Quantitative Easing and Monetary Policy Legitimate Perspective

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Abstract

Many economists, monetary policy makers and bankers view interest rates as an efficient tool for allocating funds, evaluating the efficiency of projects, and measuring financing costs, and that they are the main indicator of many economic variables and phenomena. Other variables, and enables those authorities to implement the monetary policy desired by them.
This has led to an important fact, which is that interest rates have lost their effectiveness as a tool for resource allocation or as an influence on economic, credit and monetary policies, and then central banks resorted to new and unconventional tools and forms of monetary policy with the aim of pumping additional liquidity into the banking system or stimulating economic activity. These unconventional policies are the quantitative easing policy that is called quantitative easing sometimes or credit easing at other times, which is based on the central bank's resort to buying troubled assets that caused a lack of liquidity in commercial banks, or buying assets and government securities from those banks in order to enable them to Adjusting its liquidity position and resuming its lending activity.

Keywords

Quantitative Easing, Monetary Policy, Legitimate Perspective.

Introduction

Many economists, monetary policy makers and bankers view interest rates as an efficient tool for allocating funds, evaluating the efficiency of projects, and measuring financing costs, and that they are the main indicator of many economic variables and phenomena. Other variables, and enables those authorities to implement the monetary policy desired by them.

Monetary authorities have been using it according to this understanding since the predominance of monetary theory in the aftermath of World War II. Therefore, interest rates were the focus and goal of monetary policies, and this is evident from the different definitions of monetary policy that revolve around the methods through which the monetary authority can reach the target interest rate.

Monetary policy, for example, is defined as changes in the money supply to influence interest rates, and then the level of spending in the economy with the aim of achieving and maintaining price stability and then achieving full employment and economic growth (McConell and Brue, 2002).

Bank managers do not make investment decisions without looking at the interest rate structure, consumers think about where to put their savings based on the highest interest rate they get, and business managers keep interest rates in mind when deciding when to borrow, how much to borrow, from where and for how long. Interest rates are a measure of comparison between different types of securities (Ritter, et al, 2009).

However, the financial and banking crises that followed since the eighties in South Asia, Brazil and Russia, and then the mortgage crisis in the United States and the European sovereign debt crisis, all led to severe liquidity crises facing the banking systems, which led to the banks' reluctance or inability to lend in addition to Many of them go bankrupt.

As a reaction to that, all the major central banks reduced interest rates to minimum levels, but this did not work in overcoming the crisis, which prompted them to use unconventional tools to stimulate economic activity (Baumeister and benati, 2013).

This has led to an important fact, which is that interest rates have lost their effectiveness as a tool for resource allocation or as an influence on economic, credit and monetary policies, and then central banks resorted to new and unconventional tools and forms of monetary policy with the aim of pumping additional liquidity into the banking system or stimulating economic activity. These unconventional policies are the quantitative easing policy that is called quantitative easing sometimes or credit easing at other times, which is based on the central bank's resort to buying troubled assets that caused a lack of liquidity in commercial banks, or buying assets and government securities from those banks in order to enable them to Adjusting its liquidity position and resuming its lending activity.

Literature

1. Kimora and Small Study 2004

This study came under the title (Quantitative Monetary Easing and Risk in Financial Asset Markets). This study practically tested the effects that occur on the prices of assets in the investment portfolio as a result of the practice of quantitative easing operations by the Central Bank of Japan, at a zero interest rate. The study diagnosed that there are effects on investment portfolios arising from open market purchases of long-term government bonds.

The study concluded that quantitative easing has led to a decrease in the risk premium for assets, and that the effects of this are consistent with the framework of the (CAPM) capital asset pricing model.

