

## **Response to Referee 2:**

The authors thank the referee for the thoughtful and well-taken points. Below, we describe point-by-point how we addressed these points in our revision.

Kind regards

Referee: The discussion of nonconventional monetary policy tools is too superficial. The paper should broaden the definition of unconventional monetary policy tools and include more of those not tried yet but proposed in the literature.

- **We now discuss also other proposals that are not tried yet but are discussed in the literature and by policy-makers, such as price-level-targeting, nominal GDP targeting, helicopter money, abolishing cash and conducting monetary policy following the Neo-Fisherian view. (p. 20-21)**

Referee: The discussion about the “increasing evidence that monetary policy can have negative side-effects” needs to be deepened. First, don’t we know that for a long time? Second, do the findings of Cetto et al. (2016) really support the arguments that “expansionary monetary policy can contribute to the misallocation of resources”? Third, even if firms did not use the additional funding for investment and job creation, may it not have prevented a further decline of economic activity (and loss of jobs)?

- **We have extended the discussion on potential negative side-effects and have based our discussion now on a somewhat richer literature review. In doing so, however, we tried to stay focused on the main arguments to avoid that this part of the section becomes disproportionately large compared to the other parts of this section.  
We dropped our assessment that there increasing evidence. Cetto et al. (2016) are silent about the potential reasons behind a decline in the real interest rate but just refer to monetary policy as being one of potentially many factors. We rephrased our description to avoid confusion. Finally, we agree that it is possible that expansionary monetary policy that leads to a misallocation of production factors could prevent a further decline in economic activity in the short-run. In the revised paper, we do not explicitly refer to the short-run effects anymore as they are also not explicitly discussed in the literature. (p. 22-23)**

Referee: Why has the investment share been declining in Japan, Germany, and the UK but not in the US and France (Figure 4)?

- **We now give the example that demographic trends could be one relevant factor behind these differing trends in investment shares. However, a deep discussion of this complex issue is beyond the scope of this paper. (p.6)**

Referee: Why does Robert Gordon (2014) argue that digitization does not have the potential to raise productivity in a similar way that the industrial revolution did in the first half of the 20th century?

- **We now describe the arguments of Gordon (2014) in more detail. He argues that the inventions until the first half of the 20th century (i.e. electricity, urban sanitation, chemicals and pharmaceuticals, the internal combustion engine and modern communication) were multi-dimensional and transforming virtually every aspect of life and production, whereas the IT revolution that started in the 1970s – with its impact on productivity peaking in the temporary productivity acceleration in the 10 years around the turn of the millennium – is regarded as being one-dimensional in nature. (p.8)**

Referee: New global forecasts from the IMF (World Economic Outlook) and the World Bank (Global Economic Prospects) support many points made the paragraph on the outlook for potential output growth and could be cited.

- **We now cite the most recent global forecasting reports from the IMF and the World Bank. (p. 10 and 11)**

Referee: Given how accessible the rest of the paper is, you shouldn't use the abbreviation OMT without explaining it.

- **We introduce the abbreviation OMT in the text and shortly explain OMT in a footnote. (p. 22)**