# Countries entered the Covid-19 period with much higher public debt leading to more pressure for monetary policy actions…

Public Debt (% of GDP)

Legend:
- 2008 (beginning-of-year)
- 2020 (beginning-of-year)

Advanced Economies: 71.7 (2008), 105.2 (2020)
Emerging Economies: 35.5 (2008), 53.2 (2020)
Low-Income Developing Countries: 28.9 (2008), 43.0 (2020)
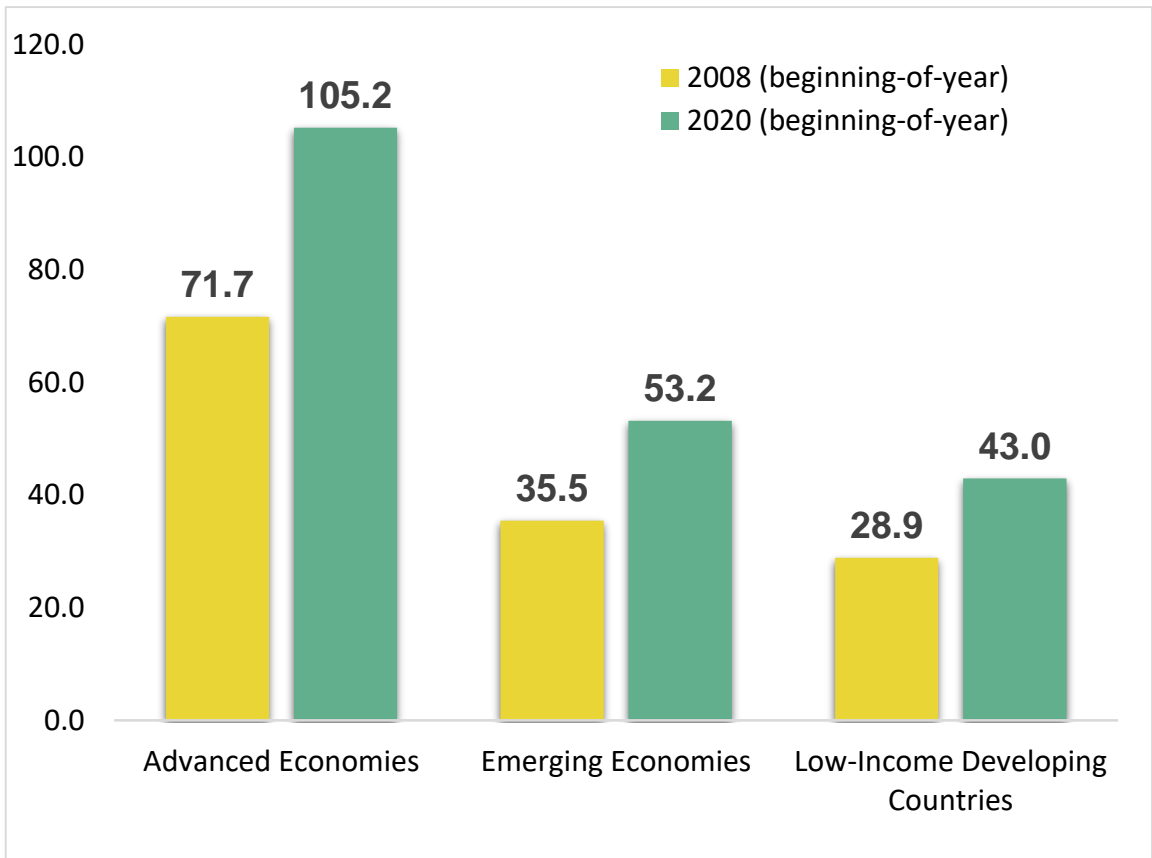
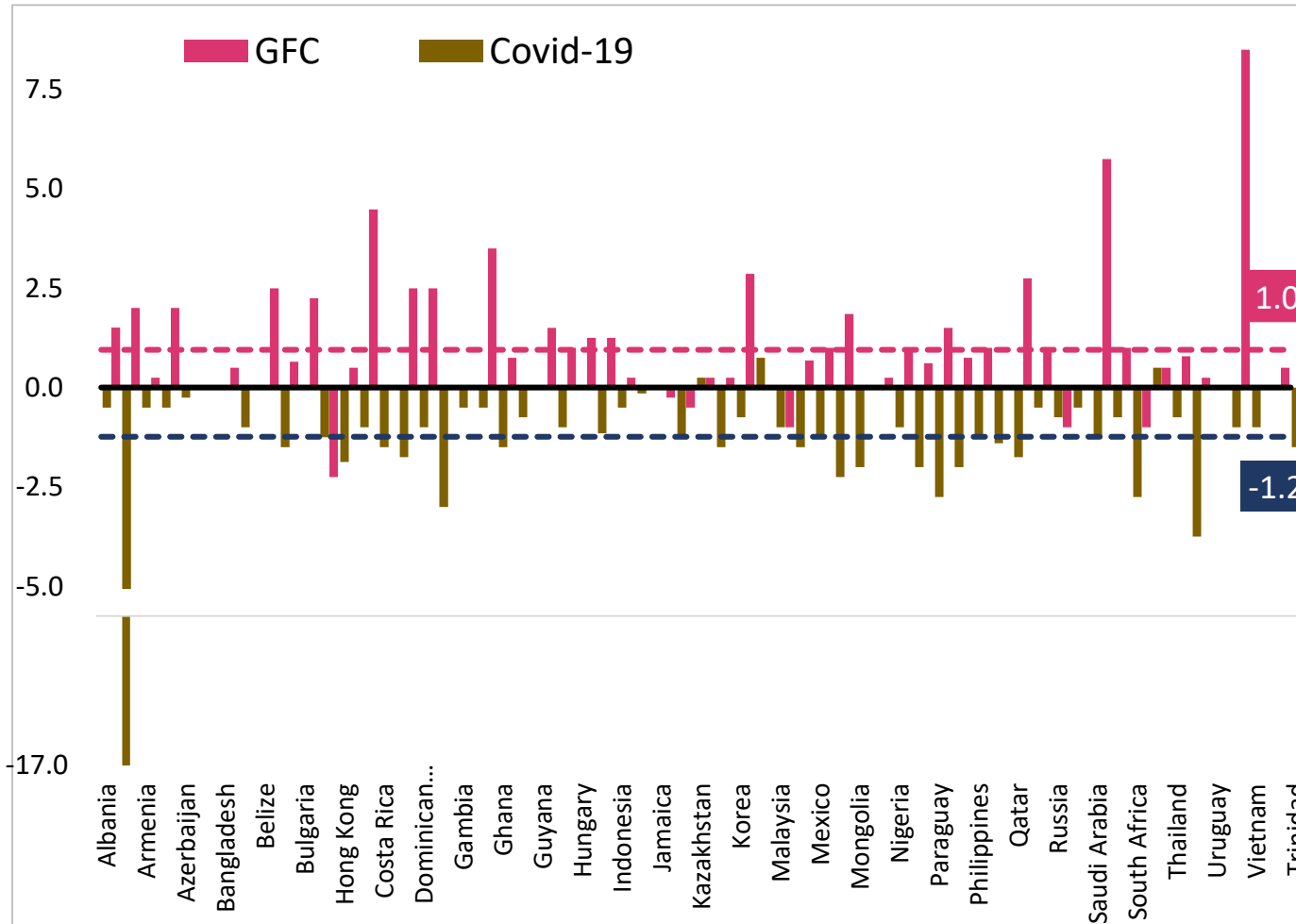Source: The World Bank, IMF Global Debt Database