2. Fawley and Neely Study 2012

This study is entitled (Four stories of Quantitative Easing), and it describes the circumstances and motives of the quantitative easing programs used by the four major central banks (the US Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of England) and the circumstances, justifications and nature of each program during the period 2007-2009 and the recovery period which followed. These programs worked to calm the markets and calm the pressures on the financial markets in these countries and the world. However, this goal was later expanded for the purpose of achieving specific goals in the field of inflation, stimulating the real economy, and addressing the European debt crisis. The quantitative easing nature of the European Central Bank and the Bank of Japan has been focused on direct lending to banks. As for the US Federal Reserve and the Bank of England, they focused on expanding the monetary base through the purchase of bonds.

3. Gertler and Karadi 2012 Study

This study is entitled (QE1 Vs 2 Vs 3 a framework for analyzing large-scale asset purchasing’s as a monetary policy tool.)

This study attempted to analyze programs (large-range asset purchases) as a monetary policy tool within a macroeconomic model, and the study considered this program, which is the focus of quantitative easing programs as a tool for central bank mediation and that it affects the economy follows:-

a. Purchases of securities that involve some risks have a greater impact than purchases of government bonds.
b. The effect of the purchases depends largely on whether the interest rate package is close to zero.
c. The designed program was in line with the prevailing impression about the nature of economic problems and ways to address them.

4. Abdul Hamid and Ahmed Study 2014

This study came under the title (Quantitative Easing and its Role in Monetary Policy) This study dealt with the concept of quantitative easing and its role in monetary policy, as it clarified the nature of monetary policy, its management, and its mechanism of action. In Japan, the European Union, England and the United States, he presented his expected effects on the various elements of monetary policy.

5. Study (Morais, pydro, and Ruiz 2015)

This study is entitled:

The international Bank lending of Monetary Policy Rat and QE Credit Supply. Reach-for-yield and real effects.

This study dealt with the impact of changes in the monetary policies of developed countries, including quantitative easing, on credit supply, returns, and real effects in emerging markets. Quantitative analysis on the activities of these branches and the risks they face. The study found that quantitative easing policies (in the countries that practice them) increase the potential for risk in emerging markets more than they improve the real returns of projects, especially in light of the globalization of commercial bank operations in countries that have implemented quantitative easing operations.

6. Engen, Laubach and Reifschneider (2015)

This study is entitled

The Macroeconomics effects of the federad reserve unconventional monetary policies

This study attempted to track the impact of two types of unconventional monetary policies followed by the US Reserve, namely quantitative easing and lowering rates of return on federal funds. The study relied on data from major business institutions to identify the impact of changing interest rates on private sector behavior and the impact of quantitative easing policies on stimulating Real economic activity, inflation and unemployment rates.

The study concluded that this effect is limited.

The Concept and Nature of Quantitative Easing

Quantitative easing is an unconventional monetary policy used by central banks to stimulate the national economy when traditional monetary policy becomes ineffective as the central bank buys financial assets to increase the amount of money flowing into the economy. It differs from the usual monetary policy in that it aims to maintain interest rates in the market at the specified target level (www.Economist.com\node).

Quantitative easing involves pumping money directly into the economy by purchasing financial assets, especially government bonds held by commercial banks, and this electronically generated money encourages the banking system to lend to business sectors, investors and individuals, enabling them to resume the exchange that stimulates growth and thus stimulates investment and the economy As a whole.

The central banks' practice of quantitative easing leads to the expansion of the balance sheet of the central bank concerned, ie an increase in the monetary base, which goes directly to the banking system to enhance its liquidity.

The main objective of quantitative easing operations is to put pressure on long-term interest rates for the purpose of boosting private sector loans and thus enhancing aggregate demand and financing real economic activity (Baumestier and Benati, 2013).

The Emergence of Quantitative Easing

The origin of quantitative easing dates back to the thirties of the twentieth century when the US Congress supported the monetary authorities to purchase (1) billion dollars of government securities for the purpose of supporting the liquidity of commercial banks, a very large amount at the time (Anderson: 2010). Quantitative easing.

However, this name was not given to the process, as it was a single process and did not develop or depend after that. The idea of resorting to other methods to enhance economic activity when the interest rate falls to low levels goes back to (Keynes) and we find it in the theory of the liquidity trap. However, Keynes suggested that the problem should be addressed through fiscal policy tools through public expenditures and not through monetary policy.

