

The impact of unconventional monetary policy shocks on energy prices

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Abstract

We examine the effect of ECB's unconventional monetary policy measures on energy prices. Our results indicate that the non-standard ECB monetary policies during the recent financial crises had a significant and negative impact on energy prices. For example, we find that these policies accounted for approximately 10% of the price variance for the Light Crude Oil Futures Contract. The second more important contribution has been to the Bloomberg Commodity Index where 8.42% of price volatility is explained. In addition, Impulse Response Functions suggest that an increase in the ECB's propensity to unconventional monetary policy decreases energy prices for all five energy price proxies during the first two months after the monetary shock. Since unconventional monetary policies have now become part of a central bank's arsenal during financial turmoil and crisis, and thus may be used in future crises, these results shed light on the potential impact of these policies on important economic variables, such as energy prices.

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