteria are much less demanding than the criteria of OMT and serve only as a decision-making aid for the Governing Council.[1] Thus, the ECB has complete discretion in weighing and evaluating these criteria. While the OMT focuses on the purchase of government bonds with short maturities, the TPI will primarily purchase government bonds with longer maturities and allows purchases of private sector securities. In addition, the TPI press release is less clear than the OMT regarding the sterilization of asset purchases. Overall, these differences provide the ECB with more flexibility and discretion in the possible implementation of the TPI.

1 OMT makes purchases conditional on Member States fulfilling the obligations of an EFSF or ESM assistance program that relate to their general economic, social, and, in particular, fiscal policies.

Table

Differences between the two ECB emergency programs Outright Monetary Transactions und Transmission Protection Instrument

	OMT (2012)	TPI (2022)
Selectivity	Secondary market purchases of government bonds of selected member states	Secondary market purchases of securities issued in jurisdictions experiencing a deterioration in financing conditions not warranted by country-specific fundamentals
Eligibility/ Conditionality	Strict and effective conditionality attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) program	Four criteria that function as "inputs" for an assessment: Compliance with the EU fiscal framework, no macroeconomic imbalances, fiscal sustainability, and sound and sustainable macroeconomic policies
Limits on purchases	No ex ante quantitative limits are set on the size of the purchases	No ex ante quantitative limits are set on the size of the purchases; volume depends on severity of risks facing monetary policy transmission
Treatment of creditors	The ECB is treated the same as private or other creditors	The ECB is treated the same as private or other creditors
Purchase parameters	Government bonds with a remaining maturity of one to three years	Public sector securities with a remaining maturity of one to ten years; if necessary (at the ECB's discretion), the purchase of private sector securities could be considered
Relation to monetary policy stance	The liquidity created by the OMT is fully sterilized	Purchases under the TPI would be conducted such that they cause no impact on the monetary policy stance; the Governing Council is responsible for addressing the implications of TPI purchases for the aggregate Eurosystem monetary policy debt security portfolio, the amount of excess liquidity, and Eurosystem balance sheet

Source: Authors' depiction.

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announcement of the OMT program in summer 2012. Until the end of 2014, market discipline was turned on its head: Interest rate differentials vis-à-vis Germany decreased when the public debt ratios increased.

Since the beginning of 2015, the estimated coefficient resembled more of an up-and-down pattern, which may be explained by the fluctuating expectations of monetary normalization and an exit from expansionary monetary policy. With signals of monetary policy normalization becoming more pronounced since the end of 2021, the impact of sovereign debt differentials on yield spreads has been increasing and have turned significantly positive again since February 2022 following the Russian invasion of Ukraine.

This means that financial markets are once again exercising market discipline: highly indebted euro area Member States are paying more interest on their government bonds than countries with lower debt. However, it is not yet apparent that there are any overreactions. Compared to the 2010 crisis, the increase is still moderate and rather comparable with that at the start of the monetary union. The result indicates a normalization according to which financial markets take a country's fiscal situation into account when assessing default risk.