However, the current picture of quantitative easing began at the hands of the economist (Richard Werner), professor of banking operations at the University of Southampton in the United Kingdom, in 1994, when he developed the theoretical framework for this process and called for the need to support credit for the purpose of achieving economic recovery. The Central Bank purchases troubled assets and purchases commercial bonds and other debts with banks and equity instruments from companies. He stressed the need to stop issuing government bonds.

1. Quantitative Easing in Japan

The recent campaign of quantitative easing has been linked to the financial and banking crises that the capitalist economy has been exposed to in recent times since the mid-nineties of the last century. In Japan, the first of these operations began in 2001 when the Bank of Japan launched its initiative by increasing its reserves from 4 trillion yen to 5 trillion yen, which was expected to drive interest rates from (1.5%) to (zero%). Until 2004, the Bank of Japan increased its reserves to 35 trillion yen (Fawley and Neely: 2013), and in 2011 the total quantitative easing operations amounted to 50 trillion yen, and in 2012 it reached 80 trillion yen. The policy of the Central Bank of Japan is based on three pillars (Maeda, et al, 2005):

a. Maintain a good display of liquidity using his current account balances.
b. Work to increase the core consumer price index.
c. Increase financial purchases of long-term government bonds when needed.

2. Quantitative Easing in the USA

The quantitative easing operations that began in the United States in 2008 are not the first, as we mentioned, as the Federal Reserve had purchased in 1933 government securities amounting to (1) billion dollars in order to support the liquidity of commercial banks.

As for the current quantitative easing operations, they began in the wake of the banking liquidity crisis that arose from the mortgage bubble in 2006 and led to the turmoil of financial markets, the lack of liquidity of commercial banks, the decrease in their revenues and the high risk premium, which prompted the Federal Reserve and other central banks to provide emergency liquidity to commercial banks and reduce The interest rates on the Federal funds are close to zero. The operation took place within the framework of the rescue program called (QE1) (Quantitative Easing 1), with an amount of 600 billion dollars, and was made on the basis of issuing electronic money used exclusively to purchase securities secured by real estate (MBS). Officials expected that quantitative easing operations would lead to specific results, including: (Kimura and Small: 2004) (Maghi: 2009).

Reducing the returns on long-term bonds, which enhances the financing of business sectors. This leads to The positive impact on the prices of financial assets, which leads to stimulating the economy

Easing Financial Constraints and Boosting Demand

Then the (QE2) program was announced in 2010 with another $600 billion, implemented according to the Maturity Expansion Program (MEP), which restricted purchases to long-term securities. (WWW.FRBBulletien.fed) 2/3 of the total treasury bonds, or about 600 billion dollars, were purchased (Hutchinson and Marting: 2011).

QE2, QE1 had a significant impact on asset prices and were effective in supporting the economy and led to the end of the problem of stagflation (Bernanke, 2012)

In 2011, the Federal Reserve announced the QE3 program, which was based on the purchase of short-term government bonds (Gertler and Karadi, 2012).

3. Quantitative Easing in the European Monetary Union

The quantitative easing programs implemented by the European Central Bank (ECB) differed from the programs followed by the US Reserve and the Bank of England, as it used two tools: (Fawley and Neely: 2013)

A. Long-term refinancing (LTRO)

Which includes the purchase of financial assets from the markets, as its purchases were distinguished by the fact that they included financial assets issued by the private sector, so the bank bought more of this type of assets than any other central bank. He focused his purchases on specific European countries where banking systems suffer from liquidity problems. His purchases in 2010 were of Greek, Irish and Portuguese bonds, and in 2011 they were of Italian, Spanish and Portuguese bonds.

B. Direct Lending

Since October 2008, the bank started its first lending operations when it announced that it would lend the banks the amounts they requested at a specific interest rate in return for providing guarantees. At the same time, it took two actions:

Expand the list of assets it accepts as collateral against loans in euros.

