

Assessing the Economy-wide Effects of Quantitative Easing

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Abstract

This article examines the macroeconomic impact of the first round of quantitative easing (QE) by the Bank of England. We attempt to quantify the effects of these purchases by focusing on the impact of lower long-term interest rates on the wider economy. We use three different models to estimate the impact of QE on output and inflation: a large Bayesian vector autoregression (VAR), a change-point structural VAR and a time-varying parameter VAR. Our estimates suggest that QE may have had a peak effect on the level of real GDP of around $1\frac{1}{2}\%$ and a peak effect on annual CPI inflation of about $1\frac{1}{4}\%$ points.

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