SUMMARY (English)

Part 1: The US Federal Reserve System and the European System of Central Banks – selected issues under review

1. Whereas the Fed has to promote "*effectively the goal of maximum employment, stable prices and moderate long-term interest rates*", the ECB's primary objective is to maintain price stability. The differences in policy objectives can, to a large extent, be held responsible for the differences in the conduct of monetary policy between the two central banks.
2. In view of the inherent potential conflicts between its policy objectives, the Fed's reputation capital, embodied by Fed Chairman Alan Greenspan, seems to play an essential role in explaining the success of the Fed's monetary policy in terms of stabilisation.
3. The ECB's credibility basically rests on an institutional framework designed to rule out conflicts of objectives. The ECB's explicit policy objective and strategy allow the bank to pursue a much more "depersonalised" monetary policy than that of the Fed.

Part 2: The reaction functions of the US Fed and ECB

1. The Fed does not have an explicitly announced policy strategy. Conceptually, the Fed policy bears an affinity to "interest rate steering". The Fed policy reaction function can largely be explained by actual inflation changes and by changes in the unemployment rate.
2. The ECB has devoted considerable effort towards designing a monetary policy strategy. However, the rate setting seen so far from the bank has largely been driven by current inflation. This policy reaction can largely be explained by the new bank's need to build up reputation capital.
3. In the period under review, both central banks have focused their policy too much on the immediate present rather than pursuing a systematically pre-emptive monetary policy.

Part 3: The influence of monetary policy on consumer prices

1. Low inflation accompanied by lacklustre growth in numerous Euro zone countries has provoked calls for an increase in the 2.0 percent upper ceiling of the ECB's price stability definition. However, weighing the costs and benefits resulting from an increase in the 2.0 percent upper range of the ECB's price stability definition, we do not find convincing support for such a claim.
2. Changes in US consumer prices can largely be explained by changes in the output gap. According to empirical evidence, a monetary policy based on monetary aggregates is not a valid option in the US.
3. In the Euro zone, inflation is mainly driven by the "price gap". Consequently, it is rational that the ECB has assigned a prominent role to money in its policy strategy.

Part 4: Inflation and ECB rate policy perspectives

1. From November 2001 to June 2002, the ECB policy was fully in line with the central bank's stability mandate.
2. In view of the ECB's concerns about the risk of missing its annual inflation ceiling for the third consecutive year and, more importantly, defending its established credibility in fighting inflation, we expect the ECB to raise rates slightly by 50bp by the end of 2002. Moreover, in view of improving growth perspectives, there is reason for the ECB to be concerned about the inflationary impact represented by the M3-overhang. We expect inflation to move towards 1.6% in 2003.
3. The credibility of the European Stability and Growth Pact ("Pact") has been damaged following the ECOFIN's decision not to issue an early warning to Germany and, more recently, further political attempts to water down the Pact's obligations. This, in turn, could seriously undermine the ECB's stability efforts.