Quantitative Easing and Emerging Markets

Ravi Balakrishnan, Deputy Chief, IMF
North American Division
5th Annual CEMP-CIEPS-HKUST IEMS Workshop, April 24 2015
Disclaimer

The views expressed in this presentation are personal. They are not necessarily shared by the IMF, its Executive Board, or its management.
Spillovers from QE

• Many facets to this (see our recent spillover reports, US Article IV reports, and other recent policy papers for more detailed coverage).

• One paper here focuses on the impact of the taper tantrum on the cost of external funding for banks in Brazil and how it filters through the branch system.

• The second looks more at capital account and asset price spillovers from the taper tantrum in the case of India.
Brazil

• Interesting analysis and a novel approach, using detailed branch level data.
• The rich data set provides the potential to test out other hypotheses. For example:
  
  – Table 1A: mean assets are 968.38 mn, median is 29.23 mn, and the 90th percentile is 204.61. Implies distribution is incredibly skewed. Be interesting to see if the impacts also varied by the size of bank (e.g. see if taper effects differ for the top decile—which has most of the assets—versus the bottom ones).
  
  – Interesting result that government banks borrowed more in the interbank market following the taper tantrum—worth trying to explain this in more depth (paper earlier highlights the potential importance of the different development objectives of government banks).
  
  – taper tantrum is an nice natural experiment. But there have been other liquidity shocks that could be used to compare with this (e.g. late 2011 when troubles in the eurozone escalated).
India

• Paper takes a comprehensive look at the macro/financial developments and policy reaction following the taper tantrum.

• Can’t disagree with bottom line that building up buffers and reducing vulnerabilities will help deal with future external liquidity shocks.

• Not so sure about generalizing the conclusion that large and liquid financial markets suffer more—depends what we mean by suffering and how we define depth.
India: Be useful to compare the macro vulnerabilities of economies with similar degrees of market depth—why were India and Brazil so different?
India: other key issues

- Depth indicators seem to focus on stock market. Result may not be so clear when looking at bond market depth.
- Be useful to look not just at market depth, but foreign investors share of portfolio assets.
- Regressions which use private external financing as market depth may really be capturing sustained current account deficits (e.g. Table 5).
Larger bond markets better absorb inflows?

Change in Nonresident Bond Holdings and Long-Term Bond Yields
(Between June 2009 and November 2010)

Sphere represents the size of bond markets in June 2009 (in U.S. dollars)

Ten-year government bond yields (change in basis points)

Share of nonresidents in bond market (change in ppt)
No clear l-t relationship between foreign participation and volatility

Foreign Participation and Yield Volatility


- Hungary
- Poland
- Czech Republic
- Indonesia
- Korea
- Thailand
- Malaysia
- Mexico
- Brazil
- Turkey

y = -1.8634x + 15.028
R² = 0.0387

Source: IMF staff estimates.