

To appear in *International Journal of Finance & Economics*

**Assessing uncertainty in the natural rate of interest:
Info-gap as guide for monetary policy in the euro area**

Yakov Ben-Haim¹ and Jan Willem Van den End²

Abstract

In this paper we assume that the natural rate of interest is fundamentally uncertain. Based on a small scale macroeconomic model, info-gap theory is used to rank different monetary policy strategies in terms of their robustness against this uncertainty. Applied to the euro area, we find that an inert or patient monetary strategy is more robust to natural rate uncertainty than a strategy that follows an estimated Taylor rule. An actively responsive monetary strategy is least robust. Our analysis presents a methodology that is applicable in a wide range of policy analyses under deep uncertainty.

Keywords: Monetary Policy, Monetary Strategy, Knightian uncertainty, info-gaps, satisficing

* The authors are grateful for comments received from Peter van Els, Gabriele Galati, Gavin Goy and Christiaan Pattpeilohy. Views expressed are those of the authors and do not necessarily reflect official positions of De Nederlandsche Bank.

¹ Yitzhak Moda'i Chair in Technology and Economics, Technion – Israel Institute of Technology, Haifa, Israel, yakov@technion.ac.il

² Economic policy and research division, De Nederlandsche Bank, Amsterdam, Netherlands, w.a.van.den.end@dnb.nl.

JEL classifications: E42, E47, E52