Reducing interest rates from 4.25% to 1% only.

4. Quantitative Easing in England

The Bank of England practiced quantitative easing in a manner similar to what the US Federal Reserve did, i.e. the use of the mechanism of purchasing financial assets as a means of pumping liquidity into the financial markets and the banking system.

Since January 2009, the Bank of England started implementing the Asset Purchase Facility (APF) to purchase high-quality assets with the aim of improving liquidity in the credit markets. It considered it an additional tool for the monetary policy tool (Bank of England Official site. 2015). The method of purchasing securities is due to (the bond market plays a larger role than the role of banks in the United States and the United Kingdom) (Fawley and Neely. 2013). The bank relied on buying British treasury transfers (Gilts) with specific quantities of securities. Issued by the private sector with a high credit rating. Quantitative easing is designed to achieve the bank's goal of maintaining and defending 2% inflation in a variety of ways.

The Bank concluded that its purchases of financial assets as part of the quantitative easing programs had significant effects on the British economy and helped increase the annual economic output between 1.5-2%.

The Nature of Quantitative Easing and its Mechanism of Action

Quantitative easing involves a combination of several functions of the central bank, such as the function of money issuance and open market operations, in addition to the function of the lender of last resort. The central bank issues money electronically and expands its budget, but this type of cash issuance is different in its nature, function and goal from the regular cash issuance. If it is not directed to financing the state budget or spending on its expenditures, therefore, monetary policy officials do not view it as a pure monetary issuance, but rather as a stage of a program with specific steps and clear objectives. A large part of quantitative easing programs is based on the purchase of distressed financial assets and securities Government finance and aside from the securities issued by the private sector and the commercial papers of some companies, and this process does not differ from the open market operations except slightly.

In the Bank of England, assets are purchased from non-bank institutions through banks and brokers who act as intermediaries in this process, as their accounts are strengthened from the bank’s reserves (established electronically), and then market liquidity is enhanced and the effect on interest rates, prices of financial assets and inflation rates in the desired trends that occur The desired effect on the national economy (Bank of England, Red Book: 2015).

As for the application of the function of the last lender in quantitative easing, it is through making loans available to banking institutions at specific interest rates or through inter-bank borrowing operations as practiced by the European Central Bank through major refinancing programs (MRO) ( ) and long-term financing operations (LTRO), which were designed for the purpose of meeting the banks' need for liquidity or to face difficult conditions or to protect them from fluctuations in liquidity (Linzert et al: 2004).

Effects of Quantitative Easing

Many researchers and central banks are trying to identify the effects of quantitative easing on the national economy, and research and studies conducted in this field have come out with completely uncertain results about the effects of quantitative easing on the national economy.

These effects are due to the novelty of this policy first, as well as to the presence of other effects accompanying quantitative easing, such as financial policies. In the following, we present some of the diagnosed or expected effects:

A. The Effect of Quantitative Easing on Inflation

Many specialists, researchers, and even the general public have assumed for the first time that quantitative easing will necessarily lead to inflation, because quantitative easing increases the money supply and market liquidity and inflates the monetary mass. Inflation is greatly affected by inflation, but rather the opposite, as inflation rates have decreased in some countries by significant rates, especially since some quantitative easing programs, as is the case in England, were aimed at reducing inflation rates and maintaining them at the level of 2%. Inflation is only 1% until 2015. (Engen et al: 2015)

Note that studies have not yet proven that these effects are due to the practice of quantitative easing policies alone.

B. The Effect of Quantitative Easing on Interest Rates

Many economists, businessmen and bankers believe that the interest rate is the basic tool for allocating money and the main influence in many aspects of economic activity. Bank activity is based on interest that generates profits, and investment decisions depend on the structure of interest rates as a criterion for comparison between different investment alternatives, and savers choose Institutions in which they put their savings based on the interest rates they offer in the main, and borrowers take into account interest rates when they decide to borrow from the banking system, and the interest rate is the most commonly used measure of comparison between various securities when issuing or investing in them. Central banks implement their monetary policy by changing the money supply (to influence interest rates and help the economy maintain price stability, full employment, and economic growth) (McConell and Brune: 2002. 282). But interest rates have lost their effectiveness since the end of the nineties of the last century in some countries such as Japan and in the beginning of the new millennium. This is because the central banks reduced it to zero or close to it, and it can no longer be reduced below that.

