

Quantitative Easing's Spillover to EMEs and their response and outcome: using a New

Dataset

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Abstract

This study investigates the spill-over effects of US quantitative easing (QE) policies on emerging market economies (EMEs), with a special focus on EMEs' foreign currency borrowing between 2008 and 2014 in the face of QE-induced currency overvaluation and how EME governments curbed reactive excessive foreign currency borrowing to maintain financial stability. Rather than using Cerutti et al. (2015) and Shim et al.'s (2013) macroprudential index (MPI), the Worldwide Governance Indicators of the World Bank are used to focus on the scope and efficacy of policies that the existing MPI fails to capture.

The study finds clear evidence that EME governments with good governance took appropriate measures to curb foreign currency borrowing while their currencies were overvalued due to capital inflows from the US. This is consistent with the greater resilience of Asian EME economies, which score higher in government effectiveness compared with other EME countries (e.g., Brazil, Argentina). The results indicate the need to incorporate governance, especially regulatory effectiveness, when measuring the impact of macroprudential policies.