

MEASURING THE STANCE OF MONETARY POLICY IN CONVENTIONAL AND UNCONVENTIONAL ENVIRONMENTS

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This article introduces an idea for summarizing of the stance of monetary policy with quantities derived from a class of yield curve models that respect the zero lower bound constraint for interest rates. The Effective Monetary Stimulus aggregates the current and estimated expected path of interest rates relative to the neutral interest rate from the yield curve model. Unlike shadow short rates, Effective Monetary Stimulus measures are consistent and comparable across conventional and unconventional monetary policy environments, and are less subject to variation with modelling choices, as I demonstrate with two and three factor models estimated with different data sets. Full empirical testing of the inter-relationships between Effective Monetary Stimulus measures and macroeconomic data remains a topic for future work.