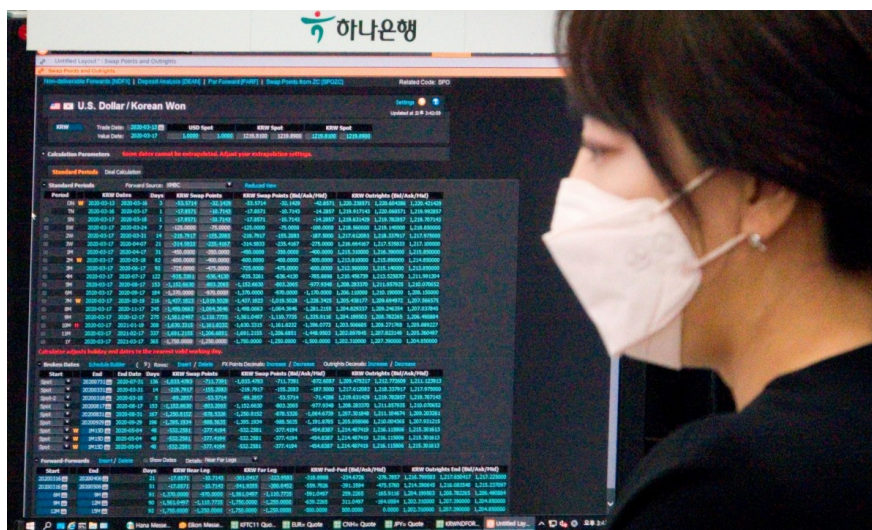


# QE in emerging markets: The unconventional risks

Central banks typically engage in bond buying as a last resort, when the official rate has hit zero. Not in emerging markets. Here, some central banks have dived into QE programmes with rates well above zero. So what's the effect? **This article is taken from our full report which you can download [here](#)**



A currency dealer in South Korea

## Doing QE the EM way

Central banks typically engage in bond buying as a last resort – when the official rate has hit zero. Not in emerging markets. Here, some central banks have dived into QE programs with rates well above zero. The dominant rationale centres on a desire to stabilise markets as fiscal pressures build, typically pandemic-related. In many cases it is sterilised, or mopped up through bills issuance, but not always. In the end, additional money is being printed through central banks bond buying. We survey the risks. There are some. Some central banks have quite large programs, others are engaging in QE from an already vulnerable state. Then again others are small and reversible. One thing is sure; they need monitoring

## Quantitative Easing programs ongoing in Emerging Markets

These are our estimates of what EM central banks are doing in terms of QE size

% GDP	Poland	Croatia	Chile	Hungary	Turkey	S Africa	Romania	Indonesia	Colombia	Philippines
QE done	4.5	4.0	2.6	0.5	1.2	0.6	0.3	0.9	1.1	0.3
QE target	9.5	8.0	4.0	3.0	2.0	2.0	1.5	1.5	1.1	0.4

Source: ING estimates

### Emerging markets are different

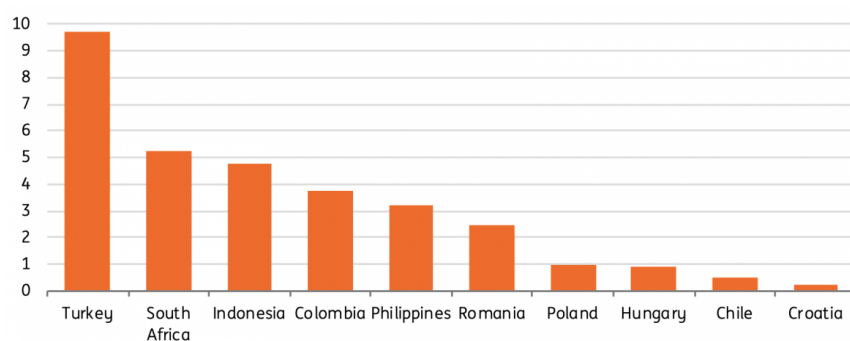
QE is the equivalent of printing currency. Printing more currency increases its supply, and should therefore lower its price. The US and other core central banks have managed to execute QE without a material adverse effect on FX, partly as their underlying currencies are underpinned by a muscle memory of relative macro stability. The USD is of importance here. It is the global reserve currency, and we find during times of crisis that there is excess demand for it. That's a luxury position from which to execute QE. The likes of the EUR and the JPY tend to trade as a stationary series around the USD on their respective crosses – big swings, but typically mean-reverting. And since they are all at QE there isn't much for them to depreciate against.

