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Quantitative Easing in Emerging Markets: Experimenting with Unconventional Monetary Policy during the Global Pandemic

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Abstract

Quantitative easing (QE) is considered an unconventional monetary policy tool, whereby the central bank purchases long-duration assets for the purpose of influencing long term interest rates. Advanced economies have pursued quantitative easing to counteract the negative conditions stemming from the Global Financial Crisis, as well as from the economic fallout of the Covid-19 lockdowns. Several emerging market economies also experimented with QE to offset the economics effects of Covid-19 in March and April 2020. However, the underlying macroeconomic environment differs in advanced versus emerging economies. This research uses the Global Vector-Autoregression model to assess the impact of QE in emerging markets on domestic economic and financial conditions, such as inflation, bond yields, capital flows, exchange rates, domestic credit, and stock market performance. It focuses on assessing whether the unconventional monetary policy tools were successful in mitigating the negative economic and financial effects of Covid-19 lockdowns, and if the conditions within the emerging market economy contribute to the effectiveness of the policies, such as the degree of openness, the degree of financial depth, and institutional strength within each country.

Keywords: Quantitative Easing, Emerging Markets, Covid-19, Exchange Rates, Monetary Shocks