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Initial Monetary Policy Response to the COVID-19 Pandemic in Inflation Targeting Economies

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This presentation represents the opinions of the author.
It is not meant to represent the position of the NBP.

Monetary policy response to COVID-19 was exceptional in many respects

- The paper investigates several aspects of this exceptionality among inflation targeters, by looking at:
 - the scope of the adopted measures
 - the sequence of the adopted measures
 - the timing of announcing the policy response
 - factors influencing inside decision lag
- The paper analyses publicly available information and data taken from central banks' websites, the IMF, the World Bank, and some indicators proposed in Fernández et al. (2016), Chinn and Ito (2006), Hale et al., 2021, Niedźwiedzińska (2020) and Niedźwiedzińska (2022).

Monetary policy response to COVID-19 was analysed among inflation targeting economies

- 28 inflation targeting countries were chosen for the analysis (14 advanced economies and 14 emerging market economies)
- The period investigated begins around the outbreak of the pandemic and ends in June 2020
- Two main division lines were introduced:
 - distinction between countries at different level of economic development (advanced and emerging market economies)
 - distinction between countries hit by the pandemic in subsequent months (January, February, or March waves)

Monetary policy response to COVID-19 was analysed among different sub-groups

Overview of countries analysed

First cases of COVID-19 reported in:									
January*			February			March			
Economy	Country	Country code	Economy	Country	Country code	Economy	Country	Country code	
A	Australia	AU	E	Brazil	BR	E	Chile	CL	
A	Canada	CA	A	Iceland	IS	A	Czech Republic	CZ	
A	Euro Area	EA	A	Israel	IL	E	Hungary	HU	
E	India	IN	E	Mexico	MX	E	Indonesia	ID	
A	Japan	JP	A	New Zealand	NZ	E	Poland	PL	
A	Korea	KR	A	Norway	NO	E	South Africa	ZA	
E	Philippines	PH	E	Romania	RO	E	Turkey	TR	
E	Russia	RU	A	Switzerland	CH	E	Ukraine	UA	
A	Sweden	SE	No. of cases			8	No. of cases		
E	Thailand	TH	No. of advanced economies			5	No. of advanced economies		
A	United Kingdom	GB	No. of emerging market economies			3	No. of emerging market economies		
A	United States	US							
No. of cases		12							
No. of advanced economies		8							
No. of emerging market economies		4							

Source: own compilation based on Niedźwiedzińska (2021).

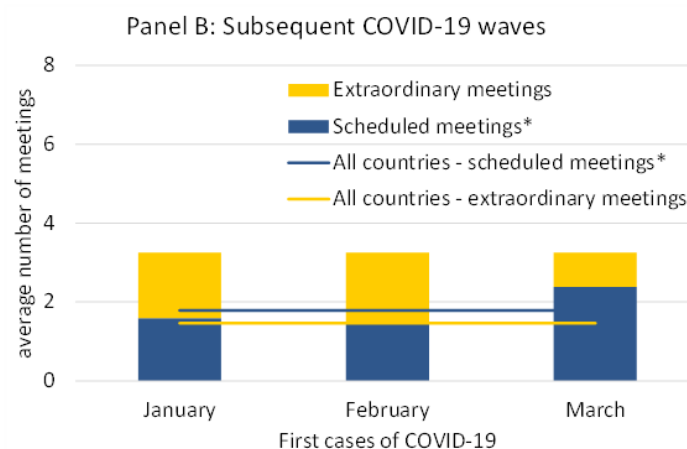
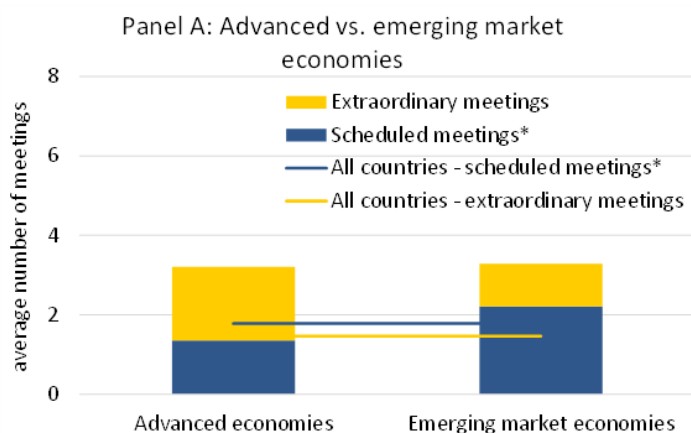
Notes: * Russia and Sweden were included in the January group (the first cases of COVID-19 in those two countries were reported on 1st February 2020, while for other countries included in the February group the first cases of COVID-19 were reported in late February). A denotes advanced economies, while E denotes emerging market economies.

