Abstract

In this work, I analyse inappropriateness of single monetary policy in the euro area and its impact on credit growth for the oldest twelve euro members and a time period spanning 1999Q1-2013Q3. The inappropriateness is expressed by deviations of actual interest rate from Taylor rule prescriptions. The obtained results are in line with a majority of existing literature since they show that the ECB’s single interest rate was the least suitable for the so called PIIGS countries prior to the recent economic crisis. The impact of the deviations on credit growth is estimated econometrically by dynamic panel data estimation. The findings confirm my hypothesis that the deviations from the Taylor rule have a significant positive effect on credits volume, i.e. the higher is the Taylor rule prescription above the actual rate, the higher is the credit growth.