

# The Impact of Quantitative Easing on the World Economy (Part II)

## 量化寬鬆對全球經濟的影響 (下)

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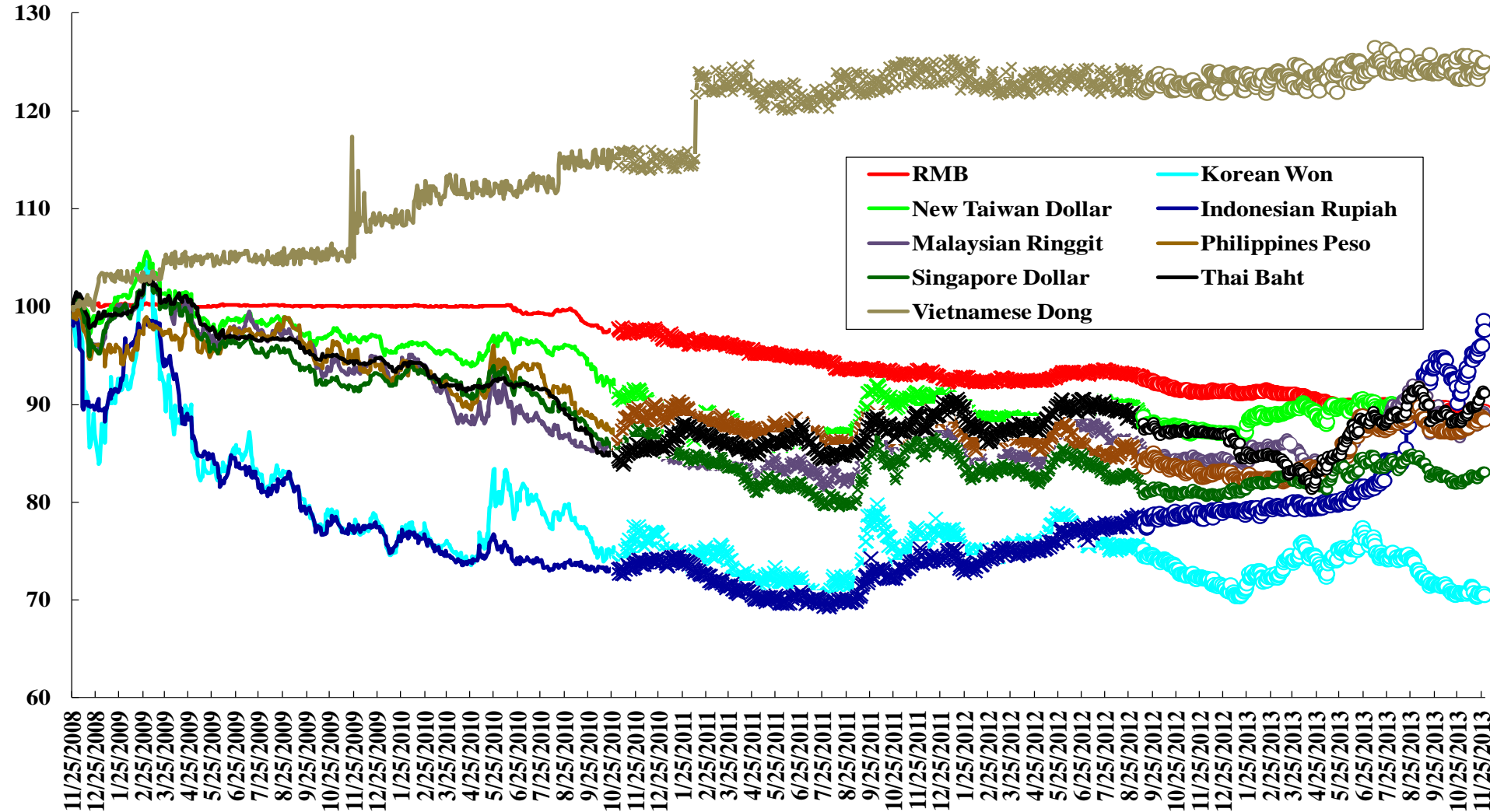
# The Impact of Quantitative Easing on the World Economy 量化寬鬆影響世界經濟

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- ◆ The excess liquidity released through the QEs and the excessively low interest rates in the U.S. have led to a massive exodus of short-term capital from the U.S. to the rest of the World seeking higher yields.
- ◆ This has led to the appreciation of most currencies relative to the U.S. Dollar, a decline in the interest rates in the foreign financial markets, and a rise in asset prices (stock prices) worldwide.
- ◆ In some of the economies, such as Brazil, India, Indonesia and Turkey, this has caused economic boomlets.

