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Highlights

Post-crisis monetary policy has struggled to stimulate nominal demand.
This paper uses half a century of empirical data to evaluate a broad range of traditional and non-traditional potential monetary policy variables, conducting a horse-race
The goal of the empirical evaluation is to find out which of the variables is indeed most useful in explaining nominal GDP growth
The econometric methodology is the 'general-to-specific' approach, to allow the data to speak, without being influenced by priors
It is found that interest rates and money aggregates do not influence nominal GDP significantly - these variables are beaten in the horse race and drop out as insignificant.
Instead, bank credit for GDP transactions explains nominal GDP best, and is strongly exogenous to ('Granger-causing') nominal GDP.

A half-century diversion of monetary policy? An empirical horse-race to identify the UK variable most likely to deliver the desired nominal GDP growth rate

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Abstract

The financial crisis of 2007-2008 triggered monetary policy designed to boost nominal demand, including 'Quantitative Easing', 'Credit Easing', 'Forward Guidance' and 'Funding for Lending'. A key aim of these policies was to boost the quantity of bank credit to the non-financial corporate and household sectors. In the previous decade or more, however, policy-makers had not focused on bank credit. Indeed, over the past half century, different variables were raised to prominence in the quest to achieve desired nominal GDP outcomes. This paper