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Quantitative Easing Policy and Ways to Benefit from it: Presentation of Experiences of Some Countries

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Abstract: This research paper aims to shed light on one of the unconventional monetary policy tools that have been employed in numerous countries to mitigate crises, namely, the policy of quantitative easing, and the ways in which it can be utilized. This is done by presenting some of the experiences of countries that adopted this policy to resolve certain economic crises, which led to the bankruptcy of major commercial banks. Through this study, it became clear that this tool succeeded in helping some countries avoid economic recession, while in other countries, it exacerbated the economic situation. From these experiences, it was concluded that quantitative easing does not yield consistent and definitive results regarding its effectiveness in addressing economic crises, especially inflation and interest rates, as the effectiveness of this tool depends on the nature of the economy in the country where it is applied.

Keywords: Quantitative Easing, Unconventional Monetary Policy, Economic Crises, Policy Implementation, Crisis Management.

1. Introduction

When the economy enters a phase of economic contraction, or when it is hit by a financial or banking crisis, the central bank resorts to unconventional monetary policies for economic institutions and the productive sector. After the financial crisis exploded in late 2008, central banks in advanced countries were forced to turn to implementing a set of unconventional methods and measures such as zero interest rate policy, quantitative easing, and other unconventional monetary policy initiatives. Quantitative easing policy is considered a tool among the modern tools of traditional monetary policy that are resorted to in crises and times of abnormal circumstances. Monetary policy either targets the money rate by using tools that lead to raising or lowering interest rates, according to the requirements of economic activity. When the interest rate changes, its impact is transferred to economic activity (aggregate demand) through the interest rate channel, which is responsible for transmitting the effect of the interest rate change to aggregate demand, and consequently to growth rates and employment. Alternatively, monetary policy may target the quantity of money circulating in the economy, and quantitative easing is the most appropriate approach.

1.1 Research Problem

The problem of this study can be formulated in the following main question:

"What are the key measures and actions that characterized the various international experiences in applying the policy of quantitative easing? And what are the main lessons learned from them?"

The following sub-questions fall under this problem:

- What is quantitative easing policy?
- What are its implications on the economies of countries that implement it?
- Was the policy of quantitative easing an alternative solution in addressing crises for the economies that implemented it?

1.2. Research Aims

Defining quantitative easing policy and highlight its importance., and showcase the most successful experiences of countries in implementing this policy.

1.3. Research Hypotheses

To address the previous problem and the questions derived from it, the following hypotheses were proposed:

- It is an unconventional monetary policy in which the central bank uses printed money to purchase financial securities, aiming to achieve several objectives, including raising the prices of securities due to increased speculation and enhancing the ability of commercial banks to provide liquidity.
- It is considered a complementary tool to monetary policy, not an alternative solution.
- Some countries achieved positive results and emerged from the crisis, while others experienced negative effects on their economies.

1.4. Research Importance

The significance of this research lies in the fact that quantitative easing is a modern tool for overcoming economic crises. Its importance is evident for governments in various countries to correct their economic situations, especially in an era marked by an increasing number of economic crises due to the integration and interconnection of different economies.

1.5. Research Objectives

- To define the policy of quantitative easing and its importance.
- To highlight the most successful international experiences in implementing this policy.

1.6. Research Methodology and Research Tools

To achieve the study's objectives and address the problem, the descriptive method was adopted to present the various definitions and concepts related to the policy of quantitative easing. Additionally, the analytical method was used by analyzing the results of some countries' experiences that applied this policy.

1.7. Literature Studies

- Study by (Adel & Mohammed, 2021): This study involved an analysis of some international experiences with quantitative easing, focusing on key results and lessons. It aimed to introduce the tool of quantitative easing, its origins, nature, and components, as well as the mechanisms and programs implemented by developed countries in applying quantitative easing. The study reviewed the effects of the program's implementation on the European economy (ECB), the experience of the United Kingdom, and the Bank of England's program in applying quantitative easing. It also discussed the experiences of some developing countries, highlighting its impact on easing inflation and controlling interest rates.

