

Consequences of Transformation of Modern Monetary Policy during the Global Financial Crisis

Authors : Aleksandra Szunke

Abstract : Monetary policy is an important pillar of the economy, directly affecting on the condition of banking sector. Depending on the strategy may both support functioning of banking institutions, as well as limit their excessively risky activities. The literature studies indicate a large number of publications, which include characteristics of initiatives, implemented by central banks during the global financial crisis and the potential effects of the use of non-standard monetary policy instruments. However, the empirical evidence about their effects and real consequences for the financial markets are still not final. Even before the escalation of instability, Bernanke, Reinhart, and Sack (2004) analyzed the effectiveness of various unconventional monetary tools in lowering long-term interest rates in the United States and Japan. The obtained results largely confirmed the effectiveness of the zero-interest-rate policy and Quantitative Easing (QE) in achieving the goal of reducing long-term interest rates. Japan, considered as the precursor of QE policy, also conducted research about the consequences of non-standard instruments, implemented to restore financial stability of the country. Although the literature about the effectiveness of Quantitative Easing in Japan is extensive, it does not uniquely specify whether it brought permanent effects. The main aim of the study is to identify the implications of non-standard monetary policy, implemented by selected central banks (the Federal Reserve System, Bank of England and European Central Bank), paying particular attention to the consequences into three areas: the size of money supply, financial markets, and the real economy.

Keywords : consequences of modern monetary policy, quantitative easing policy, banking sector instability, global financial crisis

Conference Title : ICFBI 2015 : International Conference on Finance, Banking and Insurance

Conference Location : Paris, France

Conference Dates : February 23-24, 2015