And when interest was no longer a useful weapon, central banks turned to a new tool or a new monetary policy, which is quantitative easing for the purpose of stimulating economic growth. The goal of keeping the interest rate low at these levels was one of the pillars of the monetary policies of central banks. (The study of the results of interest rates close to zero dates back to Keynes 1939 and that observers believe that central bank actions will not be effective when interest rates are close to zero) (Fawley and Neely. 2013).

C. The Effect of Quantitative Easing on the Money Supply

The money supply (M1) consists of cash in circulation and current accounts with banks, and when other assets valid for making payments are added to it, we will have a money supply in (M2). Quantitative easing is originally designed to increase the liquidity of commercial banks and increase the money supply in the financial markets, and studies have proven this, especially when commercial banks keep the liquidity generated by them as a result of quantitative easing procedures in their accounts and do not intend to lend them.

D. The Effect of Quantitative Easing on Exchange Rates

It is expected that the exchange rates of the currency of the country that launches the quantitative easing campaigns will decrease because the money supply will increase and the exchange rate is inversely proportional to the amount of cash in circulation. The US Federal Reserve officials have stated that the quantitative easing campaigns have led to a decrease in the exchange rate of the US dollar by 3 /4% (up to 2013) (Fischer, 2013). Such an event is expected due to the psychological factors that prevail in the markets at each new cash issuance process, regardless of its purpose and justifications.

Pros and Cons of Quantitative Easing

1. Pros

Quantitative easing represents an important development in monetary policy as it represents an unconventional monetary policy that has gone beyond many of the concepts and postulates that were well-established in economic literature and in its practical side.

Quantitative Easing has a Number of Positive aspects, including:

a. Mitigating the effects of economic and financial crises and stagnation and stimulating economic activity that is hampered by these crises by enhancing financial market liquidity and enabling banks to continue their lending activity. (Baumeister and Binati, 2013).
b. Buying a large amount of bonds leads to an increase in their prices and lower interest rates on them because the interest rate on the bond is inversely proportional to its price (Bowman and Doyle: 2008) and this leads to a reduction in its returns, which prompts investors to search for better investment opportunities and resort to depositing their money In banks, which provides them with large financial resources that enable them to solve their liquidity problems. Or resorting to buying shares and bonds of private companies, which enhances their investment opportunities and improves the prices of their assets.
c. The increase in the value of bonds, shares and financial assets resulting from the increase in demand for them improves the balance sheet position of companies and investors who acquire them.
d. Low exchange rates for the country's currency that implements quantitative easing, which encourages investment inside the country, increases the flow of capital to it, and supports its foreign trade.
e. Quantitative easing reduces financing costs by lowering interest rates and easing credit conditions, which encourages its expansion. (Cai and Vega: 2014).

And the. It leads to the reduction of unemployment rates and the stability of the economy at the height of the financial crisis (Engen: et al: 2015).

2. Negative Aspects: (Pettinger, Tejvan: Nov. 6. 2013 (Bloavi: 2008).

a. Central banks are unsure of how borrowers will dispose of liquidity and they have no control over it.
b. B. The low yields of bonds when their prices rise harms the investors in them.
c. It leads to distortions in the exchange rates of currencies on a global level due to the depreciation of the currencies of the countries that launch quantitative easing campaigns and the rise in the exchange rates of the currencies of other countries.
d. The central banks' purchase of troubled assets means that they carry the inherent risk in them instead of their previous campaigns (banks and investors).
e. The negative impact on competitiveness in international markets because countries that practice quantitative easing obtain commercial advantages when their exchange rates fall, which harms competitors, especially emerging markets.

f. And the. Low interest rates hurt savers because their returns are eroding and their value is also declining.
g. Reducing the ability of governments to borrow in the future because of their resort to buying bonds that have already issued and that reselling it may return the financial market to the negative state it was in before the purchase.
h. Quantitative easing is a temporary remedy, as the fundamental problems that called for it will remain.
i. There are those who believe that the cash issuance within the framework of quantitative easing operations is monetary financing and the injection of additional currency into the markets, and that in the long run it will lead to a rise in interest rates again and the consequent results.