# Exchange Rate Indexes of Selected Economies (11/25/2008=100)

Exchange Rate Indexes of Selected Economies (11/25/2008=100)



# The Exchange Rate Revaluation/Devaluation of Selected Economies (2008/11/25-2010/11/03)

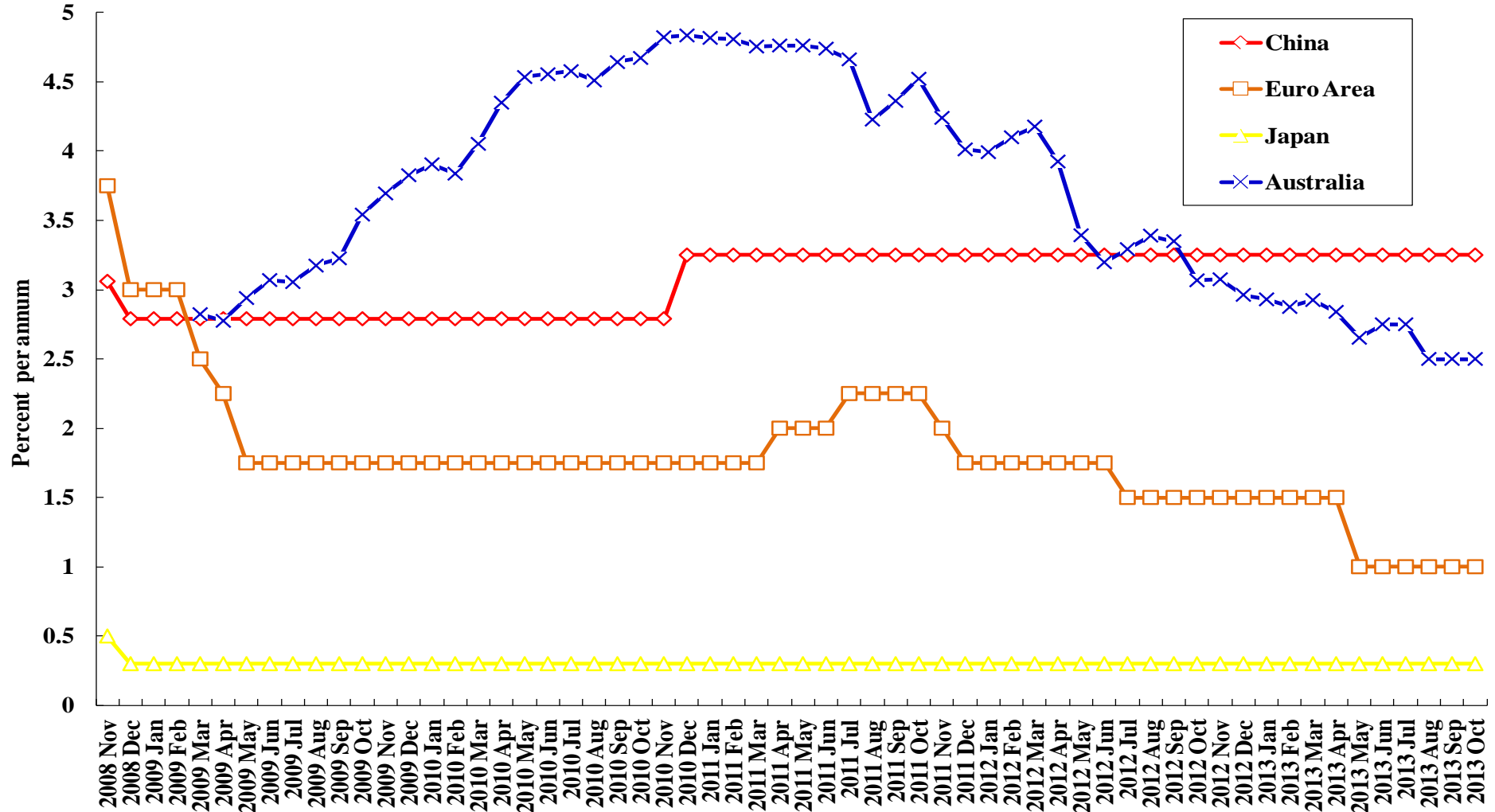
The Exchange Rate Revaluation/Devaluation during QE1			
11/25/2008-11/3/2010			
Currency	11/25/2008	11/3/2010	Revaluation/ Devaluation against US\$
RMB	6.8245	6.6746	2.20%
Euro	0.76748	0.71357	7.02%
Japanese Yen	95.532	81.387	14.81%
Australian Dollar	1.54135	1.00368	34.88%
Korean Won	1501.72	1110.23	26.07%
New Taiwan Dollar	33.349	30.425	8.77%
Indonesian Rupiah	12209	8931	26.85%
Malaysian Ringgit	3.6207	3.0853	14.79%
Philippines Peso	49.409	42.475	14.03%
Singapore Dollar	1.5108	1.2889	14.69%
Thai Baht	35.205	29.787	15.39%
Vietnamese Dong	16957	19408	-14.45%
Indian Rupee	49.894	44.38	11.05%

