



COMPARISON OF THE FED'S MONETARY TIGHTENING CYCLES: 1994–1995, 2004–2006 AND 2022–2023

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Relevance. Changes in the policy rate of the Federal Reserve System (Fed) are an important signal for global financial markets and national economies. Rate changes affect the real economy through credit and other channels [B. Bernanke, A. Blinder 1992]. The sharp rise in the rate over a short period since 2022 has strengthened the need to study the speed and depth of policy cycles.

Problem. Policy-rule theory describes the rate as a systematic response to inflation and the output gap [J. Taylor 1993], yet in practice tightening cycles differ from one another in pace and amplitude. A quantitative comparison of these differences based on uniform indicators is necessary to understand how sensitive the results are to the sample period [O. Coibion 2012].

Aim. To determine and compare the amplitude, duration and average monthly pace of the three Fed rate-hiking cycles (1994–1995, 2004–2006 and 2022–2023).

Method. The analysis uses monthly average values of the effective federal funds rate (FEDFUNDS) from the FRED database of the Federal Reserve Bank of St. Louis [FRED]. The start of a cycle was defined as the lowest monthly value before the rate increases began, and the end as the highest value.

Results. 1) 1994–1995: the rate rose from 2.96% in December 1993 to 6.05% in April 1995, an increase of 3.09 percentage points; the cycle lasted 16



months, with an average pace of 0.19 percentage points per month. 2) 2004–2006: from 1.03% in June 2004 to 5.25% in August 2006, an increase of 4.22 percentage points over 26 months; the average pace was 0.16 percentage points per month. 3) 2022–2023: from 0.08% in February 2022 to 5.33% in August 2023, an increase of 5.25 percentage points over 18 months; the average pace was 0.29 percentage points per month. 4) The third cycle is the largest in amplitude, and its pace is about 1.5 times that of 1994–1995 and about 1.8 times that of 2004–2006. 5) After reaching the peak, the rate remained within the 5.24–5.26% range for 12 months, from August 2006 to July 2007, and stayed unchanged at 5.33% for 13 months, from August 2023 to August 2024.

In conclusion, in our view, the 2022–2023 tightening cycle was considerably faster and deeper than the previous two. It should be noted that the large amplitude of the cycle is partly due to the rate having started from a near-zero level, while the reasons for the differences in pace (the inflation level and other factors) require a separate econometric analysis.

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