

Macro Roundup Article

Headline: [Monetary Policy and Financial Conditions](#)

Article Link: <https://www.frbsf.org/research-and-insights/publications/economic-letter/2024/03/monetary-policy-and-financial-conditions/>

Author(s)	Michael Bauer and Zoë Arnaut
Publication	Federal Reserve Bank of San Francisco
Publication Date	March 04, 2024

Tweet: New @sffed @michaelbauer hh research suggests monetary policy is a key driver of financial conditions: a policy surprise of 0.1pp drove an increase of 0.07 index points in the Goldman Sachs Financial conditions index.

Summary: Monetary policy has significant direct effects on financial conditions, as evident from the response to monetary policy surprises. [For example] a surprise monetary tightening leads to significant and persistent tightening in financial conditions. The size of the impact is moderately large: a policy surprise of 0.1 percentage point leads to an increase in the Goldman Sachs FCI by about 0.07 index points on the day of the announcement and further increases over the following two weeks. In addition, monetary policy also has indirect effects: Macroeconomic news affects financial conditions in part by shifting perceptions about the likely course of future policy. Financial market participants appear to be especially attuned to recent inflation data releases, which has led to unusually strong responses in financial conditions. Related: A Status Check on Bank Lending and Bank Balance Sheets and Transitory Disinflation and How Fast Can the Fed Ease? The Private Sector Response to Easier Conditions Will Be a Key Factor

Primary Topic: Banking

Topics: Banking, Business Cycle, Financial Markets, GDP, Government/NGO, Monetary Policy

Permalink: https://www.edwardconard.com/macro-roundup/new-sffed-michaelbauer_hh-research-suggests-monetary-policy-is-a-key-driver-of-financial-conditions-a-policy-surprise-of-0-1pp-drove-an-increase-of-0-07-index-points-in-the-goldman-sachs-financial?view=detail

Featured Image

Link: <https://www.edwardconard.com/wp-content/uploads/2024/03/GS-FCI-FRBSF.png>