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Effects of Quantitative Easing on Asia: Capital Flows and Financial Markets

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Abstract

This paper studies the effects of the United States' (US) quantitative easing on Asia by examining capital flows and financial markets. After the global financial crisis, Asian economies with more open and developed capital markets experienced greater swings in capital inflows. In particular, large capital flows were manifest more in portfolio investment and other investment such as bank loans than in foreign direct investment. Empirical analysis shows quantitative easing, in particular the first round, significantly contributed to the rebounding of capital inflows to the region after the onset of the crisis by lowering domestic yield rates as well as credit default swap premiums. Although the currency value responses differed across countries, it appears that economies with stable exchange rates roughly coincide with those in which housing prices have been rising, suggesting that monetary easing of advanced countries have affected Asian countries through either appreciation of currency values or increases in the prices of housing.

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