Legal Aspects

Quantitative easing raises some issues that require highlighting the Shari'a position on it, especially in the field of monetary issuance, open market operations and interest rates. Sharia's position on this whole issue.

This topic is gaining importance in light of the successive financial and banking crises. And in light of the collapse of oil prices, which negatively affected the revenues of the oil countries, which began to face economic difficulties and deep liquidity crises or deficits in their budgets. Which prompts her to search for non-traditional ways to confront the emerging circumstances. One of these ways is quantitative easing, which has become the last means in the hands of monetary authorities in the United States, Britain, European Union countries, Japan and other major countries.

The elements of quantitative easing include electronic money issuance (creation) and some form of open market operation which is one of the main tools of monetary policy. The other important element is interest rates. One of the axes and objectives of quantitative easing is to control interest rates and keep them low within the limits set by the monetary authority. Which you believe are the best rates to stimulate economic activity.

1. Money Issuance

The rescue packages launched to address the recent global financial crises included the issuance of hundreds of billions of US dollars, Euros, British pounds and Japanese yen as part of quantitative easing. These electronically generated funds were used for the purpose of financing central bank purchases of distressed financial assets or long-term government bonds. Or to implement lending programs dedicated to commercial banks that suffer from liquidity problems, the cash issuance is one of the forms of the (money creation) process in the economy that is carried out through the following three means: (Shabra: 1990)

a. Deficit financing: It is a cash issuance used when expenditures in the state's general budget are less than revenues, so central banks are forced to cover the difference between revenues and expenditures (deficit) by issuing money that records a debt on the government for the benefit of the central bank. An extension of what was happening when the money was covered with gold, as the government pledged to return the equivalent value of the currency in gold when the holder wanted it. As the era of the golden cap has ended, this commitment by the government remained in the form of the state guaranteeing the value of the currency and its acquittal strength without a pledge to return its value in gold, and over time, this gave the public almost absolute confidence in the currency without regard to the quality of the cover or its existence in the first place.

What we are interested in is the impact of the issue, whether it is covered or not. Issuance of money has well-known effects on the economic level. As well as what concerns us is the point and purpose of that issuance and the consequences of it.

The Money issuance takes one of the following possibilities:

The first: if it is directed to strengthening the country's economy and expanding the production base, then in the traditional economic scale system it will have positive effects. Also, within the scope of the Islamic economic system, there is nothing wrong with it, as the issuance of new banknotes by the concerned governments and to pay the obligations they owe to their people should, from an economic point of view, be sufficient for the price level to remain constant (Al-Ashqar).

Second: If this funding is directed to cover lavish expenses for state agencies and officials, or to achieve non-economic and unnecessary goals, then the matter is considered because sterile and wasteful spending are among the things that are religiously reprehensible: (The wastefuls were the brothers of the devils) (Al-Isra) and for this purpose it resides (The Bank Central Islamic) tight control over the money supply to ensure that its growth does not exceed the real production (Shabra: 1990)

Third: If this deficit financing leads to the erosion of the value of the national currency as a result of the increase in inflation, this will lead to the disruption of the functions of money as a measure of values and a store of value.