Monetary policy response to COVID-19 showed how central banks addressed the crisis

- The paper shows evidence for:
 - the outstanding number of decision-making meetings held during the first few months of 2020, including extraordinary meetings
 - the unprecedented intensity of announcing new measures or extending the already introduced instruments
 - the wide acceptance of a much broader policy toolkit in countries previously following rather conventional monetary policy
 - a much faster initial policy actions within emerging market economies compared to advanced economies (on average)

Number of decision-making meetings was outstanding

Monetary policy initial response to COVID-19 announced after scheduled and extraordinary decision-making meetings

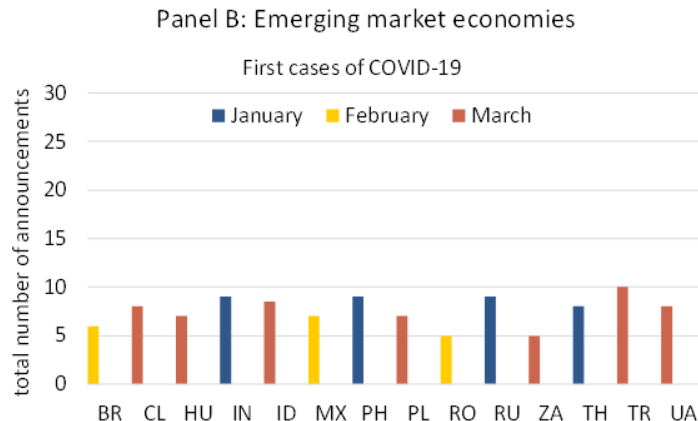
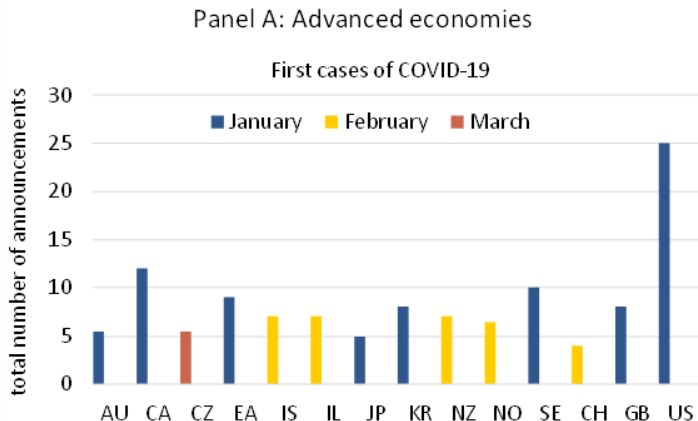


Source: own compilation based on Niedźwiedzińska (2021).

Notes: For each central bank a number of extraordinary meetings and a number of scheduled meetings are noted and based on that averages for all the indicated groups of economies are calculated. * Include rescheduled meetings if announced with prior notice.

Intensity of announcing new measures was unprecedented

Number of monetary policy announcements related to new measures or their extensions in Q1-Q2 2020 in response to COVID-19



Source: own compilation based on Niedźwiedzińska (2021).

Notes: Countries ordered alphabetically based on the full name of the country in English. Each announcement counted separately (e.g. each interest rate cut counted separately). Monetary policy announcements considered in the Chart are counted starting with the first announcement related to COVID-19 and are added up till end-June 2020. Thus, the timeframe varies from country to country.

Policy toolkits used in response to the COVID-19 crisis

Overview of monetary policy measures used during the pandemic

Country	Advanced economies			Country	Emerging market economies		
	Cuts in interest rates	Asset purchase programmes	Credit easing schemes		Cuts in interest rates	Asset purchase programmes	Credit easing schemes
AU	yes	yes	yes	BR	yes		
CA	yes	yes	yes	CL	yes	yes	yes
CZ	yes			HU	yes	yes	yes
EA		yes	yes	IN	yes	yes	yes
IS	yes	yes		ID	yes	yes	
IL	yes	yes	yes	MX	yes		yes
JP		yes	yes	PH	yes	yes	yes
KR	yes	yes	yes	PL	yes	yes	yes
NZ	yes	yes	yes	RO	yes	yes	
NO	yes			RU	yes		yes
SE		yes	yes	ZA	yes	yes	
CH			yes	TH	yes	yes	yes
GB	yes	yes	yes	TR	yes	yes	yes
US	yes	yes	yes	UA	yes		

Source: own compilation based on Niedźwiedzińska (2021).

