Following the Great Financial Crisis, many central banks in advanced countries had to resort to unconventional measures, which included increased use of the so-called forward guidance, but also unprecedentedly large purchases of various types of assets – a policy often dubbed quantitative easing (QE). The effects of these non-standard policies on the economies that implemented them have been widely analyzed in the literature, but their international effects remain still insufficiently explored. The outbreak of the COVID-19 pandemic has made the need to understand the effects of unconventional monetary policy even more pressing, also because this time QE was massively used by many emerging market economies with relatively shallow bond and exchange rate markets. Additionally, the macroeconomic context was quite different as the purchases of government bonds coincided with their massive net issuance by governments.

Against this backdrop, our research goal is twofold. First, we aim to provide new empirical evidence on (i) the effects of quantitative easing undertaken by major central banks in advanced economies on other open economies; and (ii) the domestic effects of QE undertaken by central banks in small open economies, including emerging market economies. Second, we plan to propose an original theoretical framework that, by incorporating bonds with different maturities and asset market segmentation into a general equilibrium model, will allow for an analysis of macroeconomic effects of large scale asset purchases, their international consequences, and their interactions with fiscal policy.

By offering novel empirical evidence on the effects of monetary policy interventions in large economies, the project will give a more complete picture of their consequences. Moreover, the proposed research will shed more light on the effectiveness of large scale asset purchases conducted by many emerging market economies as a response to the COVID-19 pandemic. An important result of this research will be a novel database on monetary policy shocks in a number of small open economies, which we plan to make publicly available.

On the methodological ground, by incorporating bonds with different maturities into a coherent macroeconomic framework, we expect to improve the existing approaches to structural modelling of quantitative easing. Moreover, we will be one of the first to account for interactions between quantitative easing and fiscal stimulus, which seems to be crucial in the context of the COVID-19 pandemic.

More generally, this project will also contribute to an important line of policy debate in contemporary macroeconomics, namely about the externalities created by monetary policy and international policy coordination, which has become particularly important during the COVID-19 crisis.