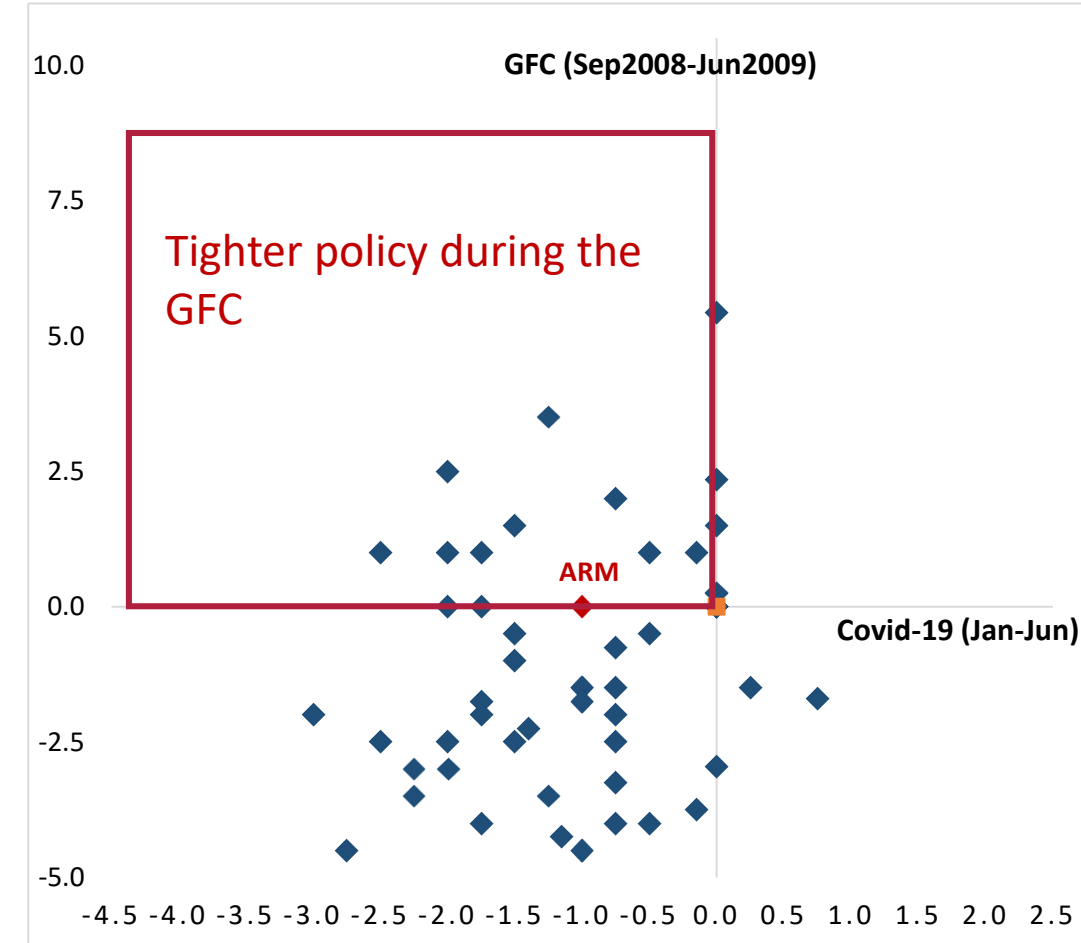**Announced Fiscal Stimulus and Income (% of GDP, as of April)**
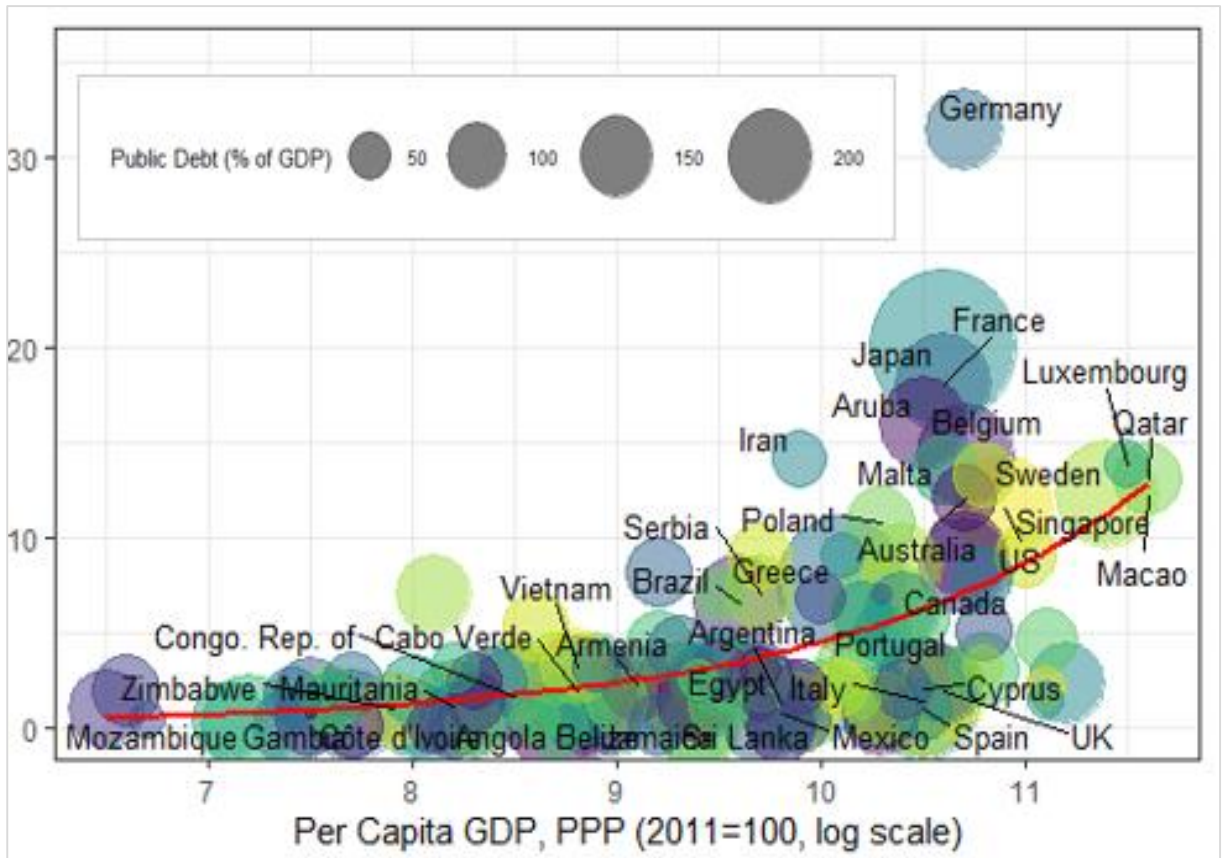
Source: Nurbekyan, Minasyan, Hayruni (2020)