Notes: Countries ordered alphabetically based on the full name of the country in English.

Policy toolkits used in response to the Global Financial Crisis

Overview of monetary policy measures used during the GFC

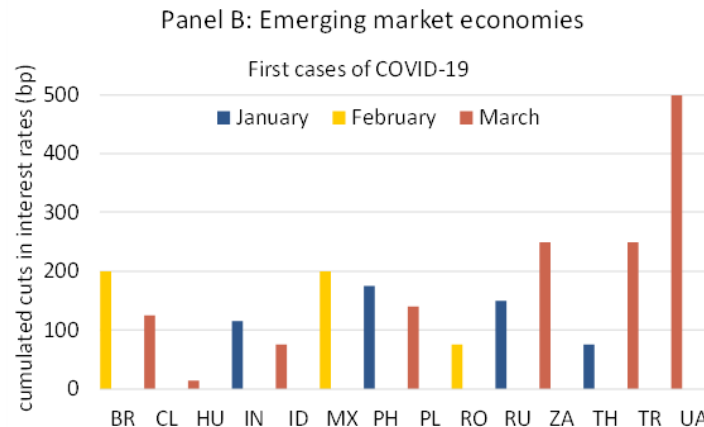
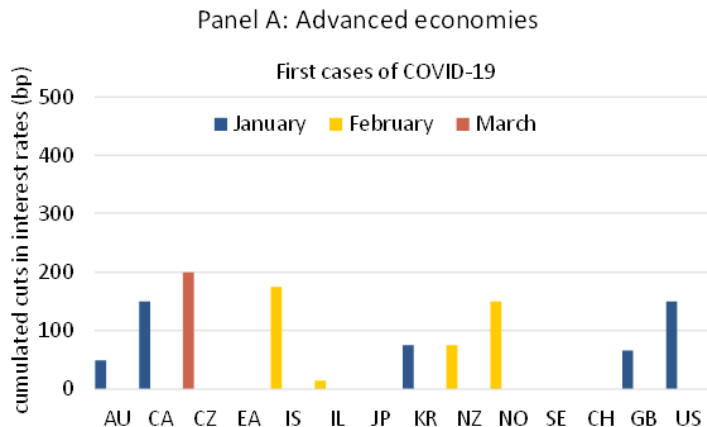
Advanced economies				Emerging market economies			
Country	Cuts in interest rates	Asset purchase programmes	Credit easing schemes	Country	Cuts in interest rates	Asset purchase programmes	Credit easing schemes
AU	yes			BR	yes*		
CA	yes			CL	yes*		
CZ	yes			HU	hike	yes	yes
EA	yes	yes	yes	IN***	yes		
IS	hike	yes		ID	yes*		
IL	yes*			MX	yes*		
JP**	yes	yes	yes	PH	yes		
KR	yes*	yes		PL	yes		
NZ	yes			RO	yes		
NO	yes			RU***	hike		yes
SE	yes*	yes	yes	ZA	yes		
CH	yes		yes	TH	yes*		
GB	yes	yes	yes	TR	yes	yes	
US**	yes	yes		UA****	yes		

Source: own compilation based on Niedźwiedzińska (2022).

Notes: Countries ordered alphabetically based on the full name of the country in English. * Mild interest rate hike immediately after the collapse of the Lehman Brother, followed by substantial interest rate cuts. ** Explicit inflation targets announced only in 2012, but prior to that date monetary policy of implicit inflation targeting. *** Inflation targeter only since 2015. **** Inflation targeter only since 2017.

