How Does Unconventional Monetary Policy Affect the Global Financial Markets?: Evaluating Policy Effects by Global VAR Models *

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Abstract

Since the beginning of the new century, we have observed a number of so-called "unconventional monetary policies," conducted by central banks in the major economies. In this paper, we re-investigate the policy effects of the Bank of Japan and the Federal Reserve Board, in regards to financial markets, by employing the Global Vector Autoregression approach.

Using generalized impulse response functions, we compare the monetary policy effects of the BOJ and those of the FRB on four financial indices, i.e., sovereign bond price, corporate bond price, equity price, and exchange rate, both in the domestic markets and the global markets. Some of the main results are: 1) the BOJ's expansionary monetary policy rises the Japanese corporate bond price only temporarily, but sovereign bond price and equity price of the domestic market persistently. However, in terms of its global influence, both sovereign and corporate bond markets react more than equity markets; 2) the FRB's expansionary monetary policy increases US sovereign bond price temporarily, but corporate bond and equity price for a long-run. However, due to an additional demand for dollar, as reflected in the appreciation of exchange rate, its long-run global influence is rather limited.

Our findings also suggest the usefulness of global VAR modeling strategy over single-country VAR models for evaluating the monetary policy shock of medium-sized open economies.

Keywords: Monetary policy, GVAR, Financial linkage, Empirical macroeconomics

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