

Financial Crisis, Unconventional Monetary Policy and International Spillovers

Qianying Chen

International Monetary Fund

Andrew Filardo

Bank for International Settlements

Dong He

Hong Kong Monetary Authority

Hong Kong Institute for Monetary Research

Feng Zhu

Bank for International Settlements

September 2014

Summary

This paper studies the effects of unconventional monetary policies in the major advanced economies. We first examine the cross-border financial market impact of central bank announcements of asset purchase programmes based on event studies. We find marked effects, as expansionary balance sheet policies influence the prices of a broad range of emerging market assets, raising equity prices, lowering government and corporate bond yields and compressing CDS spreads.

We then study the economic impact of US quantitative easing on both emerging and advanced economies, based on an estimated global vector error-correcting macroeconomic (VECM) model, which takes into account trade and financial linkages. We focus on the effects of reductions in US term and corporate spreads, and in US market volatility. The estimated effects are sizeable and differ across economies. First, US QE measures which help to lower market volatility and reduce corporate spreads appear to have had far greater impact than lowering term spreads, as Blinder (2012) suggested. Second, such measures have prevented a prolonged recession and severe deflation in the advanced economies. Third, the impact on emerging economies has varied but is generally stronger than in the US and other advanced economies. US QE measures contributed to overheating in Brazil, China and other emerging economies in 2010 and 2011, but supported recovery in 2009 and 2012. The sign and size of QE effects differ across economies, implying that their costs and benefits are unevenly distributed.