International Spillover Effects of Unconventional Monetary Policies of Major Central Banks*

Tomoo Inoue† Tatsuyoshi Okimoto‡

Abstract

This study examines the effects of unconventional monetary policies (UMPs) by the major central banks, namely the Bank of England (BOE), Bank of Japan (BOJ), European Central Bank (ECB) and the Federal Reserve (Fed) on the international financial markets, taking global spillovers and monetary policy interaction into account. To this end, we apply the Global Vector Autoregressive (GVAR) model to 35 countries and one region for the period from March 2009 to July 2019. In addition, we accommodate the smooth transition to the GVAR to consider possible structural changes in the effects of UMPs and monetary policy interaction. Our results indicate the importance of capturing structural changes, showing the remarkable difference between the beginning and end of the sample. For example, we find clear evidence of monetary policy coordination after the global financial crisis and less evidence of policy interaction in the recent period. Also, our results suggest that generally, the UMPs of the major central banks have stronger effects on both domestic and international bond markets in the earlier period. In contrast, the global equity markets respond more positively to the UMPs in the recent period, although there is no noticeable difference in the responses of domestic equity markets throughout the sample.

Keywords: Unconventional monetary policy, Financial linkage, International spillover, Global VAR

JEL Classification Numbers: C32, E44, F41, F47, O50

---

*We thank Etsuro Shioji and the participants of the FFJ/BdF workshop on monetary policy and macroeconomic issues, and 2020 NFA annual meeting, for their helpful comments and discussions. This research was prepared in part while Okimoto was visiting the Fondation France-Japon (FFJ) de l'EHESS and the Banque de France (BdF). He thanks the FFJ and the BdF for their support and hospitality during his stay. This research is partially funded by a grant-in-aid, from the Zengin Foundation for Studies in Economics and Finance (2019). The S&P Dow Jones Indices LLC has kindly provided the sovereign and corporate bond price indices.

†Professor, Faculty of Economics, Seikei University. 3-3-1 Kichijoji-Kitamachi, Musashino, Tokyo 180-8633, Japan. Email: `inoue@econ.seikei.ac.jp`

‡Associate Professor, Crawford School of Public Policy, Australian National University and Visiting Fellow, Research Institute of Economy, Trade and Industry. 132 Lennox Crossing, ANU, Acton, ACT 2601, Australia. Email: `tatsuyoshi.okimoto@anu.edu.au`