

Unconventional Monetary Policy and Exchange Rates¹

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Abstract

Major central banks adopted various unconventional monetary policies after the global financial crisis. Bank of Japan (BOJ) adopted quantitative easing during 2001-2006 as well. This paper investigates the effects of these unconventional monetary policies on exchange rates using daily data.

We find that in some cases unconventional policies had a significant depreciating effect on home currency. For example, the Federal Reserve Bank (FRB)'s first quantitative easing (QE1) depreciated US dollar against Japanese yen by 0.8%, euro by 1.7%, and sterling pound by 1.4% on average. The Bank of England (BOE)'s quantitative easing and the Bank of Japan (BOJ)'s "comprehensive monetary easing policies" also had significantly depreciated home currencies against some foreign currencies. These quantitative effects are in contrast with those of the conventional monetary policy, for which we observe either insignificant or significant but very small impacts on exchange rates. On the other hand, the other unconventional policies by the FRB and the BOJ, as well as those by the European Central Bank (ECB), did not have a significant depreciating impact on home currency.

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