# The Exchange Rate Revaluation/Devaluation of Selected Economies (2008/11/25-2013/11/29)

The Exchange Rate Revaluation/Devaluation during QE1-3 11/25/2008-11/29/2013			
Currency	11/25/2008	11/29/2013	Revaluation/ Devaluation against US\$
RMB	6.8245	6.0949	10.69%
Euro	0.76748	0.73507	4.22%
Japanese Yen	95.532	102.505	-7.30%
Australian Dollar	1.54135	1.096	28.89%
Korean Won	1501.72	1057.8	29.56%
New Taiwan Dollar	33.349	29.606	11.22%
Indonesian Rupiah	12209	11909	2.46%
Malaysian Ringgit	3.6207	3.2245	10.94%
Philippines Peso	49.409	43.671	11.61%
Singapore Dollar	1.5108	1.2549	16.94%
Thai Baht	35.205	32.089	8.85%
Vietnamese Dong	16957	21198	-25.01%
Indian Rupee	49.894	62.384	-25.03%

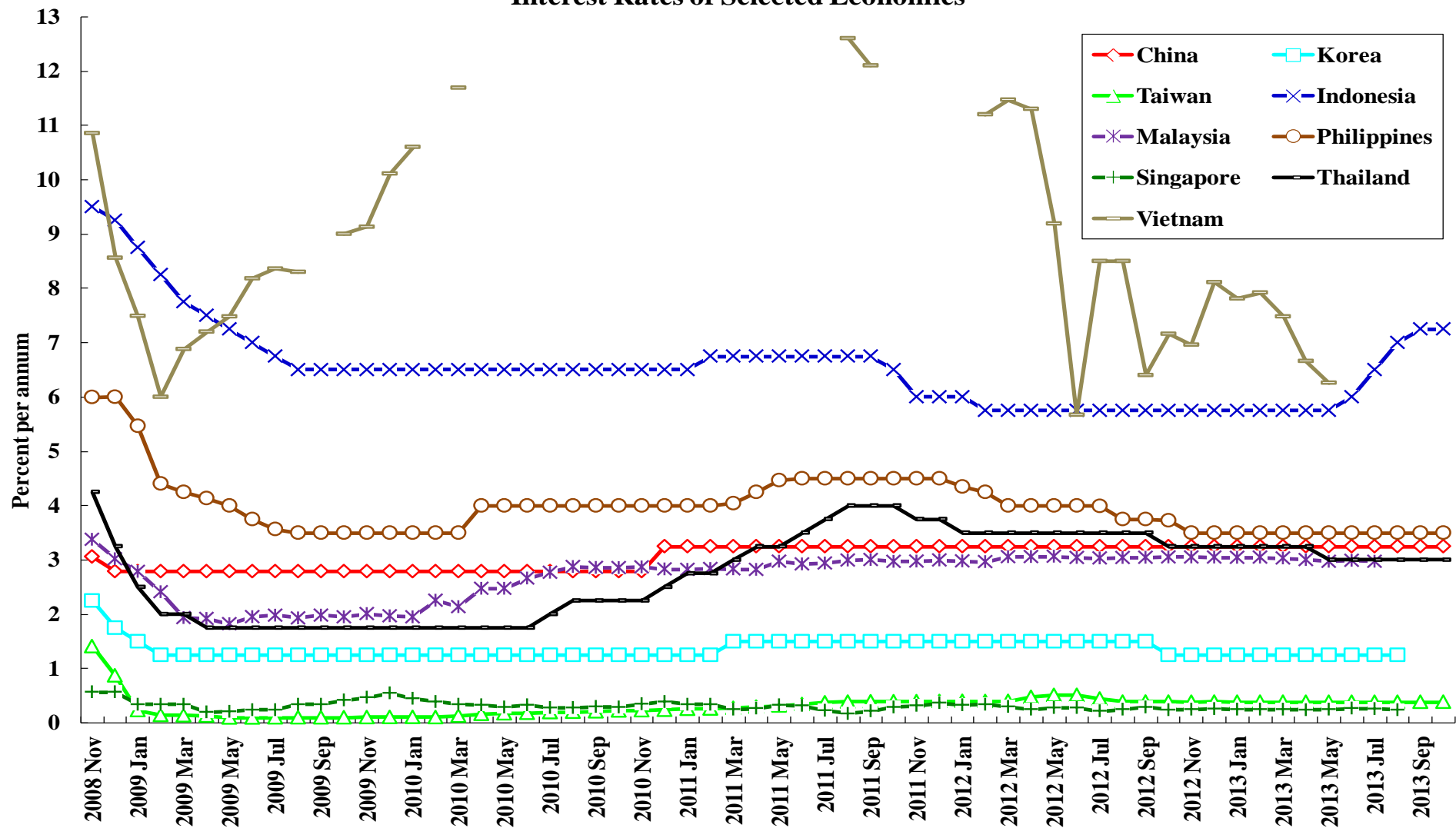
# Interest Rates of Selected Economies

Interest Rates of Selected Economies