Conventional interest rate cuts were a must

Cumulated interest rate cuts in Q1-Q2 2020 in response to COVID-19

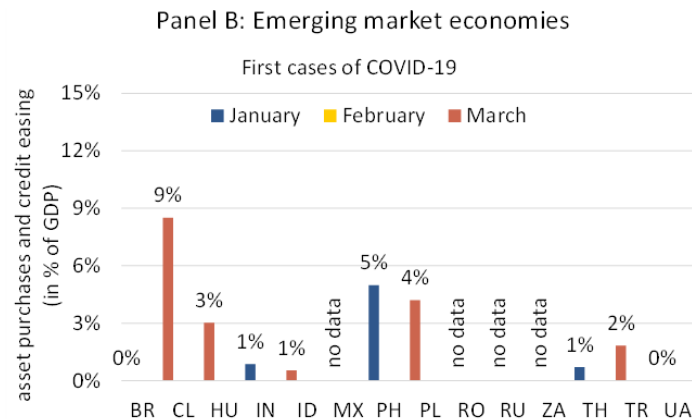
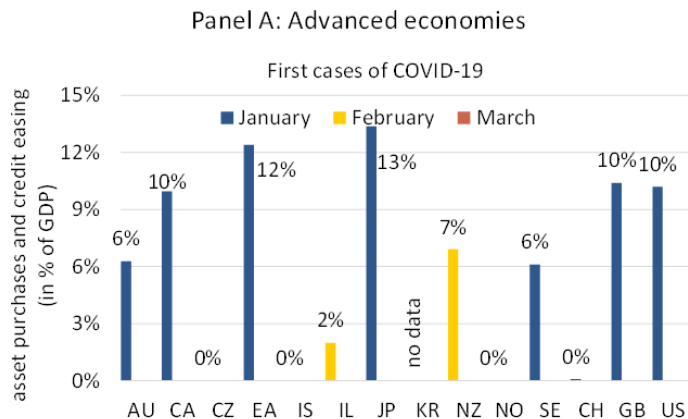


Source: own compilation based on Niedźwiedzińska (2021).

Notes: Countries ordered alphabetically based on the full name of the country in English. Interest rate cuts considered in the Chart are counted starting with the first monetary policy announcement related to COVID-19 and are added up till end-June 2020. Thus, the timeframe varies from country to country.

Unconventional measures were also widely requested

Cumulated value of asset purchases and credit easing measures implemented in Q1-Q2 2020 in response to COVID-19

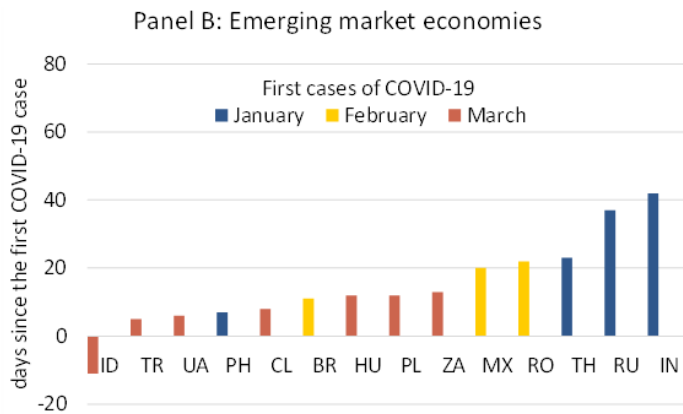
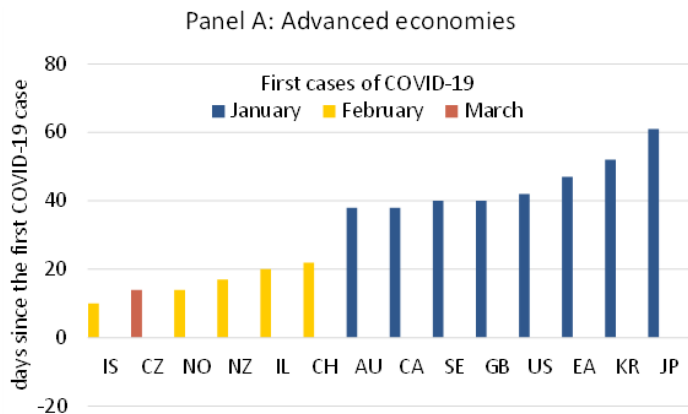


Source: own compilation based on central banks' websites.

Notes: For countries with no asset purchases and no credit easing measures "0%". For countries where no information on asset purchases nor credit easing measures was available "no data". Values of asset purchases and credit easing measures are counted starting with the first monetary policy announcement related to COVID-19 (or the date closest to it – depending on data availability) and are added up till end-June 2020.

Policy response of emerging economies was faster than that of advanced economies

Overall monetary policy response lag to COVID-19 in individual countries



Source: own compilation based on Niedźwiedzińska (2021).

Policy response lag could be explained by several factors

- On average, advanced economies announced their initial policy actions within a month, whereas emerging market economies were twice as fast
- However, tentative estimation results indicate that this difference could be, to a great extent, explained by:
 - the timing of registering the first COVID-19 cases in a country
 - stringency of the adopted anti-pandemic restrictions
 - being in need of liquidity provisions with less deep financial system
 - of relevance were also variables related to having room for manoeuvre with respect to nonstandard measures and inflation deviation from the target

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