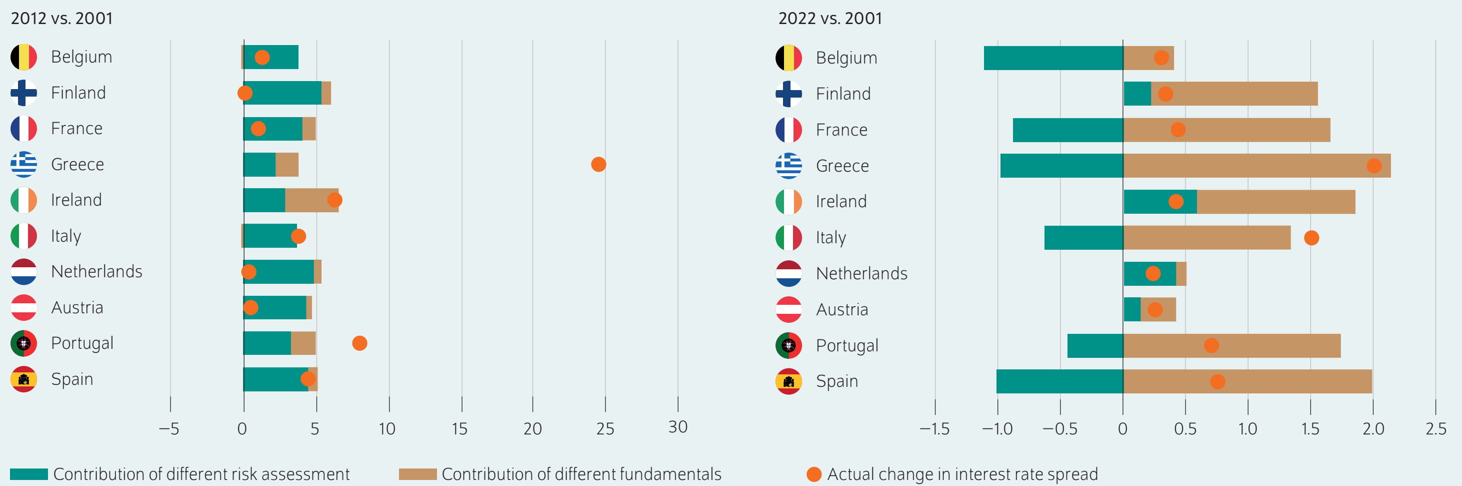
While financial markets pay attention to the debt-to-GDP ratio, they seem to ignore deficit differentials (Figure 3, bottom left panel). The projected deficit spread between the euro area countries and Germany does not play a role in determining spreads; the coefficient fluctuates around zero most of the time and is, with few exceptions, not significant. Additionally, the liquidity premium is also not of great importance in explaining bond yield differentials in the euro area (Figure 3, bottom right).

No signs of market irrationality so far

It is not possible to identify what level of bond yields would actually be justified by country-specific fundamentals. However, the current behavior of bond spreads can be compared with behavior in earlier periods when the risk assessment was most likely realistic. In this way, unjustified interest rate developments can be identified. January 2001 was selected as the reference period. For comparison reasons, we also look at the steep rise in yield spreads of some euro

Figure 4

Model estimate of the influence of risk assessment and fundamentals on the change in interest rate spreads in the euro area
Contribution to change in interest rate spreads in percentage points



Notes: The green bars represent the developments in the interest rate spread explained by the change in risk assessment between 2001 and 2012 or 2022. The brown bars indicate the change in the interest rate spread explained by the change in macroeconomic fundamentals between 2001 and 2012 or 2022. The orange dots indicate the actual interest rate spreads.

Source: Authors' calculations.

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The large yield spread of Greek bonds during the 2012 European debt crisis is not fully explained by either risk assessment or fundamentals and is thus the kind of market exaggeration the ECB wants to avoid.

area Member States in June 2012, which is not considered to be justified by country-specific fundamentals. At the time, the ECB intervened in the bond market by announcing the OMT program. Thus, this period can be compared with the situation in 2022.

The change in observed bond yields is decomposed in the model into two parts: The first part indicates the change in the bond spread explained by the change in risk assessment between 2001 and 2022 (green bars). The second part indicates the bond spread explained by the change in macroeconomic fundamentals between 2001 and 2022 (brown bars). This shows whether risk assessments or fundamentals were the decisive factor in the change in the interest rate spread (Figure 4).

Looking at the increase in bond yields in 2012, most of it can be attributed to a higher risk pricing (Figure 4, upper panels). Had this not changed, bond yields would have risen much less despite poorer fundamentals. Accordingly, the deterioration in countries' macroeconomic fundamentals has had little impact on yields.

Moreover, the model captures the actual development of bond yields in 2012 quite well overall (red dots); the only major exception is Greece. During the European debt crisis, the Greek bond yield spread increased by around 20 percentage points more than the model would have predicted. This outlier implies that financial markets demanded a much higher yield for Greek government bonds compared to those of other European countries. Thus, it is indeed reasonable to classify this increase in yield spreads on Greek bonds as not being driven by fundamentals or a general shift in risk pricing, as was the ECB's view at the time. Part of the increase likely also reflects the risk of Greece leaving the euro area.

If 2022 bond yields are compared with bond pricing at the beginning of the 2000s, the conclusion is reached that most of the rise in yields in the southern euro area countries (France, Greece, Italy, Portugal, and Spain) between 2001 and 2022 is mainly due to a deterioration in macroeconomic fundamentals, primarily the debt-to-GDP ratio (Figure 4, lower panels).

