Quantitative Easing in the Context of Covid-19

H Mathew
K. J Somaiya College of Arts and Commerce, India
hazel.mathew@somaiya.edu

To explain in simple words, QE is one of the monetary policies, where the Central banks purchase government bonds or other asset securities from Commercial banks with the newly created money. Now, as the Commercial banks are paid with the new money, they can use this money to loan it to potential businessmen and investors at a lower interest rate or at 0%. QE policy is only used by a country at the time of economic crisis in the country. This policy helps to boost the businesses with a healthy circulation of money in a domestic economy. This policy was first implemented by Japan in 2001. In 2008, the US adopted this policy to fight the financial crisis in the country. The financial crisis wasn't just limited to the US, it affected all countries and every market causing the Global Financial Crisis (GFC). Many countries implemented the policy to cope with the economic issues of the countries. Like, the UK in March 2009 and the Eurozone in 2015. As mentioned earlier, QE helps in keeping the interest rates lower in a country for the short or medium-term to keep a good functioning economic cycle. QE affects other financial instruments in the same way. Bonds, as we know, are bought by the Central bank. Thus, an increase in their value, causing yields to stay lower. An increase in the supply of money devalues the currency, which is preferable to a country for exports. QE also causes inflation in a country, because the increase in the supply of money in the economy is not due to an increase in production, but because of purchasing bonds with printed money. This, policy as we can see today is used by almost every country to deal with their economic problems caused by the Covid-19 Pandemic. Though, there are talks of tapering in the news. The policy is still working to support the economy.

Keywords: *Central Banks, Covid-19, Economic Crisis*