



LET'S TALK ABOUT...

FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

QE

The term QE, which is being more and more mentioned in the media, is the acronym of “quantitative easing”, that is the series of operations a central bank carries out under special financial and economic conditions. QE is a “non conventional” measure, in that it comes beyond the normal and traditional tools a central bank has at its disposal: increasing or cutting discount and reference rates, setting the level of reserves for commercial banks and entering the “open market” by purchasing or selling government bonds in order to fuel or drain liquidity.

QE operations have wider scopes as they come when difficult if not dramatic conditions arise, so to make ordinary monetary policy ineffective.

The initiator of this kind of moves was the Federal Reserve, which through its QE1 printed and injected a lot of cash, taking Treasuries as collateral, in the aftermath of the September 11 terror attacks. Then a QE2 phase came, after the subprime crisis, the breaking of Lehman Brothers and the related storming sequels, but in that new wave of non conventional operations the Fed again was to “produce” huge amounts of liquidity, but absorbing “toxic” or at least questionable securities in terms of their market evaluations and negotiability. Since then the ultra-expansive policy has never ended, despite the empty wishes of “exit strategies” and the aim of making markets and economic scenarios come back to normality. Now, new worries and turbulences force the Federal Reserve to revive a QE3, so to flood the market with fresh liquidity and further expand its balance sheet. But QE operations are not exclusive of the Washington’s Fed: other central banks have followed its innovative stance and even the European Central Bank, despite its initial reluctance, has been obliged to submit to the fresh stormy financial and economic scenarios, so heavily financial the banking systems in many European countries and purchasing more or less “questionable” sovereign securities, such as the Greek, Spanish and Italian bonds. However QE “intensive therapies” may become habit forming, just as any drugs which is taken in large doses for too long, and may distort financial equilibriums and fuel bubbles, moreover creating inflationary, if not even hyper-inflationary potentials on the longer term. -

GLT

The views expressed are not necessarily those of the Swiss Association of Asset Managers
