INTERNATIONAL SPILLOVERS OF LARGE-SCALE ASSET PURCHASES

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Abstract
This paper evaluates the international spillover effects of large-scale asset purchases (LSAPs) using an estimated two-country dynamic stochastic general-equilibrium model with nominal and real rigidities and portfolio balance effects. Portfolio balance effects arise from imperfect substitutability between short- and long-term bond portfolios in each country, as well as between domestic and foreign bonds within these portfolios. We show that LSAPs in the US lower long-term yields and stimulate economic activity not only in the US, but also in the rest of the world (ROW) economy. This occurs despite the currency appreciation in the ROW and the resulting deterioration in their trade balance. The key for this result is the decline in the ROW term premia through the portfolio balance channel, as the relative demand for ROW long-term bonds increases following an LSAP in the US. Our model indicates that US asset purchases that generate the same output effect as US conventional monetary policy have larger international spillovers due to stronger portfolio balance effects. We also show that international openness in financial markets reduces the stimulatory effects of LSAPs in the originating country, while increasing their international spillover effects. (JEL: E52, F41)

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