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## International Spillovers of Central Bank Balance Sheet Policies

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Qianying Chen (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=739146)

International Monetary Fund (IMF) - Monetary and Capital Markets Department

Andrew J. Filardo (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=50604)

Bank for International Settlements (BIS) - Monetary and Economic Department

Dong He (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=593558)

Hong Kong Monetary Authority; Hong Kong Institute for Monetary Research (HKIMR)

Feng Zhu (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=434841)

Ant Financial

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### Abstract

We study the cross-border impact of quantitative easing (QE) in the major advanced economies, especially on emerging market economies. We first examine the cross-border international financial market impact of central bank announcements of asset purchase programmes. We find marked QE announcement effects on global financial markets. Quantitative easing influenced prices of a broad range of emerging market assets, raising equity prices, lowering government and corporate bond yields and compressing CDS spreads. The evidence supports the view that QE programmes in advanced economies influenced market expectations about the strength of cross-border financial flows to emerging market economies and about accommodative monetary policy responses of emerging market central banks to concerns about these capital flows. In other words, the announcement of QE measures in one economy contributed to easier global liquidity conditions through the immediate re-pricing of assets in global financial markets.

We then turn to the macroeconomic impact of US quantitative easing on emerging market and advanced economies using a global vector error-correcting model (VECM). In addition to the standard trade channels, this model takes account of financial linkages using the BIS locational bank lending statistics. The size of the estimated international spillover effects differed across regions. First, lower US treasury bond yields raised equity prices significantly in the advanced economies, but the expansionary impact on growth and inflation was only about half of that on the US economy. Second, there was little evidence that lower yields in the United States led to rapid credit growth in other advanced economies, at least in the immediate aftermath of the crisis. Third, the impact on emerging economies was in general stronger than that on the other advanced economies. In some economies such as Hong Kong and Brazil, the expansionary impact of US quantitative easing was significant and associated with rapid credit growth and strong capital inflow, currency appreciation and inflationary pressures.

Full publication: Are Central Bank Balance Sheets in Asia Too Large? (http://ssrn.com/abstract=2166373)

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