

What drives ECB monetary policy?

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Abstract

In this paper I have analyzed ECB interest rate setting in the first 5 years of its existence. Contrary to popular belief and continuous ECB statements, the ECB has not acted as an obsessed inflation fighter. Output considerations do play a significant role in the ECB's policy rule. In terms of actual policy, if anything, the ECB has been on the loose side, especially since 2001. The euro area as a whole needed a higher rate according to conventional wisdom. Actual interest rates have been consistent with German preferences, however. It suggests the ECB puts a dominant weight on German economic developments. Claims that small peripheral countries get their way within EMU is clearly rejected by the data. If anything, their interests receive too low weight rather than too high. Finally, the Fed and the ECB appear to behave very similar in actual operations, even though the Fed in the end may be a little more aggressive than the ECB. There is little reason to criticize the ECB for not following the Fed's example, therefore.