JEB HENSARLING, TX , CHAIRMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

MAXINE WATERS, CA, RANKING MEMBER

MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: January 6, 2014

Subject: January 9, 2014, Monetary Policy and Trade Subcommittee Hearing titled "International Impacts of the Federal Reserve's Quantitative Easing Program"

The Subcommittee on Monetary Policy and Trade will hold a hearing titled "International Impacts of the Federal Reserve's Quantitative Easing Program" at 10:00 a.m. Thursday, January 9, 2014, in Room 2128 of the Rayburn House Office Building. This hearing will examine the effect that the Federal Reserve's accommodative monetary policy has had on the international financial system and the economies of other countries. This will be a one-panel hearing with the following witnesses:

- Dr. Benn Steil, Council on Foreign Relations
- Dr. Allan Meltzer, Carnegie Mellon University
- Dr. Desmond Lachman, American Enterprise Institute
- Dr. Arvind Subramanian, Peterson Institute for International Economics and Center for Global Development

Given the critical role that the United States plays in the international financial system, the Federal Reserve's monetary policy inevitably has significant effects on international markets and foreign economies. In March 2009, the Federal Reserve started its first round of quantitative easing, purchasing approximately $1.2 trillion in Treasury and agency-backed securities and debt. In November 2010, the Federal Reserve announced that it would purchase an additional $600 billion in longer-term Treasuries, a move popularly known as "QE2." In September 2012, the Federal Reserve announced that it would further "increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of $40 billion per month," a policy that became known as "QE3" or "QE infinity." On December 12, 2012, the Federal Reserve announced that it would begin buying $45 billion in long-term Treasury securities per month. On December 18, 2013, the Federal Reserve announced that it would begin to taper the rate of its asset purchases by $10 billion per month, from $85 billion to $75 billion. The "taper" signifies that the Federal Reserve plans to continue its accommodative monetary policy by purchasing large quantities of government securities, but at a slightly slower pace.

As a result of these policies, the Federal Reserve's balance sheet has grown to approximately $4 trillion. Domestically, the Federal Reserve's accommodative monetary policy has swollen bank reserves. Internationally, the Federal Reserve's accommodative monetary policy has spurred an acceleration of capital flows to emerging market economies, putting upward pressure on the value of their currencies. A strong currency may dampen growth in countries whose economies depend on exports as their exports become less competitive on the global market.

Market-determined exchange rates usually correct trade imbalances. However, abrupt changes in the direction of capital flows significantly affect the exchange rates of some foreign currencies. Some international economists have become concerned that these new inflows of capital may be fueling speculative bubbles in foreign markets. These economists are also concerned that a sudden outflow of capital from these economies could depress the currency and precipitate a financial crisis in these countries. To protect against this threat, many countries have introduced capital controls and have begun accumulating foreign exchange reserves. Some international economists believe that these policies raise barriers to trade and investment.

After the 2008 financial crisis, the Group of 20 issued a statement that a "transparent and credible process" for unwinding extraordinary monetary stimulus is necessary to promote an efficient international financial system where global demand is balanced. In mid-2013, the Federal Reserve's lack of transparency about its exit strategy from quantitative easing fueled rumors that the Federal Reserve would begin tapering its purchases of government securities earlier than market participants had expected. These rumors resulted in sharp selloffs of several foreign currencies. A poorly communicated and executed unwinding of the Federal Reserve's liquidity measures creates uncertainty for those investing abroad and challenges for the foreign economies in which they are invested.