In contrast to the GFC, emerging markets were able to ease monetary policy during Covid-19 shock. Did EMs "graduate" from the pro-cyclicality trap?

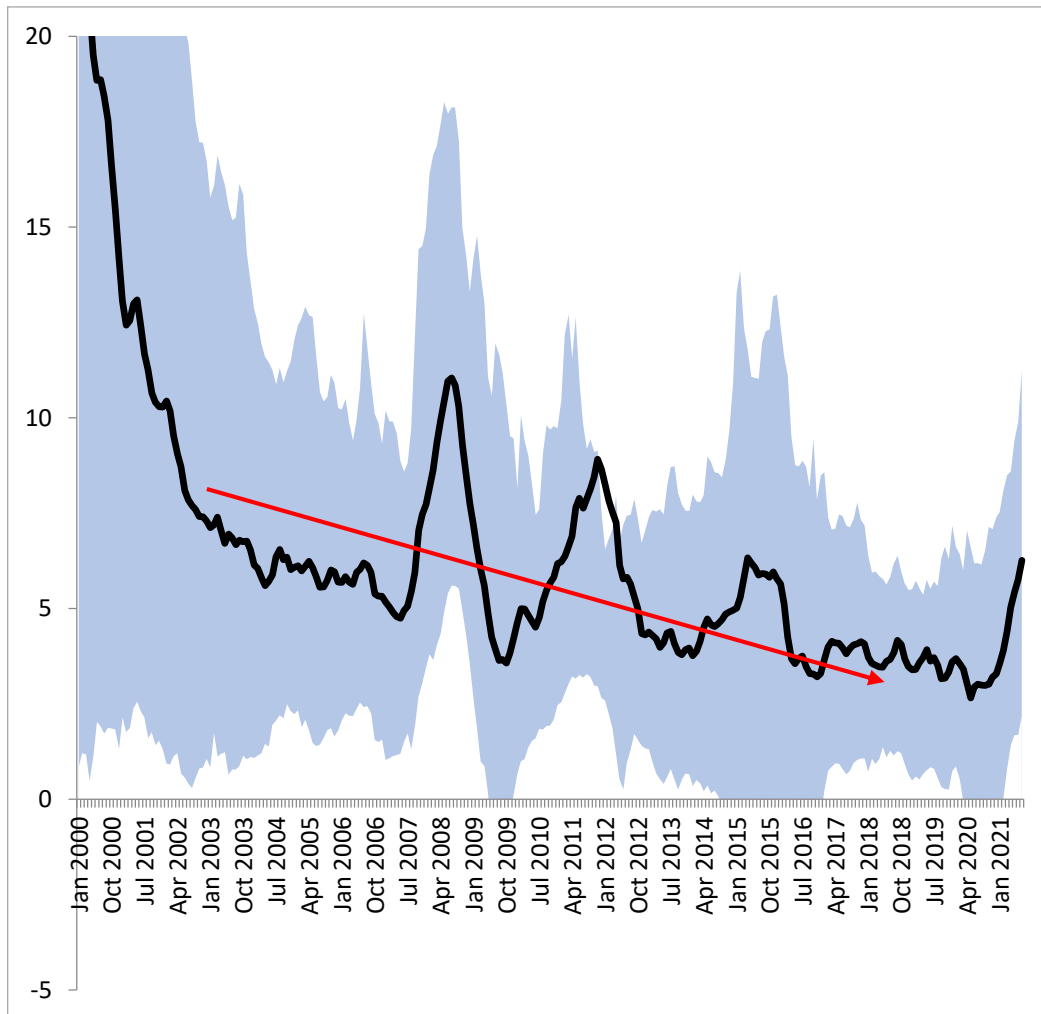**Monetary Policy During Covid-19 and GFC (pp)**

Change in Key MP Rate (pp)


Source: IMF, CEPALSTAT and CBA Staff Calculations

Lower initial inflation and pre-crisis disinflationary policies in certain countries (like Armenia) were important determinants of crisis response…

**CPI Inflation in Selected Emerging Economies (%)**

CB of Armenia survey on Inflation Expectations (share in %)