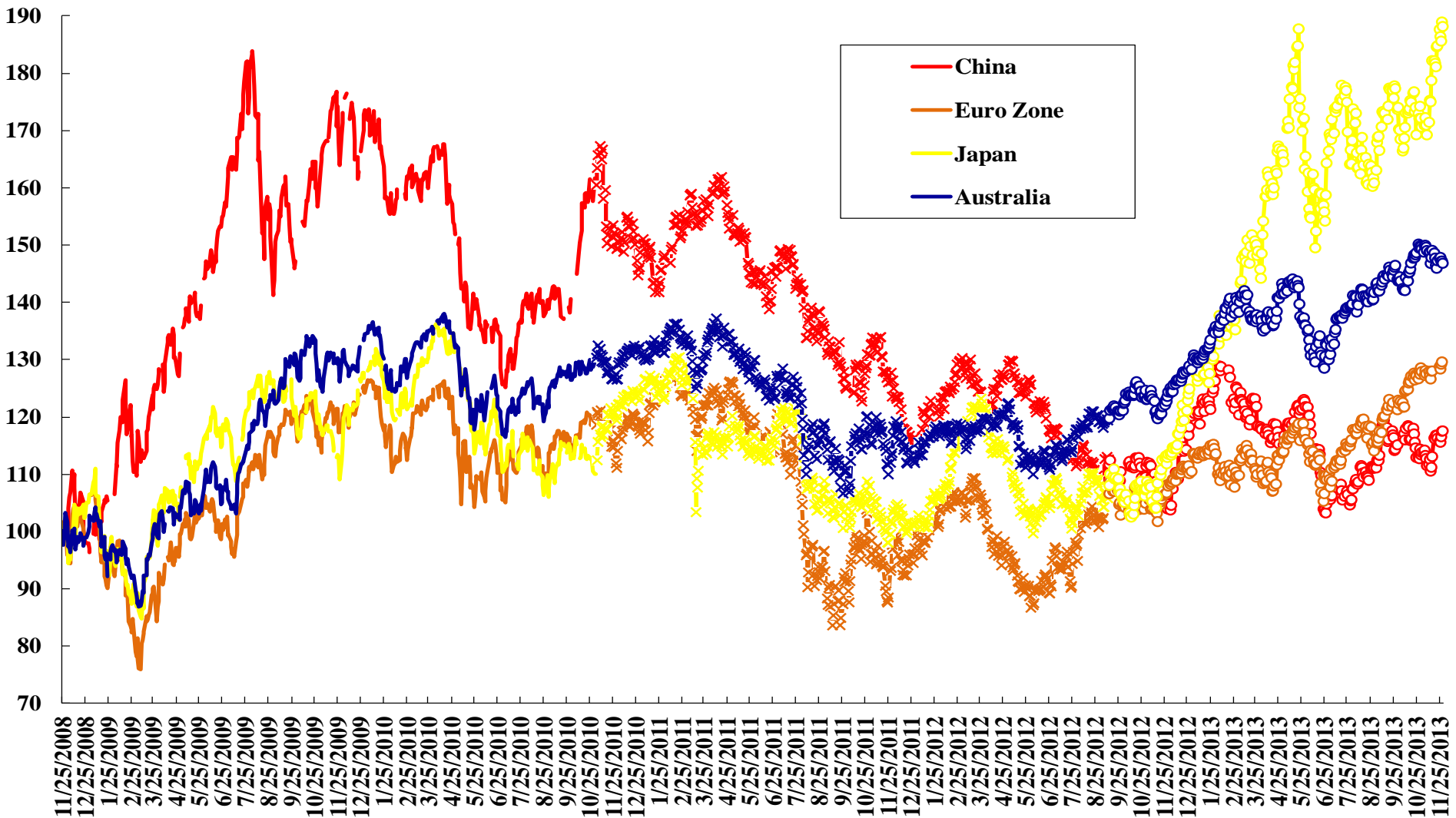
# Interest Rates of Selected Economies

Interest Rates of Selected Economies



# Stock Price Indexes of Selected Economies (11/25/2008=100)

Stock Price Indexes of Selected Economies (11/25/2008=100)







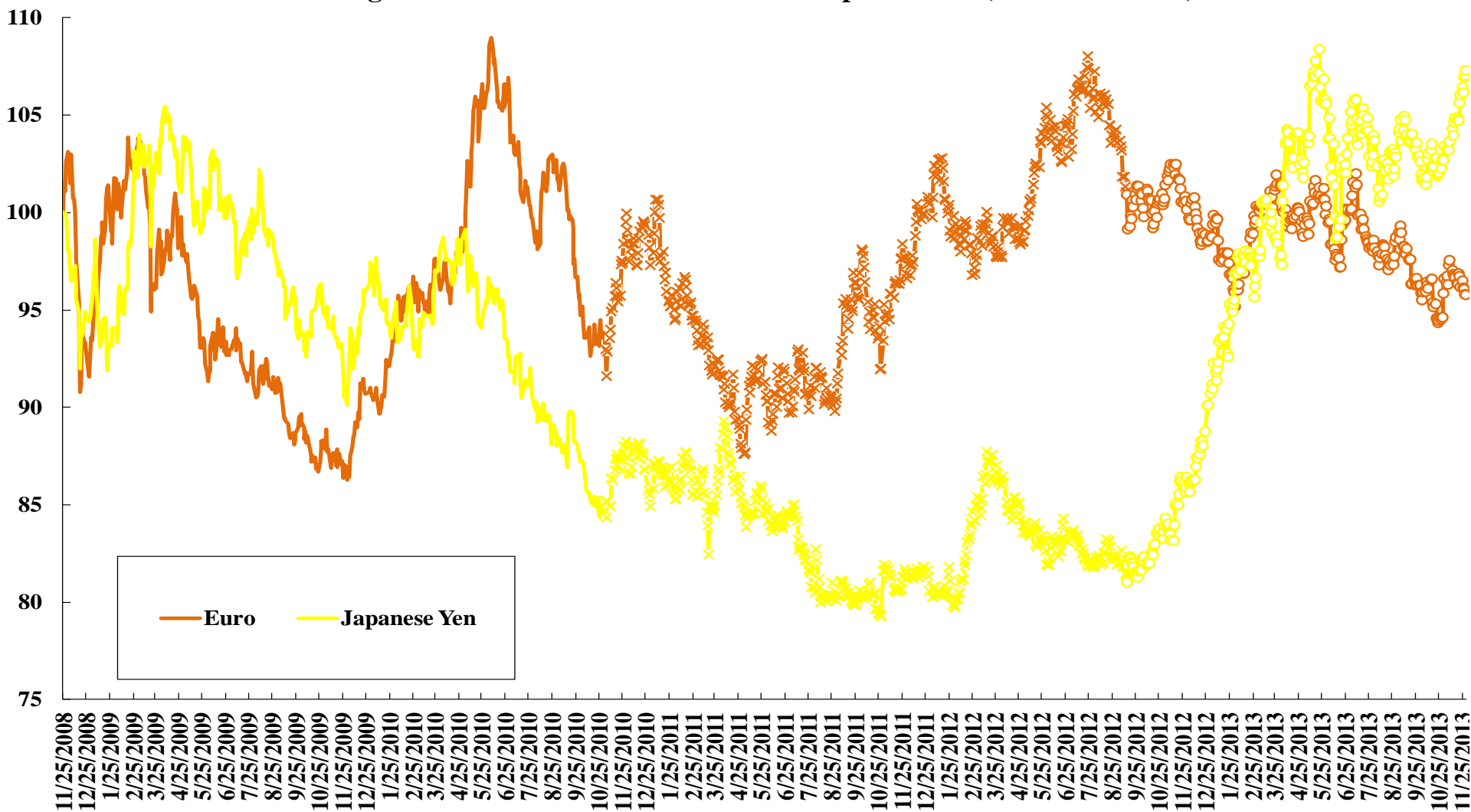
# Counter-Quantitative Easing by the Euro Zone and Japan 日本與歐元區反量化寬鬆