- Study by Fawley & Nelly (2013): These studies aimed to analyze quantitative easing programs in developed countries, concluding that they initially sought to alleviate the financial market crisis, later expanding to include inflation control, stimulating the real economy, and containing the European sovereign debt crisis. They found that both the European Central Bank and the Bank of Japan focused their programs on direct lending to banks, while the Federal Reserve and the Bank of England expanded their monetary bases by purchasing bonds. They predicted that the optimal exit strategy would involve the Federal Reserve beginning to purchase long-term Treasury bonds, followed by halting the purchase of mortgage-backed securities.
- Study by Ahmed Daif (2021): Titled "Quantitative Easing Policy as a Mechanism for Unconventional Financing (The Algerian Experience Compared to Some International Experiences)," this study included the American experience and the stages of implementing quantitative easing in the United States, which yielded beneficial results. It worked to reduce long-term interest rates, thereby increasing market liquidity in the U.S. and in emerging countries whose financial markets are linked to the U.S. financial market.

2. The Theoretical Framework of Quantitative Easing Policy (Literature review)

The topic of quantitative easing policy has attracted increasing attention from economic thinkers, policymakers, and decision-makers in most countries. To encompass the aspects of this axis, it has been divided into the following parts.

2.1 Historical Background of Quantitative Easing Policy

The emergence of quantitative easing policy dates back to the Great Depression of 1929-1933, where it was first implemented in 1932 by President Roosevelt of the United States. It involved printing a monetary mass without a counterpart in the Federal Reserve's budget, to inject it into the US economy as a measure to mitigate the panic crisis affecting American banks due to deposit withdrawals by economic agents. However, what distinguishes the implementation of quantitative easing during this period is that it was applied for the first time in human economic history without an intellectual background, meaning it was implemented without an economic theory. It came during the abandonment of the gold exchange monetary system in 1932 and the transition to the free issuance system, which required monetary mass coverage and had no limits on paper currency issuance. Some economists focus on the extent to which central banks worldwide resort to implementing quantitative easing as a non-traditional tool of monetary policy, which expanded its use with the bursting of the dot-com bubble in 2000 and thereafter. Quantitative easing was used alongside a low-interest rate policy, in an ideal combination to address the economic contraction caused by the dot-com bubble burst, the 9/11 attacks in 2001, and the US trade deficit with China and the 2001 recession. This led the Federal Reserve to keep interest rates low for longer periods, as typically highlighted by economic contractions, making the combination of low-interest rates and quantitative easing the optimal combination to confront economic contraction in the United States (Hani & Wa'il, 2018, p. 253).

2.2. Concept of Quantitative Easing Policy

Quantitative easing policy entails a range of definitions and characteristics, as follows:

2.2.1 Definition of Quantitative Easing Policy

There are multiple and varied definitions of quantitative easing policy, reflecting different perspectives on this policy and its application. The most important definitions include:

Quantitative easing is "a tool of non-traditional monetary policy used by central banks in times of crises to stimulate the national economy when traditional monetary policies become ineffective. It involves creating money from nothing, with the aim of increasing the monetary base in the economy and using it to purchase government bonds from financial institutions, while keeping interest rates low (close to zero). In return, these institutions use this increase

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in lending operations and credit expansion, leading to a multiplier effect in money creation and thus revitalizing the real economy" (Yahia, Zair, & Mahfouz, 2020, p. 248).

It is also defined as "a tool of modern monetary policy where the central bank purchases bonds to increase the money supply" (Abdelkader & Fatiha, 2016, p. 12).

The central banks directly inject funds into the economy by purchasing government bonds and other significant bonds in the economy, relieving them of the financial burdens associated with their credit schedules. This enables companies to invest and grow, and countries to spend in economic sectors. Typically, the central bank that purchases the bonds later sells them after an economic improvement occurs, potentially profiting when the economic cycle rebounds (Farid, Zuhair, & Fateh, 2019, p. 195).

From the above definitions, it becomes evident that implementing quantitative easing policy requires two steps. The first step involves the central bank purchasing government bonds from commercial banks and other financial institutions. This leads to an increase in bond prices due to increased demand, consequently resulting in long-term interest rates falling. The second step involves issuing short-term debt instruments and expanding the monetary base through currency issuance.