Oil price shock

■ Higher Inlfation Expectations   ■ Uncertainty   ■ Lower Inflation Expectations
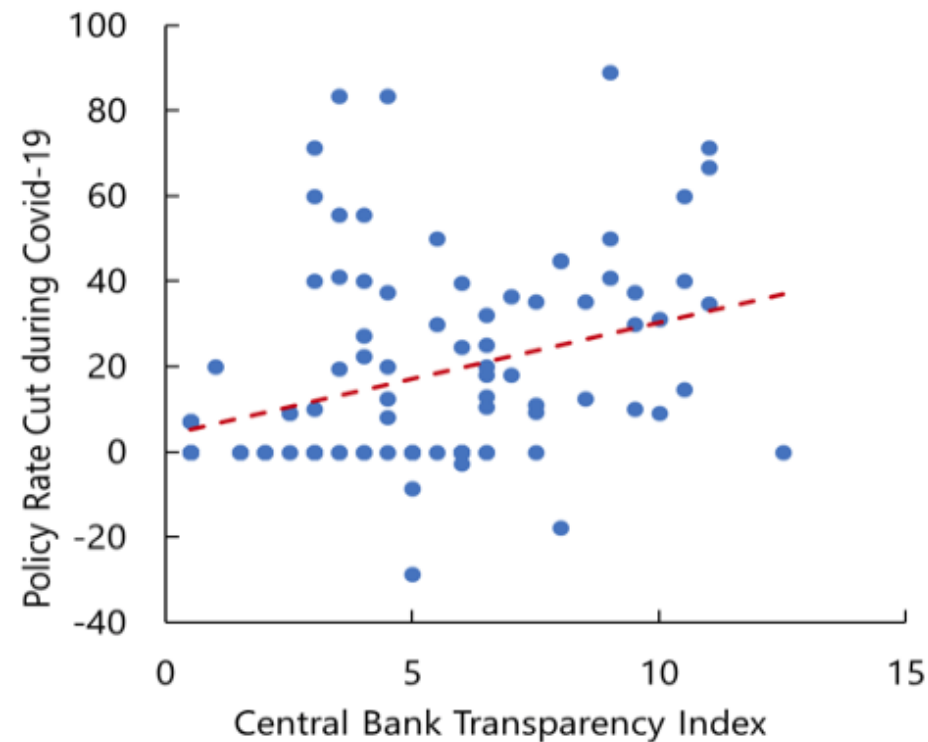
Source: IMF, CBA Staff Calculations
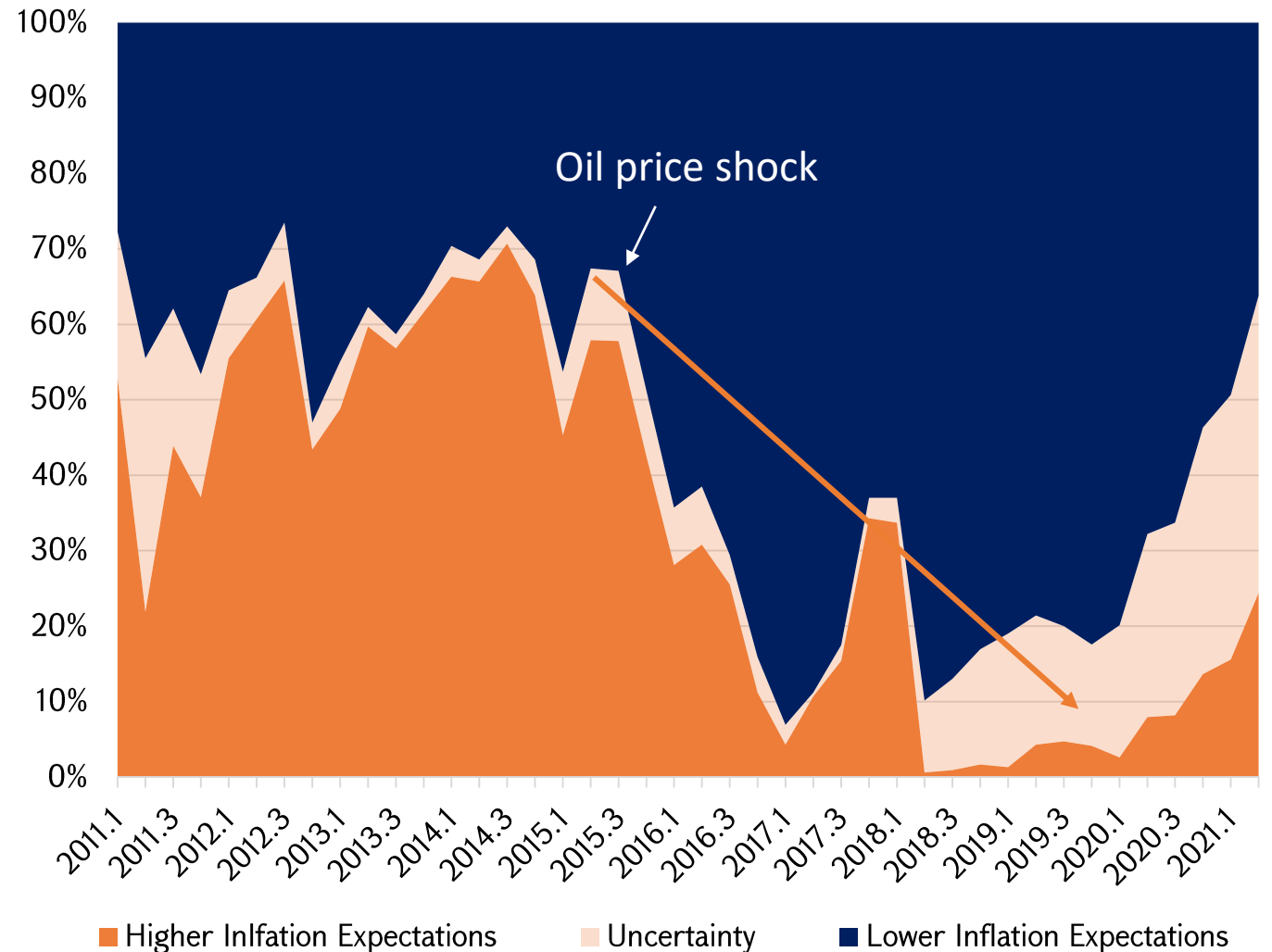
… while institutional factors, most notably higher central bank transparency, have enhanced the ability to conduct countercyclical monetary policy.