In contrast to 2012, the model results suggest that there are currently no major, observable outliers where some countries pay a bond yield that is significantly higher than the model predictions, as was the case for Greece during the sovereign debt crisis. So far, therefore, interest rate differentials have been driven by the macroeconomic fundamentals of the respective Member State and by an increase in general risk aversion, and are not yet considered the result of market irrationalities.

Information on TPI is vague and opaque

Regardless of whether the TPI should be already activated or not, criticism continues. The criticism is manifold, concerning both the distinction from its predecessor program, OMT (see Box), as well as its unclear design and legal admissibility. The legal and operational framework of a central bank

is crucial to ensure that it remains an independent and apolitical institution and thus credible. The following sections examine six critical points of the TPI.[6]

Monetary financing

The European Court of Justice (ECJ) has established guidelines for compliance of government bond purchases, in particular the prohibition of monetary financing, in the Treaty on European Union and in the Treaty on the Functioning of the European Union (TFEU).[7] However, the TPI press release is silent on the critical parameters for these guidelines to determine whether market pricing mechanisms are maintained. The ECB must substantiate the parameters of the TPI in this regard so that they may be reviewed by the European Parliament (EP) and the ECJ.

Trade-off between price stability mandate and singleness of monetary policy transmission

Currently, the ECB is attempting to curb inflation by increasing interest rates. This puts a heightened burden of justification on the ECB to explain how further asset purchases—an expansionary monetary policy as such—fit within the overall monetary policy stance of fighting inflation. It slightly amounts to squaring the circle, if, on the one hand, the ECB is trying to lower interest rates for some Member States with TPI, while on the other hand, the ECB is raising interest rates in reaction to the increasing inflation. In the press release, the Governing Council declared that it will address the implications of TPI purchases for excess liquidity, that is, liquidity in the banking system in excess of banks' needs. At the same time, it stated that the volume of asset purchases is not pre-determined but depends on the severity of the risks facing the monetary policy transmission. The question arises: Which of the two considerations is the prevailing one? And would they require different actions in a scenario in which the amount of excess liquidity suggests terminating the purchases, while persisting severe risks for the monetary transmission suggest the continuation of purchases?

For asset purchases under the TPI to be consistent with the current tighter monetary policy stance to combat inflation, sterilization measures are important for large purchase volumes. However, the press release is vague on the individual measures (see Box, Table).[8]

6 For a more detailed analysis of the TPI from a legal perspective, see Bernoth, Dietz, Ider, and Lastra, "The ECB's Transmission Protection Instrument."

7 To guarantee compliance with Article 123 TFEU, the ECB must ensure that purchases are not predictable by market participants and that Member States cannot expect their bonds to be held to maturity by the ECB, thereby ensuring that the market pricing mechanism and the incentive for fiscal discipline remain in place. Time lags between issuance and purchases, as well as *de facto* quantitative limits on purchases, are essential criteria to ensure these requirements are met, cf. Phedon Nicolaides, "The ECB's new 'Transmission Protection Instrument': Discretion & Proportionality VS Transparency," *EU Law Life, Weekend Edition*, no. 110 (2022).

8 Sterilization of securities purchases means that a central bank simultaneously sells other securities to prevent an expansion of the central bank money supply. The aim is to ensure that the monetary policy stance remains unchanged while the yield on selected bonds is selectively pushed down.

Assessment of the eligibility criteria

The activation of the TPI requires sound and sustainable fiscal and macroeconomic policies and the press release lists the eligibility criteria to be considered when assessing if the requirements are being fulfilled. However, the institutional set-up of the ECB is not suitable for assessing these criteria. Monitoring compliance with fiscal rules and ultimately making a discretionary decision on whether a Member State sufficiently fulfills the requirement of sound and sustainable fiscal and economic policies may expose the ECB to political pressure and threaten its independence.

Whether the ECB itself should be making such assessment, or whether such assessment should be the responsibility of external bodies (ESM and IMF, for example), is an important issue that must still be clarified.