2.2.2 Characteristics of Quantitative Easing Policy

Quantitative easing possesses several characteristics, the most notable of which include (Boujellal & Dib, 2019, p. 250).

Quantitative easing is not considered a single tool, as mentioned in many definitions, but rather a set of multiple tools used within a long-term plan.

- Quantitative easing is resorted to in dire situations such as financial and economic crises, as was the case with the major central banks after the 2008 crisis.
- The financial assets purchased by the central bank within the framework of quantitative easing include government bonds as well as other assets like mortgage-backed securities and financial institution debt.
- Reducing interest rates is an intermediate goal that mediates the relationship between intervening in the financial market through open market operations and achieving the ultimate economic goal of supporting macroeconomic indicators, foremost among them stimulating economic growth

2.3 Objectives of Quantitative Easing Policy:

Central banks aim to achieve three primary objectives through the use of the quantitative easing policy tool, as follows (Doudou & Abdelrazak, 2020, p. 355).

- Increasing the amount of money circulating in the market: This is done to meet the demand for cash by economic agents, which cannot be met under normal circumstances due to the instability of cash in the short term. During financial crises, it can be utilized as central banks are prepared to inject limited amounts of money. Money supply is directed towards the government as it is the only economic agent expected to spend this money to address budget deficits.
- Impacting the reduction of interest rates: The central bank commits explicitly to keeping interest rates extremely low, even to the point of zero, for an extended period with the aim of achieving specific goals such as a certain level of inflation.
- Removing liquidity constraints in loan markets: This is achieved by directly purchasing bonds, which leads to an expansion of lending to the economy. The purpose of this process is to revitalize the bond market and provide direct funding to the economy.

2.4 Effectiveness of Quantitative Easing Policy and Its Conditions

However, what distinguishes this tool is its effectiveness only in cases of economic recession, aiming to promote economic growth, with the condition that the inflation rate be less than 2%. This is because the circulating money supply has no counterpart at the central bank, making it.

Inflation constitutes a risk, and quantitative easing stipulates that the money supply should be directed to economic agents to stimulate investment and consumption. It should not merely result in profits for bank employees and major financial institutions, which the government must rescue as they are vital to the economy. Additionally, the policy should consider the usage of this tool by trading partners to avoid currency wars or destructive protectionist policies, as quantitative easing essentially devalues the currency, necessitating a similar devaluation by trading partners to prevent economic growth from being stolen due to this process (Hani & Wa'il, 2018, p. 225).

2.5 Channels of Impact of Quantitative Easing Policy on the Economy (Saoudi & Bousdira, 2015-2018, p. 376)*:*

- Portfolio Balance Channel: This tool assumes that financial assets are not absolute substitutes for each other in investors' portfolios. Therefore, changes in the net supply of these assets to investors affect the yield rate they achieve and the alternative financial assets available to them. When the central bank purchases long-term bonds, it reduces their yield rates due to decreased supply, leading to their higher prices. This prompts investors to purchase similar bonds with comparable risk and maturity characteristics, reducing interest rates on other assets and increasing lending volume.
- Scarcity Channel: Increased purchases of long-term assets, primarily government bonds, lead to their price increase compared to other assets, affecting bond supply stability. This encourages investment in the real economy, especially since this channel is part of the portfolio channel but includes only long-term assets.
- Signaling Channel: Quantitative easing aims to reduce long-term interest rates and the necessity to print money for the real economy.

3. Presentation of Some Countries' Experiences in Quantitative Easing Policy

3.1 The American Experience

As a result of the severe impacts of the subprime mortgage crisis on the US economy, the US government swiftly took numerous measures. This included the formulation of the US rescue plan by Treasury Secretary Henry Paulson. This plan allowed the US government to purchase toxic assets associated with mortgage-backed securities worth $700 billion. This marked the largest government intervention in financial markets since the Great Depression of 1929-1932. The aim of this plan was to provide the necessary liquidity to prevent the collapse of the global financial system. Additionally, it aimed to secure better protection for savings and real estate assets belonging to taxpayers, encourage economic growth, and increase investment returns.