**Policy Rate Cut during Covid-19 and Monetary Policy Framework**
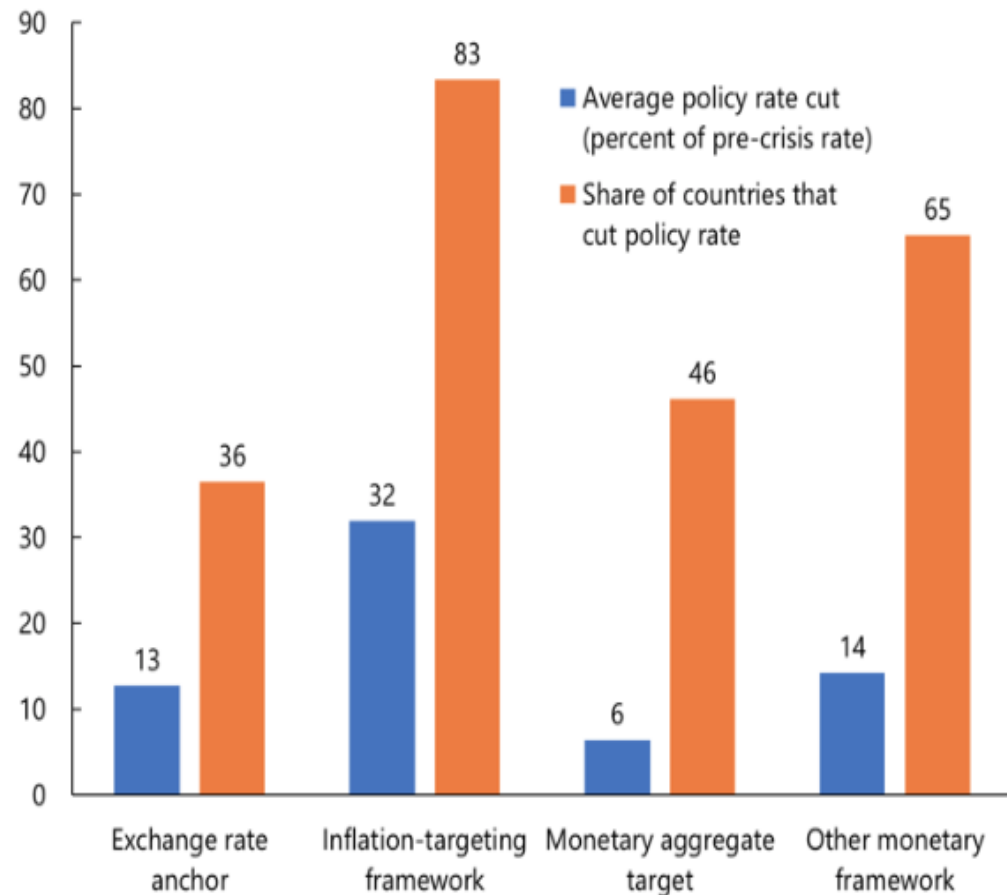
Policy Rate Cut during Covid-19 and CB Transparency

Note: The index covers 112 central banks. Out of 149 EMDE countries in our sample, 102 countries have a transparency score.

Source: Gelos, Rawat, Ye (2020)

Conventional monetary policy was accompanied by a number of unconventional measures, while macroprudential policy created space for monetary policy reaction
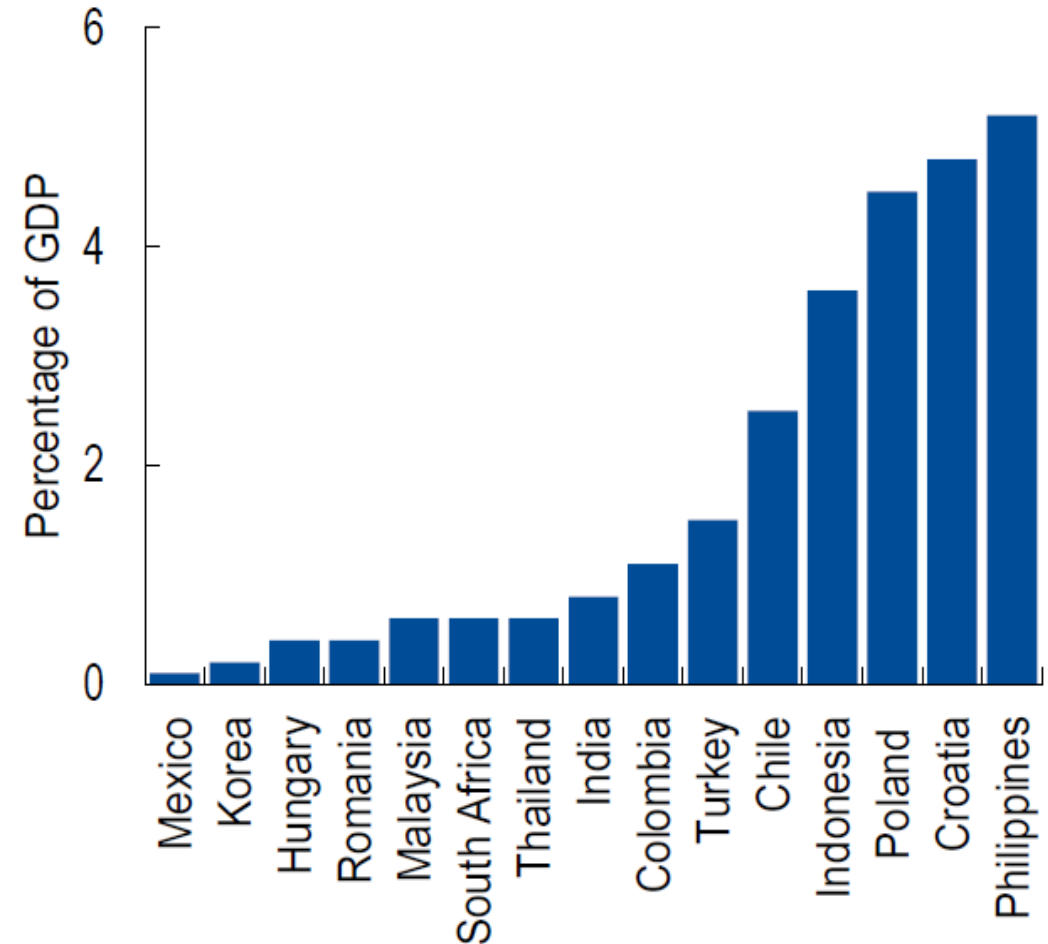

