Abstract

The global financial and economic crisis warranted authorities to pursue extraordinary policy measures including fiscal stimulus and excessive monetary accommodation. Particularly, central banks in many countries resorted to conventional monetary policies exhausting the entire monetary arsenal, and they also adopted unconventional monetary policies including quantitative easing. These policies have resulted in positive impacts by way of restoring financial markets, ensuring stability in financial systems, mitigating the adverse impact of economic recession and also supporting the recovery process. However, the undue expansion in balance sheets of central banks and resultant increases in monetary bases due to the adoption of extraordinary policy measures pose several risks in different dimensions. Particularly, the continuation of such policies influences the key mandate of central banks, i.e. achieving and maintaining price stability. This study points to possible pressures on price levels due to the adoption and also the continuation of unconventional monetary policies, particularly in advanced countries. In addition, this study examines possible break down in the key channel of monetary transmission mechanism, i.e. interest rate channel during the crisis. In such context, this study suggests unwinding balance sheet expansions without delays as economies have begun to revive, credit and broad money aggregates recorded positive growth rates and price levels have commenced to pick-up. However, exit strategies need to follow a timely and gradual process. Hence, this study draws important implications for central bankers and financial market players, both in advanced and emerging countries.

Key Words: Global Financial and Economic Crisis, Unconventional Monetary Policy, Quantitative Easing, Monetary Transmission

JEL Classification: E44, E51, E52, E58