The main objectives of the US Federal Reserve's quantitative easing policy included (Doudou & Abdelrazak, 2020):

- Increasing confidence in the performance of the US economy and improving its indicators, especially in the labor market and economic growth.
- Supporting the labor market and combating inflation.
- Initially reducing bond purchases with continued sequential reductions until the end of 2015, with an expected complete cessation of bond purchases and an increase in the supply of the dollar instead of a rapid withdrawal from quantitative easing policy.
- Targeting a zero-interest rate, with the targeted interest rate remaining between 0% and 0.25%, aiming to continue raising lending levels and increasing investment spending until the end of 2015.

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3.2 Stages of Implementing the Quantitative Easing Policy in the United States

The stages can be summarized in the following table:

Program	Start Date	End Date	Program Details
First Program QE1	25/11/2008	31/03/2010	Purchase of $1.25 trillion in mortgage-backed securities, including $200 billion in mortgage securities and $300 billion in treasury bonds
Second Program QE2	30/11/2010	30/06/2011	$600 billion in long-term treasury bonds
Maturity Extension Program	21/09/2011	31/12/2011	$667 billion in long-term U.S. treasury bonds
Third Program QE3	13/09/2012	29/10/2014	$1.5 trillion in U.S. treasury bonds and mortgage-backed securities

Source: (Daif., 2021, p. 355).

Through the stages that the United States followed in implementing the quantitative easing policy, it is clear that the U.S. Federal Reserve injected more than $4 trillion, starting from 2008 until October 2014. This operation was considered the largest monetary expansion ever undertaken, with the Federal Reserve beginning to reverse the policy after the end of 2014 by gradually raising interest rates. This was achieved by encouraging commercial banks to reduce the volume of loans granted and increasing the legal reserve ratio held by commercial banks.

Quantitative easing had effects not only on the U.S. economy but also on the global economy. This policy led to a reduction in long-term interest rates due to the increase in financial assets purchased by the U.S. Federal Reserve, which in turn increased liquidity in the U.S. market and in emerging markets with financial systems linked to the U.S. financial market. This caused a collapse in the exchange rate of the U.S. dollar against the currencies of these countries. Another positive aspect of this policy was price stability in the United States, despite the fact that such policies often trigger inflationary waves. From the above, it can be concluded that the U.S. experience with quantitative easing was successful due to the positive impacts it generated and that it played a significant role in resolving the 2008 financial crisis (Daif., 2021, p. 336).

3.2 Japan's Experience:

Due to the collapse in overall price levels following the burst of the bond market bubble, leading to an economic recession in Japan, the Japanese government reduced the interest rate to 0.5% in 1995. This was achieved through unconventional monetary policy implemented by the Bank of Japan but at a slow pace. By 1999, the interest rate had reached 0.03%, and in early 2000, the decision was made to reduce the interest rate to 0%. Subsequently, in March 19, 2001, quantitative easing policy was adopted for the first time as a tool to address this contraction. Its primary goal was to prevent deflation and support economic growth.

During the period of quantitative easing from 2001 to 2006, the Bank of Japan pledged to continue quantitative easing until the annual rate of change in the Consumer Price Index stabilized at zero or higher. However, these policies were insufficient to overcome the contraction. One possible reason is that the natural interest rate had decreased more than expected. Additionally, the commitment at that time may have been somewhat ambiguous, and the targeted inflation rate was very low, making the policies inadequate to raise inflation expectations.