Policy Interventions by Country (EMDE) and Type, Jan-Sep 2020
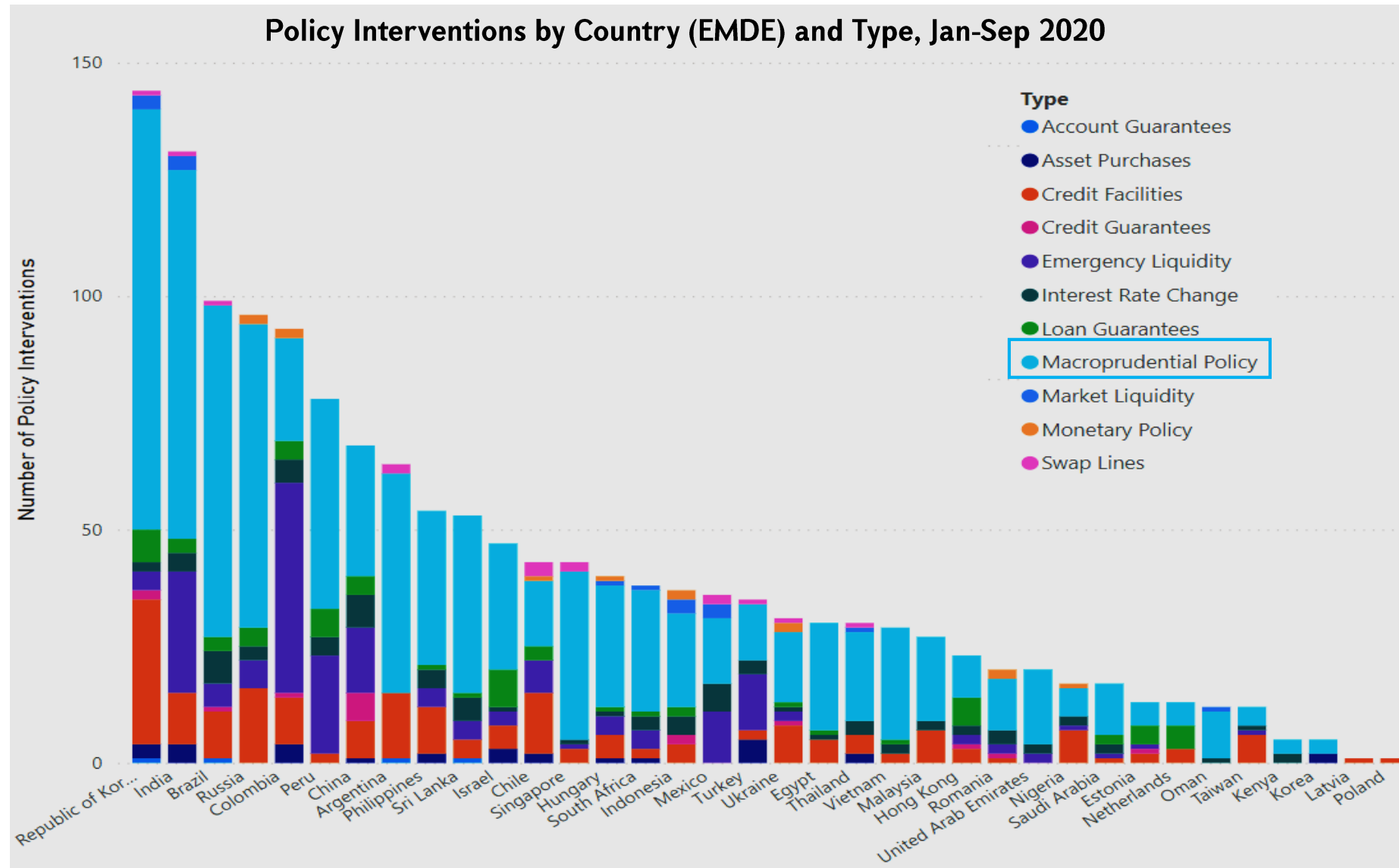
Source: Yale Program on Financial Stability, CBA staff calculations

Unlike in AEs asset purchase programs in EMDEs were announced even before the conventional tools hit the lower bounds

