Rethinking the Use of QE for Macro Stimulus

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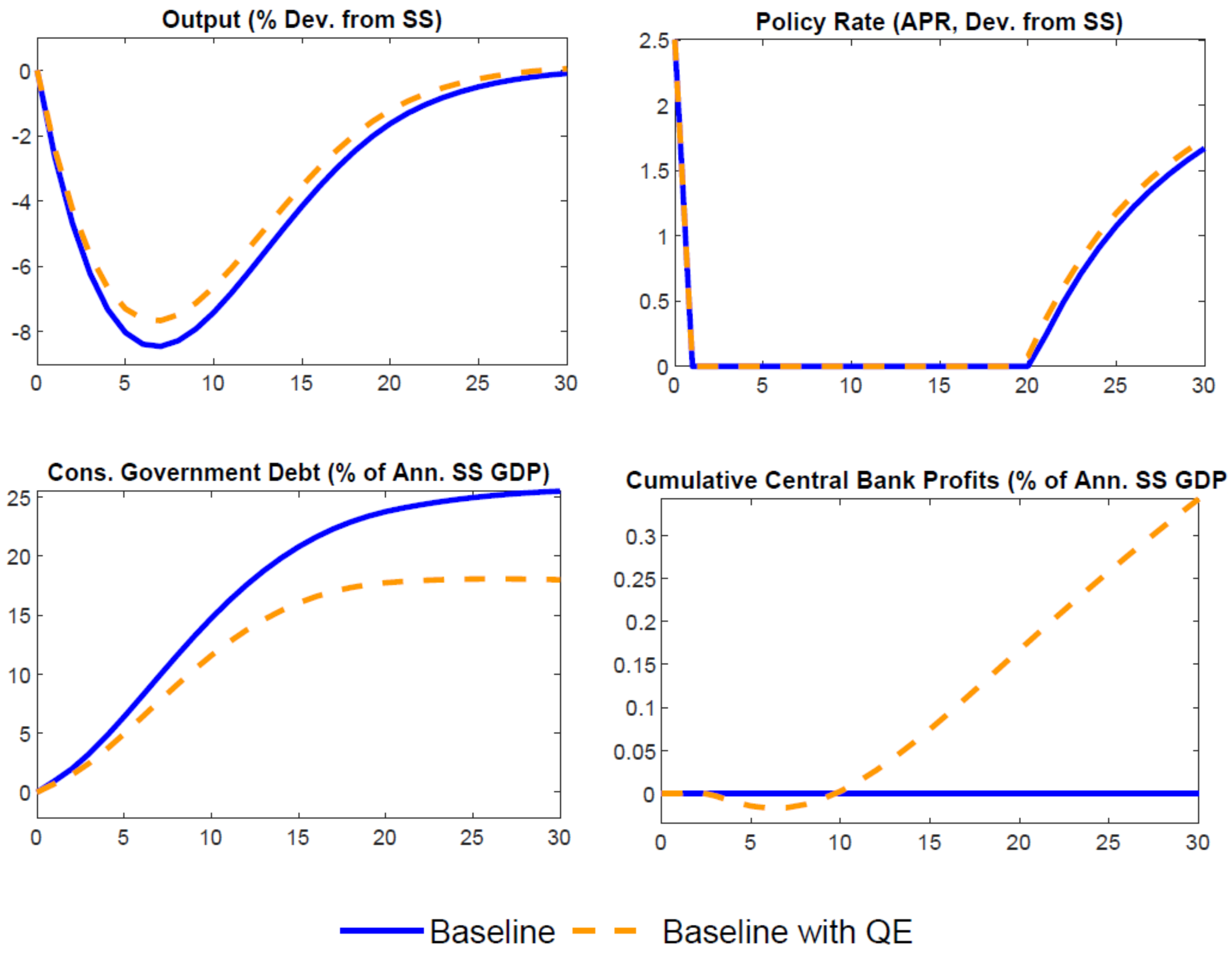
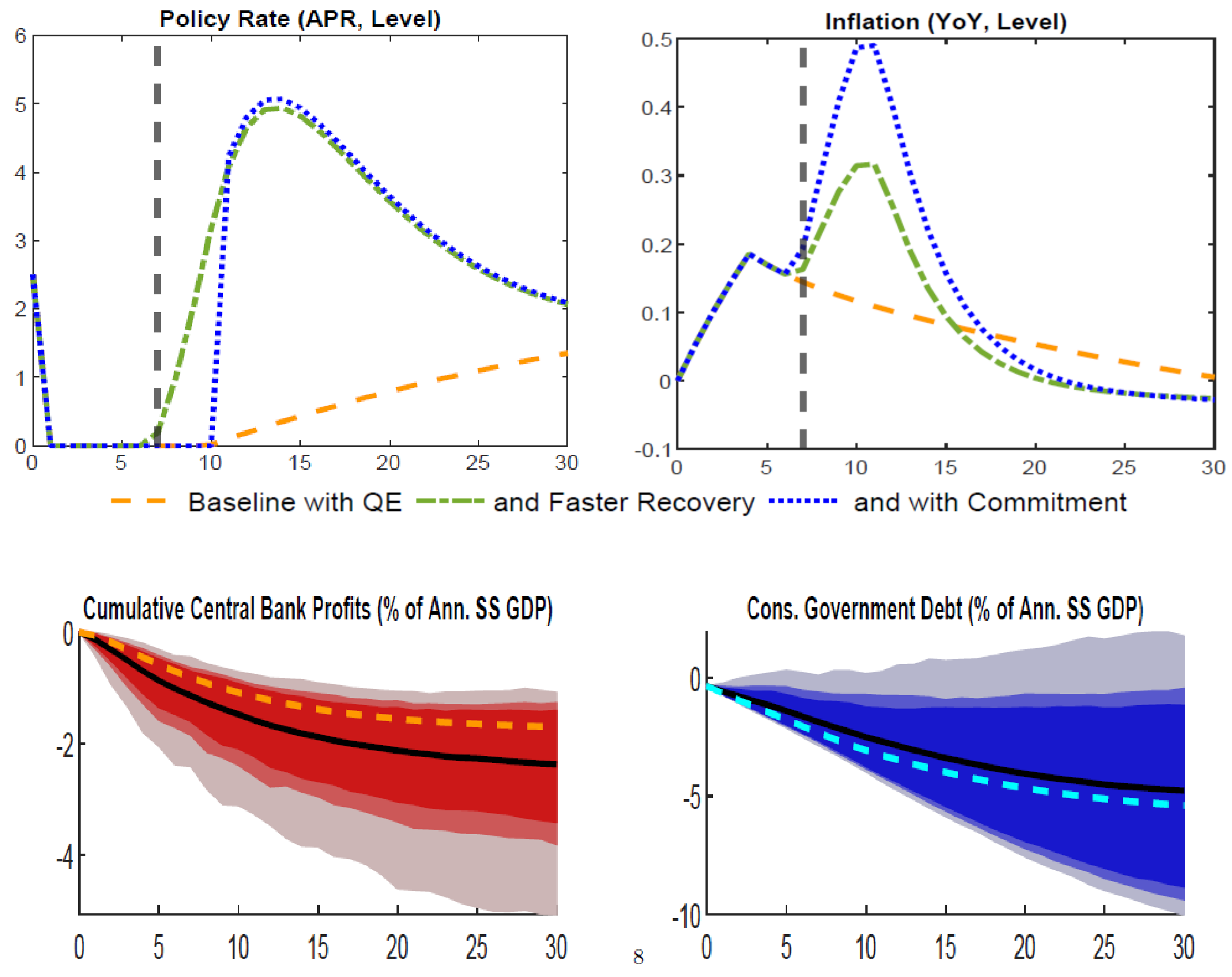
Slide 1: QE highly effective in deep liquidity trap



- Based on: Adrian, Erceg, Kolasa, Linde, and Zabczyk (2025)
- **Baseline:** Deep recession and liquidity trap (due to discount factor shock)
- **With QE:** QE (here 10 percent of GDP) has clear macro benefits, boosting output and inflation
- QE also has favorable fiscal effects: reduces govt debt (partly from higher CB profits)

Slide 2: Risks of QE in shallow liquidity trap



- Here QE is launched in a shallow recession, but upside risks materialize
- QE contributes to overheating, in part because the CB makes good on its commitment to keep policy rates low for some time after asset purchases end
- Stochastic simulations: if TP is small (here: 0) and QE is big (here: 20% of GDP), CB losses can be large and there is some probability of unfavorable effect of QE on consolidated public debt