But emerging markets are different. Here FX rates are trending, typically reflecting wider inflation differentials, on top of the tendency for capital flight when policy wobbles, which in turn produces echoes and overshoots. Now throw in a dose of QE and you have a further excuse for vulnerability. The question is, to what extent are risks being run.

### Jumping in at the deep end

For emerging markets (EM), the Quantitative Easing (QE) button has been pushed with rates well above zero in many cases (Figure 2). None of the central banks in question went in to QE with rates actually at zero, although Croatia and Chile were practically there, and Poland has gotten there belatedly.

### Policy rate obtained when QE was enacted (%)

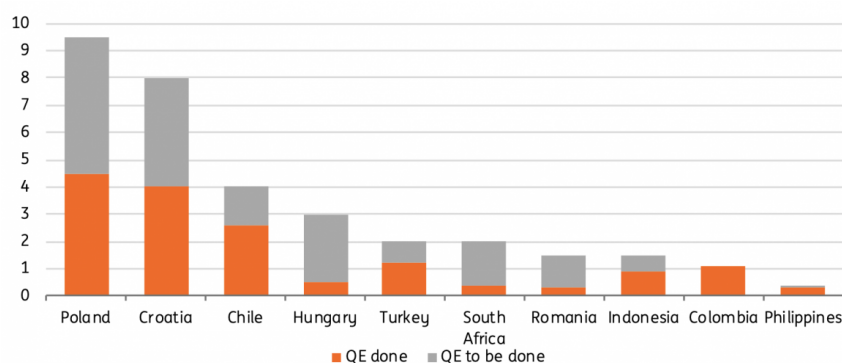


Source: ING estimates

### QE impact partly depends on the starting point

Emerging market central banks that have kicked off QE are a real mixture of players. Many of the central banks are not telling us how much they are doing, or indeed intend to do. Below is a combination of what is known plus estimates.

## Size of QE programs in EM (% GDP)



Source: ING estimates

## Country comparisons

At one extreme of the credit spectrum is **Poland**, and probably Israel. These central banks are buying government bonds and are unlikely to cause too much consternation for their markets, provided macro stability is maintained. That said, Poland, in particular, is not invulnerable by any means. It runs a risk by virtue that it is running the biggest QE program in EM space, potentially posing FX risks at some point in the future.

**Hungary** comes after that. Here policy here is aimed at financial market stability with a dose of yield curve control to aim fiscal management. A central goal is to be able to control the long-end of the yield curve, providing cheaper, less volatile funding for the Hungarian budget. It is not significant in size, but also far from insignificant.

Then comes **Chile**, which is largely providing bank support through loans; theoretically equivalent to bank bond-buying, but baby steps in QE terms. And **Colombia** which is buying corporate bonds (but just out to 3 years). Meanwhile, **Brazil** is paving the way to make QE possible, but there is no certainty they would employ it. It is tempting now as market rates have fallen, but more tempting should conditions re-deteriorate.

Then we have the likes of **The Philippines, Indonesia** and **South Africa**. They are all buying government bonds. The sizes here range from small to unspecified, with the largest vulnerability attached to the latter. The likes of South Africa buying bonds right along the yield curve for unspecified sizes is great for the short term as there is a big buyer in play but poses risks from a medium-term perspective. At the other end of the scale, the Philippines is only buying out to 6 months in maturity, just toe-dipping.

That said, even where QE is short-dated or small in size, it is also a starting point to potentially expand from. For more grandiose QE projects, statements are being made. **Romania** is one of those names that has re-established credibility in the past decade and has been rewarded with a return to investment grade. But it is now in a vulnerable phase, where there is a rating threat.

Apparent ability to control the currency helps, but a step too far into the temptation of QE runs risks. Should QE go on for a period of time without an FX reaction, that does not mean there will not be one. Reaction can still come in an exaggerated way at a moment of future vulnerability. The fact that this has not happened so far does not mean it won't happen; stuff like this tends to build until it gets to a "sit up and notice" moment.

Download our full report [here](#)

## Author

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).