

FED RATE-CUTTING CYCLES AND ZERO LOWER BOUND PERIODS: AN ANALYSIS OF 2007–2008, 2019–2020 AND 2024–2026

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Relevance. When the policy rate falls to a level close to zero, the conventional instruments of the central bank become limited [J. Wu, F. Xia 2016]. Therefore, the speed of rate-cutting cycles, the length of time spent at the zero lower bound and the dynamics of exit from it are important for assessing monetary policy. The Fed's start of a new cutting cycle in September 2024 has made this issue topical again.

Problem. Cutting cycles take place under different conditions — a financial crisis, an unexpected shock, or a period of gradual easing — and unless their parameters are compared with one another, the dependence of the pace of policy on circumstances remains hidden.

Aim. To determine the parameters of the three Fed rate-cutting cycles (2007–2008, 2019–2020 and 2024–2026) and of the two near-zero rate periods.

Method. The analysis is based on monthly average values of the effective federal funds rate (FEDFUNDS) from the FRED database [FRED]. Months in which the monthly average rate was below 0.25% were treated as the near-zero period. The data cover the period up to August 2026, so the third cycle is not yet complete.

Results. 1) 2007–2008: the rate fell from 5.26% in July 2007 to 0.16% in December 2008, a decline of 5.10 percentage points; the cycle lasted 17 months, at a pace of 0.30 percentage points per month. 2) 2019–2020: from 2.40% in July 2019 to 0.05% in April 2020, a decline of 2.35 percentage points in 9 months; the pace was 0.26 percentage points per month. 3) 2024–2026: from 5.33% in August 2024 to 3.63% in August 2026, a decline of 1.70 percentage points in 24 months; the pace was 0.07 percentage points per month, i.e. about 4 times slower than in the first two cycles. 4) Near-zero periods: 85 months from December 2008 to December 2015, and 24 months from April 2020 to March 2022. 5) Exit from the near-zero level: in the first case, the rate rose from 0.24% in December 2015 to 2.40% in January 2019, an increase of 2.16 percentage points over 37 months (0.06 percentage points per month); in the second case, from 0.20% in March 2022 to 5.33% in August 2023, an increase of 5.13 percentage points over 17 months (0.30 percentage points per month), about 5 times faster than the first exit.

In conclusion, in our view, the cutting cycles during the two crises were fast and deep, whereas the pace of the 2024–2026 cycle is markedly slower. The speed of exit from the near-zero level also differs sharply between the two episodes. The factors that

explain these differences (inflation, employment, financial conditions) are not analysed in this thesis and remain a subject for further research.

References:

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