Policy Rates
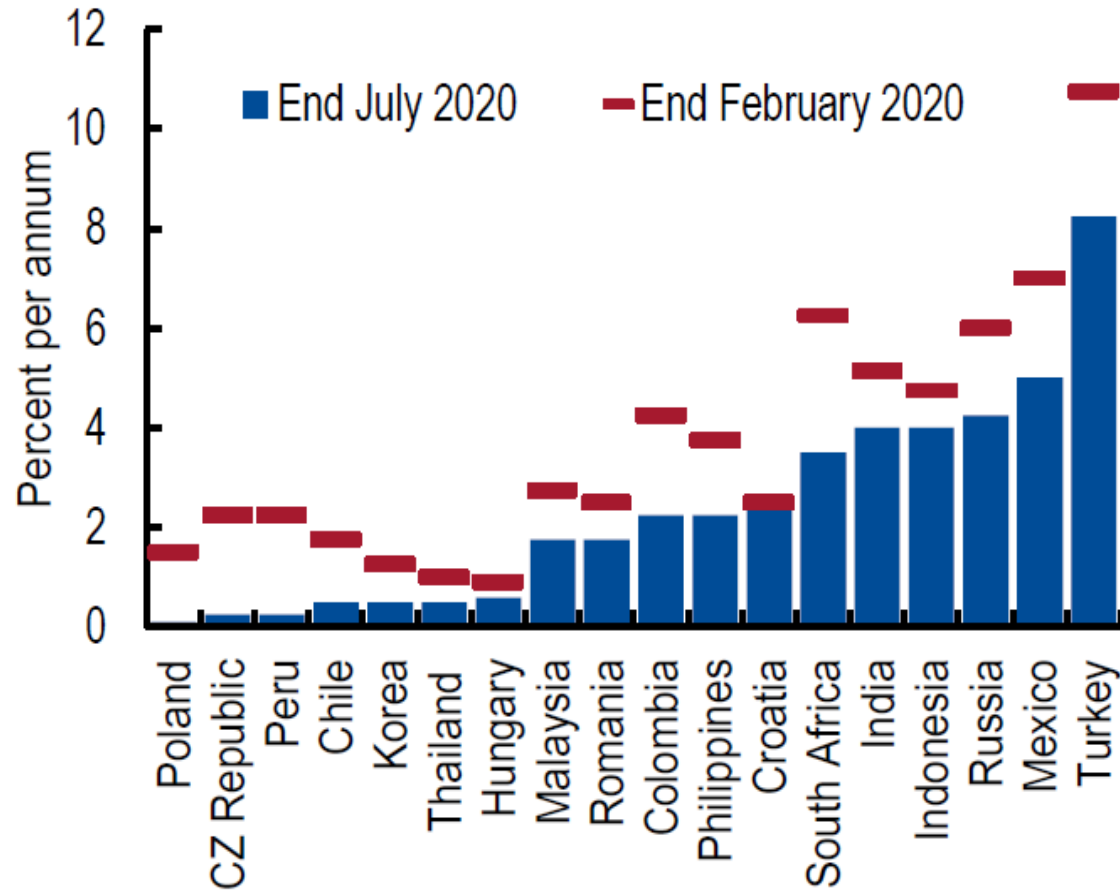
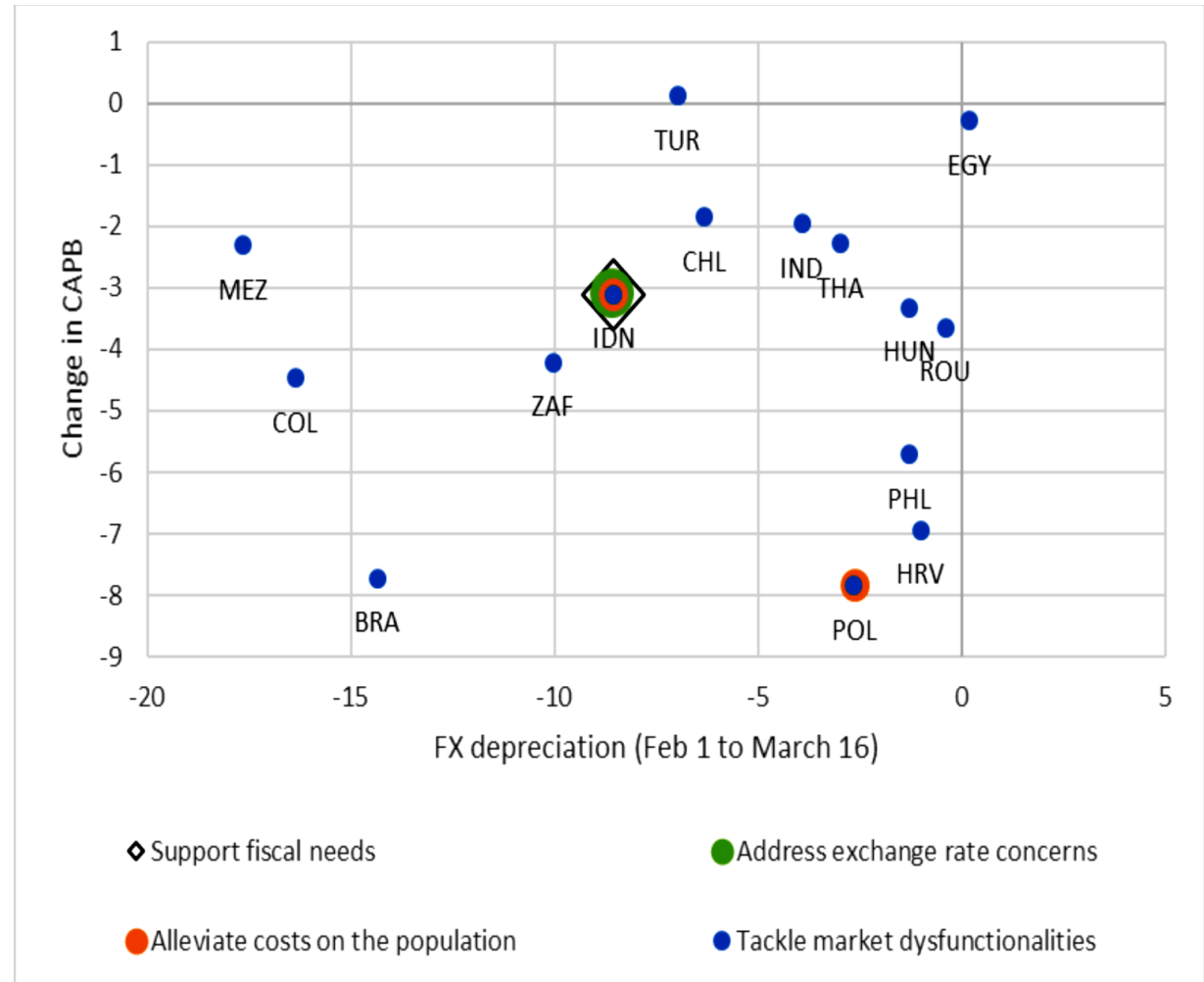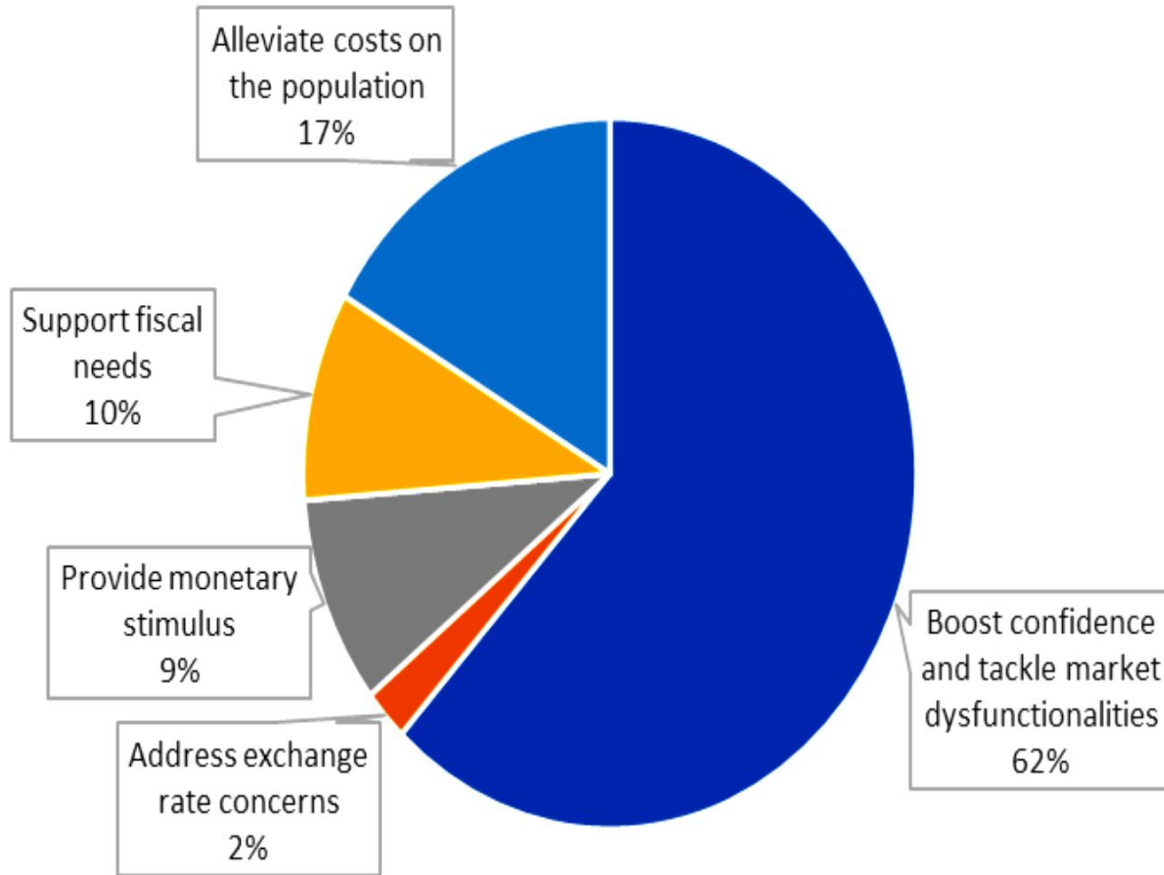**Central Bank Asset Purchases**

Source: Hofman, Kamber (Sept., 2020)

How "unconventional" were the Unconventional Measures?

