Spillovers from Japan’s Unconventional Monetary Policy to Emerging Asia: a Global VAR approach

by Giovanni Ganelli and Nour Tawk
IMF Working Paper

Regional Office for Asia and the Pacific

Spillovers from Japan’s Unconventional Monetary Policy to Emerging Asia: a Global VAR approach

Prepared by Giovanni Ganelli and Nour Tawk

Authorized for distribution by Odd Per Brekk

May 2016

Abstract

We use a Global VAR model to study spillovers from the Bank of Japan’s quantitative and qualitative easing (QQE) on emerging Asia. Our main result is that, despite an appreciation of their currencies vis-à-vis the yen, the impact on emerging Asia’s GDP tended to be positive and significant. Our results suggest that the positive effect of QQE on expectations, by improving confidence, more than offset any negative exchange rate spillover due to expenditure switching from domestic demand to Japanese goods. They also suggest that spillovers from QQE might have worked mainly through the impact of expectations and improved confidence, captured by increases in equity prices, rather than through balance sheet adjustments which might have been captured by movements in the monetary base.

JEL Classification Numbers: E5; E52; E58

Keywords: QQE; Spillovers; Emerging Asia; Japan Author’s E-Mail Address: gganelli@imf.org; ntawk@imf.org

1 We would like to thank Elif C. Arbatli, Dennis Botman, Odd Per Brekk, Qianying Chen, Luc Everaert, Gee Hong Joong Shik Kang, Purva Khera, Juan Martinez, Colin McKenzie, Naoko Miyake, Yoshino Naoyuki, Masao Ogaki, Jack Ree, Niklas Westelius, Sun Yan and the participants in an IMF JISPA seminar for their helpful comments on this working paper. We would also like to thank Alessandro Galesi and Vanessa Smith for their technical help with the GVAR Matlab toolbox.