It will lead to an erosion of the value of salaries, wages, savings and harm to creditors, and all of these fall under the penalty of (and do not deprive people of their things) (Al-Araf).

b. Creation of credit money through the commercial banking system: This process occurs in interest-based banking systems as a result of granting loans and using cheques to withdraw on current accounts. The so-called deposit money creation takes place that leads to pumping additional means of payment into the economy times the value of the currency deposited as primary deposits in the banking system. This credit is based on usurious loans, and given that the banking system grants credit without following up on the money that will go to it, and this phenomenon, if it becomes rampant and is not monitored by the monetary authority, leads to accelerating inflation rates and generating multiple negative effects in the national economy.

Islamic economists have "saw a moral defect in credit money, and some of them expressed doubts about the need for it and attributed its spread to the vested interests of banks that create an artificial purchasing power" (Ayoub: 2009).

In Islamic banking systems, the process of breaching money will not occur except with narrow limits, because bank financing according to the legitimate methods adopted by Islamic banks is directed directly to financing real production and will not return again as derivative deposits used by banks to start a new lending cycle. Except in the form of actual initial deposits, and that this part What happens (from the creation of credit) is caused by good loans that are not large in necessity.

This is only what those who see nothing wrong with the existence of credit creation within the limits of the Islamic banking system, who believe that it "only arises to the extent that there are real possibilities for creating wealth from productive projects" (Ayoub: 2009)

The Islamic Central Bank should direct its monetary policy to generate growth in the money supply suitable to finance the possible growth in the national product in the medium and long terms within the framework of stable prices and the social and economic objectives of Islam. The goal is to ensure that monetary expansion is appropriate and not excessive, but rather sufficient for the complete independence of the economy's capacity on the offer of goods and services" (Shabra: 1990).

c. Convert part of the balance of payments surplus into local currency

The country that has a surplus in the balance of payments saves this through its current transactions with other countries and the balance of its foreign assets is positive. This surplus arises from an increase in the country's exports over its imports, from external transfers from any source whatsoever, receipts for services and consultations provided, and capital flows. Profits from foreign investments, and so on. (Yahya: 2000).

This surplus (balance) is used as a general reserve for the country and to pay external payments and future obligations and is used as a reserve for the issued currency within the limits determined by the monetary authority in coordination with the financial authority.

The use of foreign currency as a cover for the exported local currency is the natural context for the currency cover after abandoning the use of gold as a cover, and it generates actual and real confidence in the national currency.

It enables the Central Bank (or the Islamic Central Bank) to defend the target national currency exchange rate if it is exposed to any pressure in the exchange markets by intervening in a timely manner and pumping foreign currency into the market when the exchange rates drop from the desired levels, or withdraw the foreign currency from a rise those levels. There is nothing wrong with this context from a legal point of view... Rather, it is what is required for a developing economy.

2. Open Market Operations

It is one of the most prominent and important monetary policy tools used by the Central Bank to implement its monetary policy. In its original form, it includes the entry of the central bank into the financial market, as a buyer of securities, especially government bonds, when it wants to tackle recession and stimulate economic activity, and a seller of bonds and securities when there are inflationary trends (Yahya: 2001).

When buying, the cash reserves of commercial banks will increase and their ability to lend will increase, so the money supply will increase and vice versa if the central bank sells those bonds to commercial banks (Al-Sayyid Ali)

As for quantitative easing, the process takes place in the same formula and for the same goals, but there is a difference in that the purchase here is focused on specific quality securities for the purpose of achieving intended goals, and the difference also lies in that quantitative easing operations are financed through an electronic cash issuance dedicated to this purpose and in predetermined amounts.

The process in its usual context is not forbidden, except that its subject is bonds in most cases, which are debt bonds bearing interest, which are in fact forbidden usury, since bonds with interest have been agreed upon and forbidden to deal with by the majority of contemporary jurists, and decisions have been issued by the fiqh councils, including The decision of the Islamic Fiqh Academy of the Organization of the Islamic Conference in March 1990, which states (Al-Salous: 1998)

a. Bonds that represent a commitment to pay their amount with automatic annual interest or conditional interest are prohibited by Sharia in terms of issuance, purchase or trading because they are usurious loans.
b. Zero-coupon bonds are prohibited, as they are loans that are sold for less than their face value.
c. Bonds with prizes are prohibited, as they are loans that stipulate an interest or an increase.