Stated objective of Asset Purchase Programs (APP) in EMDEs
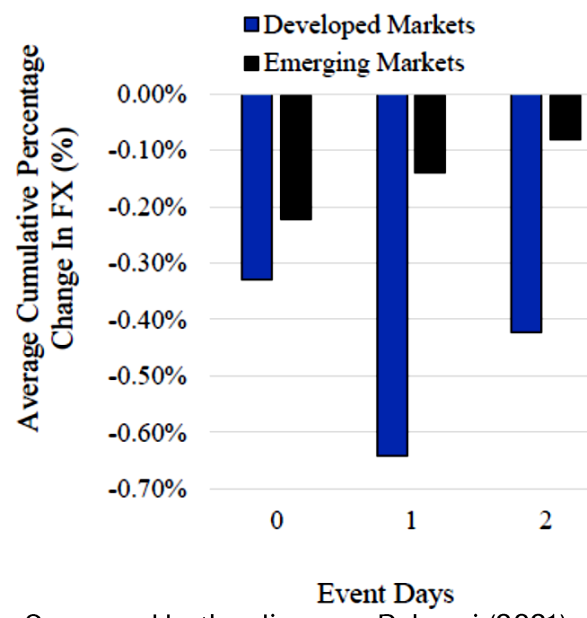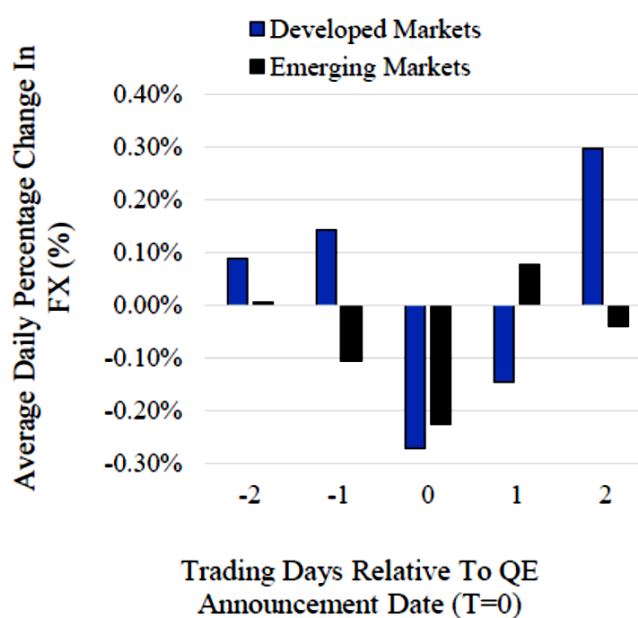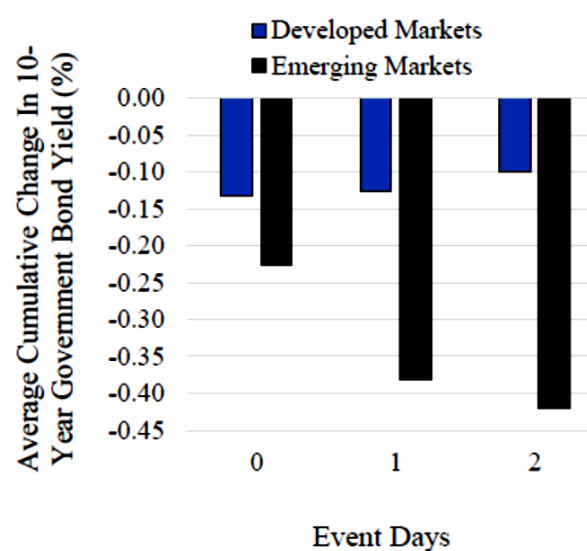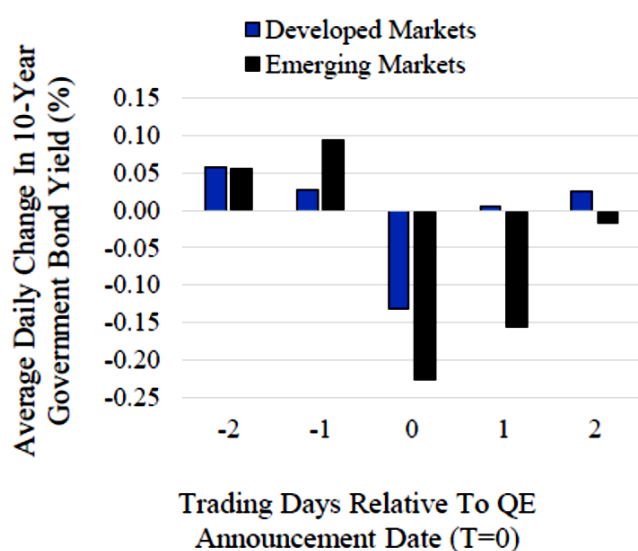
Multiplicity of Objectives in an Multidimensional Response Spectrum

Source: Fratto et. al (2021)

While UMP appeared to be more effective in emerging countries, the effectiveness varied across cases and types…

Source: : Hartley, Jimenez, Rebucci (2021)

- ✓ The surprise effect seems to play a significant role, especially in countries that had larger monetary space in times of the UMP launch.

- ✓ Quantity-based programs as well as programs focusing on government securities seem to be more effective

- ✓ APP announcement made by credible central banks are more effective.

- o Other factors, such as central bank transparency, the non-residential investment share, or the monetary regime and the exchange rate regime did not seem to have an impact .

- o APP announcements that coincided with FX intervention were not effective

- o APPs had little effects on exchange rates or external borrowing costs, after controlling for other factors (other policies or global factors).

Results from: Fratto et. al (2021); Hartley, Jimenez, Rebucci (2021)

Concluding Remarks

- "Good old" credibility matters story

  ▪ Keep your house in order: Credible monetary and macroprudential policy create space during a crisis

  ▪ View the crisis as an opportunity to build up credibility — crises make reputation.

- Clear communication is absolutely crucial for effectiveness of any measure (especially during crises).

  ▪ Mess in the objectives of implemented tools means a clear failure of the Policy

  ▪ Coordinated policy actions with clear communication is the New Normal…

THANK YOU !

The Central Bank of Armenia