After March 2006, interest rates turned positive due to the Bank of Japan's decision to raise the interest rate twice in light of favorable developments in economic activity and prices, from 0% to 0.25% in July 2006, and to 0.5% in February 2007. This rate was maintained until October 2008. The 2008 crisis severely hit Japan's exports, leading to a 5.6% decline in GDP in 2009. On May 10, 2010, purchases of Japanese government bonds were announced JGBS, Securities, corporate bonds, exchange-traded funds (ETFs), Japanese real estate investment trusts (J-REITs), and the total planned purchases amounted to 76 trillion Japanese yen by the end of 2013. In April 2013, Japan adopted the Quantitative and Qualitative Monetary Easing (QQE) policy, instead of the Comprehensive Monetary Easing (CME) policy adopted in 2010, which was more aggressive. This involved purchasing 80 trillion yen annually of government bonds, compared to the previous 50 trillion yen, and 3000 trillion yen of ETFs in the Japanese stock market, compared to 1000 billion yen previously. In September 2016, the Bank of Japan decided to support the QQE policy with another new policy known as "yield curve control." The bank took four measures, including keeping the short-term interest rate unchanged at 0.1%, promising to maintain yields on ten-year bonds at their current level of 0%, and also decided to continue purchasing around 8 trillion yen of Japanese government bonds annually, which it saw as sufficient to maintain long-term interest rates at zero. In addition, the bank promised to continue its purchases until the core inflation rate exceeded the targeted 2% and remained at that level for a long period. By the end of May, the Bank of Japan's public budget exceeded 500 trillion yen, compared to425.7 trillion yen in 2016, roughly the same size as the Federal Reserve's reserves, nearly tripling since the start of strong stimulus in 2013. The pace of asset purchases by the Bank of Japan sharply slowed in 2018 to an annual rate of about 45 trillion yen, despite the official commitment to annual purchases of about 80 trillion yen (Nadia & Basma, pp. 152-153).

3.3 The European Experience with Quantitative Easing Policy

Following continuous hesitation since 2009, the European Central Bank finally approved the "Quantitative Easing" program to extricate Europe from the depths of economic recession, where unemployment rates soared, growth stagnated, and investments dwindled, leading to emigration. The European QE program involves purchasing government bonds, particularly with an overall value of around one trillion euros. Its aim is to stimulate economic growth in the Eurozone and counteract the significant downturn, which reached 0.2% in December 2014, by injecting funds directly into the treasuries of Eurozone governments through purchasing debt bonds to help them increase spending. Additionally, the program also involves purchasing bonds from key and significant corporations in the Eurozone economies, thereby enabling them to one important aspect of this program is that it will expand the money supply, effectively leading to a depreciation of the euro. This depreciation will subsequently increase the competitiveness of European goods throughout the current year, thereby boosting exports. Additionally, the Bank of England has also intervened in quantitative easing by deciding to purchase government bonds worth £100 million (approximately $160 million) to support economic growth in the British economy. This comes at a time when the British government is undergoing its largest public spending reduction since World War II, due to record-level budget deficits. However, such measures during a crisis are deemed inappropriate as they could potentially lead to a double-dip recession. To avoid this scenario, the Bank of England is attempting to stimulate the economy through these measures, aiming to restore its balance. This decision is part of a larger stimulus plan for the economy (Ali, p. 172).

4. Lessons Learned from the Application of the Quantitative Easing Mechanism

- The study revealed that the success of the quantitative easing policy depends on the nature of the economic structure of the country in which it is applied. In industrialized countries, this policy enabled the stimulation of demand, increased exports, and thus higher revenues, which improved their economic indicators. Conversely, in countries with weak production systems, both external debt and budget deficits increased, negatively affecting GDP, unemployment, and inflation rates, which reached alarming

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levels.

- The implementation of the quantitative easing policy requires certain conditions, the most important being that the economy is in a state of economic contraction with low inflation rates, and that the production system is flexible and capable of absorbing the increased money supply.
- The essential condition for printing money is that it must be done in a manner that aligns with the economic performance of the country, meaning its production of goods and services. The higher the productivity, the more the economy can absorb larger amounts of additional money.
- It is essential to safeguard against the negative impacts that may affect other economies around the world as a result of economic globalization.

5. Conclusion

Quantitative easing policy is one of the most important tools of monetary policy, representing a non-traditional instrument used to prevent economies from entering a state of economic contraction. However, this policy has specific conditions that must be met in reality before its implementation to achieve the desired positive effects. Alongside other stimulus programs, quantitative easing has significantly improved credit market conditions and led to clear increases in growth rates, ultimately pulling the U.S. economy out of recession. The methods and results of implementing quantitative easing have varied from one country to another. While the United States is considered a successful model of this mechanism, Japan and the European Union are seen as examples of its failure. This disparity can be attributed to several factors, including the availability of basic conditions for implementation, the speed and effectiveness of policy implementation, and a focus on increasing consumer spending by supporting purchasing power for individuals and households.

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