Accordingly, the quantitative easing operations that take place in an Islamic economic system or by Islamic central banks should deal: Issuance, trading and dealing with Sharia-compliant financial instruments such as shares of companies that deal in non-prohibited activities, Mudaraba and Musharaka bonds and instruments, Ijarah, Salam and any other compatible financial instruments with Sharia.

3. Interest Rates

Perhaps the most important aspect that concerns us in the research is what is related to interest rates, which are considered by the economists of the capitalist world in most of them as the main influence in the capitalist economic system, but the developments of the global economy since the nineties have left no option for the monetary authorities in those countries but to reduce interest rates several times. For the purpose of encouraging borrowers to withdraw more loans, and then maximizing investment opportunities. As a result of these cuts, interest rates have reached zero or nearly zero in Japan first, then the United States and the European Union, in other words, they have become irrelevant in those economic systems.

This development was consistent with what Keynes put forward in the thirties of the last century that interest rates are not the only catalyst in the processes of economic growth, employment and investment, and that when these prices are low, the central bank will not be able to use them as a means to control or influence economic activity.

Thus, we should look for other means to stimulate that activity, as Keynes suggested that there should be intervention by the state through the means of fiscal policy.

A committee formed in 1957 to discuss the sterling crisis pointed out that changes in interest rates exercise only a small impact on the programs of large industrial projects. (Shiha: 1985)

A committee formed in the United States to study problems related to money and credit also pointed out that the interest rate is not a significant factor in influencing consumer spending (Sadidiqi: under publication year).

Milton Fred Mann said that the most important reason for the reckless behavior of the American economy is the reckless behavior of interest rates. Others, such as Minsky, Keynes, and Simons, argued that one of the main causes of the Great Depression of the 1930s was the instability of the credit system, and that the risk of economic turmoil could be reduced to a minimum if borrowing (i.e., excluding interest) was not resorted to (Shira: 1990).

Thus, we find in these results a convergence with the absolute prohibition of usury in any form and under any name that the Shari'a proposes, and with what was proposed by many capitalist economists themselves, that the current events in the United States of America, the European Union and Japan make the monetary authorities reluctant to take any decision regarding increase in interest rates. Although the banking systems there yearn for this and are pressing towards it, the economic trends tend to launch new quantitative easing campaigns without raising interest rates.

Conclusions and Recommendations

Conclusions

a. Quantitative easing represented an important development in the march of central banks and a new method in the context of their traditional monetary policies.

b. Quantitative easing enabled central banks and monetary authorities to stop the collapse that accompanied the 2007-2008 financial crisis and cured many of its negative consequences.
c. Quantitative easing is considered a return to the state's role in economic activity after calls for economic liberalism, freedom of trade and restrictions on the state in economic activity increased.
d. Quantitative easing has proven that the interest rate is not always an essential element in managing economic activity, but rather it can be harmful.
e. The general results of quantitative easing campaigns meet with the general trend of Islamic law in prohibiting usury and focusing on the disadvantages and disadvantages of interest on society and the economy.

And the. It is possible for Islamic countries to adopt forms of quantitative easing that suit their purposes and principles, provided they use financial instruments that comply with Islamic law.

Recommendations

a. Deepening the study of this experience and identifying its positive results and adopting what can be applied in Islamic countries, which is compatible with the principles of Islam.
b. Develop multiple Islamic financial instruments that can be used in similar quantitative easing operations In light of what is expected of the need of Islamic countries for similar campaigns of quantitative easing after the decline in oil prices, which is the main resource for many of those countries.
c. Spreading awareness of the importance of these results and the consequent facts that prove that the premise of Islamic Sharia in the economic, financial and banking fields is the guarantee for the establishment of a sound banking system far from real and artificial crises in the light of what has been proven by recent facts that interest rates may be harmful and harmful factors for economic activity and that they are responsible About the many economic crises that the whole world suffers from.

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