> **"The new Quantitative Easing programme has a number of quite attractive features"**
>
> - Christian Ewerhart, Professor at University of Zurich

The Federal Open Market Committee announced September 21 the execution of Quantitative Easing (QE) plan which is also named Operation Twist. The Fed's plan is to buy $400 billion of long-term debt, thus making it easier to receive a mortgage or to get a business loan at a favourable loan rate which would result in rallying economic growth and employment. The strategy is to purchase bonds with maturities of six to 30 years and sell an equal amount of shorter-term securities less than in 3 years. In this respect Dukascopy has asked expert's opinion on the upcoming Quantitative Easing.

Prof. Dr **Christian Ewerhart**, Chair for Information Economics and Contract Theory at University of Zurich and a former consultant to ECB and Banque de France

1) Two previous QE programs in the US didn't result in expected economic growth rates. What do you think of the third wave of QE that was announced by Bernanke?

C.E.: In contrast to the previous programs, Operation Twist is explicitly targeted at flattening the yield curve. The extent to which this will happen is uncertain, however. Even if the cost of credit falls, it is not obvious that this would lead to more investment or private consumption in the current environment.

2) Fed's chairman Bernanke admits that Fed does not know what to anticipate from the new QE program. Do you think Fed is launching new easing because it cannot devise anything smarter and more effective?

C.E.: The new programme has actually a number of quite attractive features. First, it does not expand the Fed's balance sheet. Then, at least at a superficial level, the issuer risk does not change when medium-term and short-term Treasury securities are exchanged for longer-term Treasury securities. Finally, the plan is neutral in terms of base money.

3) The US debt problem and rating downgrade seem to move to the background. How do you evaluate the risk that the new QE wave will move it back to the spotlight sooner than expected?

C.E.: I think that US is still in a relatively good position as it is a huge economic power. A somewhat paradoxical aspect of Operation Twist is that it might make it cheaper for the US government to issue long-maturity bonds. In this case, the country rating might even benefit in the medium term.