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MONETARY POLICY EFFICIENCY IN CURBING POST-COVID-19 INFLATION

Abstract:

The COVID-19 pandemic necessitated the deployment of unconventional monetary policies, such as large-scale asset purchases and near-zero interest rates, which ultimately contributed to a sharp increase in inflation. As inflationary pressures mounted, central banks responded with various exit strategies, including the tightening of monetary policies. A key component of these strategies was the increase in key interest rates to reduce the money supply. This study examines the effectiveness of these monetary policies, particularly in controlling inflation during the post-pandemic recovery period. Focusing on the European Union (EU) and the United States, the research investigates the relationship between M2 monetary aggregates and inflation, as measured by the Harmonized Index of Consumer Prices (HICP). Employing Granger causality tests, the study analyzes monthly data from January 2018 to July 2024 to determine the predictive power of M2 on inflation. The findings reveal a significant causal relationship between changes in M2 and inflation in both regions, indicating that central bank interventions, have been influential in shaping inflationary outcomes. These results underscore the critical role of monetary policy, particularly interest rate adjustments, in managing inflation during economic recovery periods.

Keywords:

Inflation Control, Money Supply, Granger Causality Analysis, Central Bank Actions

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