Monetary Policy in the COVID Era and Beyond: Comparing the Fed and the ECB[*]

Rubén Fernández-Fuertes[†]

This Version: September 5, 2023

Abstract

This study examines monetary policy during and post-COVID by analysing innovative rules based on data from before the pandemic. It models fluctuating monetary policy rates using a stochastic trend, linking potential output growth, demographic age distribution, and inflation expectations to the prevailing interest rate trends in both the US and the Eurozone. The cyclical variations in short-term rates are associated with monetary policy through the conventional Taylor rule indicators. Whilst the standard model is robust for the US both in and out of sample, the Eurozone displays less consistent in-sample results and marked deviations in out-of-sample tests. Addressing the ECB's concerns about bond market fragmentation doesn't yield better results. Instead, a model in which the ECB follows the US example with caution and delay proves more effective. **JEL codes:** E43, E52, G12.
Keywords: Monetary Policy Rules, Trends and Cycles, Fed, ECB.