

EXITING FROM QE

by

Fumio Hayashi and Junko Koeda

Abstract

We develop a regime-switching SVAR (structural vector autoregression) in which the monetary policy regime, chosen by the central bank responding to economic conditions, is endogenous and observable. QE (quantitative easing) is one such regime. The model incorporates the exit condition for terminating QE. We apply it to Japan, a country that has experienced three QE spells. Our impulse response analysis shows that an increase in reserves raises output and inflation and that exiting from QE can be expansionary.