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- ◆ Japan, which saw its exchange rate rose to 75 Yen/US\$ from 100 Yen/US\$ as a result of the QEs, greatly hurting its exports, decided to launch its own “Counter-QE”, which was effective in driving the exchange rate of the Japanese Yen back to the 100 Yen/US\$ level.
- ◆ The Bank of Japan could have achieved the same result by intervening directly in the foreign exchange market to stabilise the Japanese Yen/U.S. Dollar exchange rate, but there was probably opposition to its direct intervention from the U.S. Government on ideological grounds.
- ◆ The Euro did not appreciate too much relative to the US\$ except during QE1 because of the sovereign debt and other economic problems within the Euro Zone itself.

# Exchange Rate Indexes of the Euro and the Japanese Yen (11/25/2008=100)

Exchange Rate Indexes of the Euro and the Japanese Yen (11/25/2008=100)



# To Taper or Not to Taper? 遞減還是不遞減?

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- ◆ “Quantitative Easing” has not been particularly effective in stimulating new investment, increasing real GDP or lowering unemployment in the U.S.
- ◆ That is why I argued previously that there would not be QE3 because it would not have been effective in improving the real economy in the U.S.
- ◆ However, there was QE3 and it was, as expected, not effective in stimulating the U.S. real economy. Thus, tapering and ending QE3 can only be a matter of time.
- ◆ In May, when the future leadership of the Federal Reserve Board was still uncertain, Chairman Ben Bernanke wanted the public to be prepared for a possible change in the policy.

# To Taper or Not to Taper? 遞減還是不遞減?

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- ◆ By September, it became clear that Vice-Chairman Janet Yellen would become his successor. But it was not the right time to begin tapering because of the uncertain economic environment created by Congressional bickering on the budget and the debt ceiling.
- ◆ There is still a small but finite non-zero probability that tapering may begin after the December meeting of the U.S. Federal Open Market Committee. However, the more prudent thing for the Federal Reserve Board to do is probably to wait until the budget and debt ceiling matters are settled in early 2014 before beginning tapering, just in case.

# What Could Have Been Done? 美聯儲還有什麼沒有做？

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- ◆ Instead of purchasing U.S. Treasury and agency securities during the QEs, the U.S. Federal Reserve Board could have offered to purchase say US\$600 billion worth of new medium and long-term bonds issued by the fifty individual states, approximately in proportion to their populations, the proceeds of which are to be used solely for the construction of new basic infrastructure or the major maintenance of existing basic infrastructure within the respective states.
- ◆ This could have created the aggregate demand necessary to make good use of the existing excess capacity in the construction and the construction material sectors as well as their idle workers in the U.S. It would have boosted both real GDP and employment across the board.
- ◆ Such an offer should be welcome by the governors of almost all states that suffer from sluggish economic recovery, high unemployment rates and budget deficits.
- ◆ Moreover, the purchase of such bonds would not require the approval of the U.S. Congress.

# Concluding Remarks 結語

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- ◆ QE3 has not had much effect on the real U.S. economy and hence will also not have much impact on the real U.S. economy when it is finally ended. However, it did lead to a rise in the prices of assets, especially financial assets, and a decline in the long-term interest rates, including mortgage rates, and hence a slight recovery of the housing market.
- ◆ The failure of “Quantitative Easing” to stimulate the real economy in the U.S. clearly demonstrated the limits of monetary policy acting alone.
- ◆ The QEs collectively, through the excess liquidity released to the rest of the World, have also enabled the U.S. Dollar to devalue relative to most other currencies in the World, helping U.S. exports. They have also led to temporarily lower interest rates and higher asset prices elsewhere. With the tapering and ending of QE3, these developments are likely to be reversed.
- ◆ In any case, the end of QE will only come gradually, through tapering, even though the effects of the ending of QE3 may be felt sooner because of changes in expectations.