Lack of substantiation and details

Another criticism of the TPI is the lack of substantiation, and detail in the press release. The press release mentions "unwarranted, disorderly market dynamics," a very unspecific phrase. The ECB should explain and substantiate its method, benchmark, criteria, and assessment process, as such an assessment is decisive for ensuring that the ECB is not overstretching its mandate. The provisions on how the Governing Council will use the listed eligibility criteria as input to its decision-making process are also very unspecific.

While central banks should enjoy discretion, it is constrained by a normative framework that ensures that independent central banks remain within their legal mandate. As the ECJ also noted, discretion does not relieve the ECB of certain legal requirements regarding the manner in which such discretion is exercised.

Risk- and loss-sharing is unaddressed

Risk- and loss-sharing, a most sensitive topic, is not addressed in the press release. SMP and OMT, the predecessors of the TPI, were/are based on a loss sharing regime, so that all national central banks would have had to carry losses of purchases of selected government bonds according to the capital key. While confidentiality of such decisions is formally granted by EU law, there are good reasons for the ECB, in light of its accountability, to disclose such information to ensure that its independent decisions (also in regard to risk- and loss-sharing) can be scrutinized by the European Parliament.

Differentiation from other programs

Two alternative asset purchase programs are available to address risks to effective monetary policy transmission, the PEPP and OMT. Flexibility in reinvesting maturing securities under the PEPP remains the first line of defense to counter risks for monetary policy transmission related to the pandemic. Yet, it is unclear how the ECB will decide when

risks for monetary policy transmission are due to the pandemic and when they fall under the remit of TPI; the same holds true for OMT. The Governing Council makes clear that the announcement of the TPI does not render OMT obsolete and that it retains discretion to conduct OMT for those Member States which fulfill the relevant criteria. But could the ECB also decide to activate the TPI for a country theoretically fulfilling the OMT criteria? If yes, this would mean that the TPI, with its "OMT-light" eligibility criteria, might provide a way for Member States to circumvent the much harder OMT conditionality.

The guidelines given in the press release leave these and other questions with regard to the distinction and relation of TPI with OMT and PEPP unaddressed. The ECB should better distinguish these three programs and explain their interplay to provide further clarification to avoid confusion for market participants and to fulfill its duty to give account of its actions.

Conclusion: ECB needs to clarify outstanding legal issues economic and fiscal policy accountable

The analysis shows that the current bond yield spreads do not yet qualify as disorderly or unwarranted and have not yet decoupled from macroeconomic fundamentals. Rather, the current levels of yield spreads are explained by macroeconomic fundamentals of the respective Member State and an increase in the general risk aversion in financial markets. Therefore, the government bonds of euro area Member States are currently not fulfilling the requirements set out in the TPI press release for secondary market purchases. However, this can also change quickly, as risk perceptions and herd dynamics adjust rapidly in financial markets. The ECB should keep this in mind.

Like OMT, the announcement of the TPI alone may have calmed the markets. However, before it is actually activated—if necessary—some features and parameters that raise concerns from a legal perspective should be addressed. For example, the differentiation from other programs and the TPI's design and criteria are unclear. Until these issues are resolved, the Eurosystem should continue to rely on existing programs such as PEPP.

However, it would also be advisable to hold national governments accountable and to counteract fragmentation and rising yield spreads with economic policy measures. It is not the ECB's task to compensate for the absence of fiscal integration by monetary policy means. It is also not for the ECB to prevent the euro area from being torn apart by diverging economic and fiscal situations of its Member States, which are reflected on financial markets. It falls foremost within the realm of a Member State's responsibility to take—unilaterally or more effectively at the EU level within the existing European institutional and legal framework—policy action to address the issues of rising government debt and economic fall-out.

Kerstin Bernoth is Deputy Head of the Macroeconomics Department at DIW Berlin | kbernoth@diw.de

Sara Dietz is a lawyer and researcher at the Research Center for European Integration Law at the Ludwig Maximilian University of Munich | sara.dietz@hengeler.com

Gökhan Ider is a research associate in the Macroeconomics Department at DIW Berlin | gider@diw.de

Rosa María Lastra is a professor of Banking Law at the Queen Mary University in London | r.lastra@qmul.ac.uk

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LEGAL AND EDITORIAL DETAILS

DIW Berlin — Deutsches Institut für Wirtschaftsforschung e. V.
Mohrenstraße 58, 10117 Berlin
www.diw.de
Phone: +49 30 897 89–0 Fax: –200
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