

Political Voice on Monetary Policy Evidence from the Parliamentary Hearings of the ECB

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Motivations

- Debate on central bank independence and accountability
- Conceptualisation of accountability mostly in terms of agent's behaviour, i.e. the procedures and mechanisms through which central banks account for their decisions
- What about the principals' side?

Research question

What do politicians hold central banks accountable for?

Contribution

- Central bank accountability: focus on political principals' behavior
- CBI: acknowledging the informal channels through which politics exerts influence on monetary policy
- Methodology: text analysis on politicians' speeches

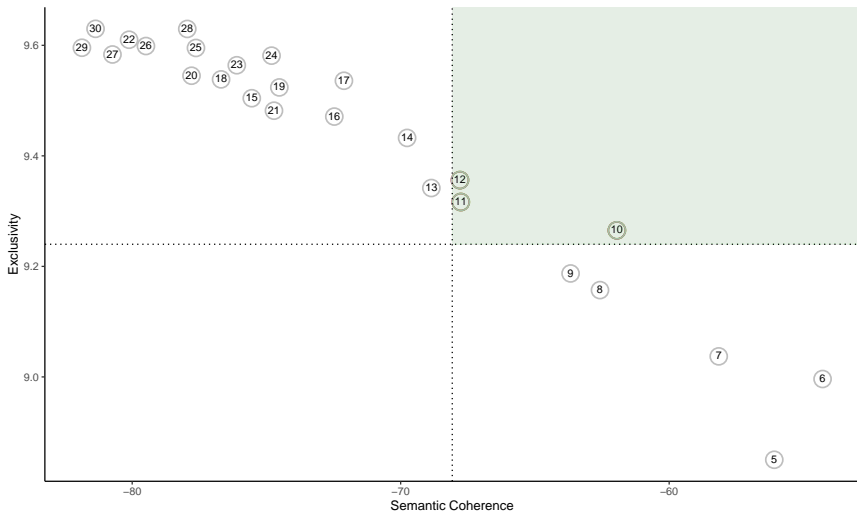
Contribution

- Politicians *use political voice* opportunistically:
 - ▶ They keep the central bank accountable for policy issues that do not always coincide with the central bank's price stability mandate
 - Variation in what the central bank is held accountable for
- Macroeconomic conditions affect the politicians' focus on non-price stability issues
 - The higher unemployment rates, the lower is politicians' attention to price stability

Methodology and data

- Monetary dialogues: practical and theoretical advantages
- Data:
 - ▶ 82 transcripts from January 18, 1999 to December 2, 2019
 - ▶ 4,478 speeches by ECB Presidents and MEPs
 - ★ 2,075 by ECB Presidents
 - ★ 492 by Chair of ECON
 - ★ 1,911 by MEPs
- We run a STM model with 11 topics, including time and speaker covariates in the estimation

Exclusivity vs Sematic coherence trade-off



Top Words of MEPs' Speeches in the Monetary Dialogues

Topic 1: Economic Policy and Outlook

polici, fiscal, monetari, object, coordin, econom, japan

Topic 2: Euro Area Membership

zone, sweden, enlarg, euro, currenc, candid, area

Topic 3: Financial Stability and Regulation

financi, smes, credit, sector, market, hedg, crisi

Topic 4: Banking Supervision and Macprudential Policy

supervis, supervisor, issu, address, role, topic, separ

Topic 5: Monetary Policy / Money Growth and Unconventional Policies

quantit, qe, program, purchas, eas, programm, sheet

Topic 6: Institutional Issues

council, board, democrat, parliament, vote, decid, transpar

Topic 7: Sovereign Adjustment Programs

troika, greek, greec, irish, eurobond, resolut, deposit

Topic 8: Fiscal Policy and Structural Reforms

reform, structur, pact, deficit, flexibl, budget, budgetari

Topic 9: Euro Coins and Banknotes

get, lot, peopl, coin, go, note, sort

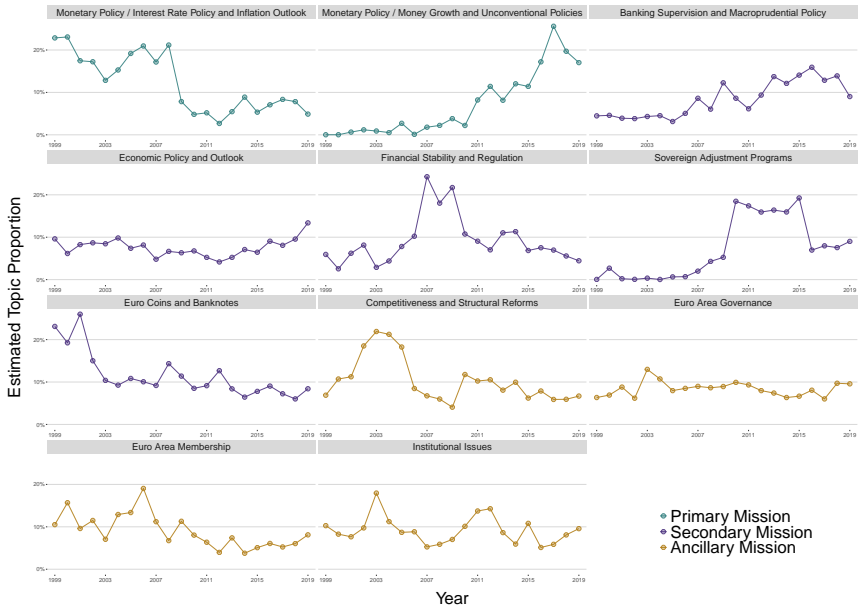
Topic 10: Euro Area Governance

central, european, feder, bank, union, treati, mister

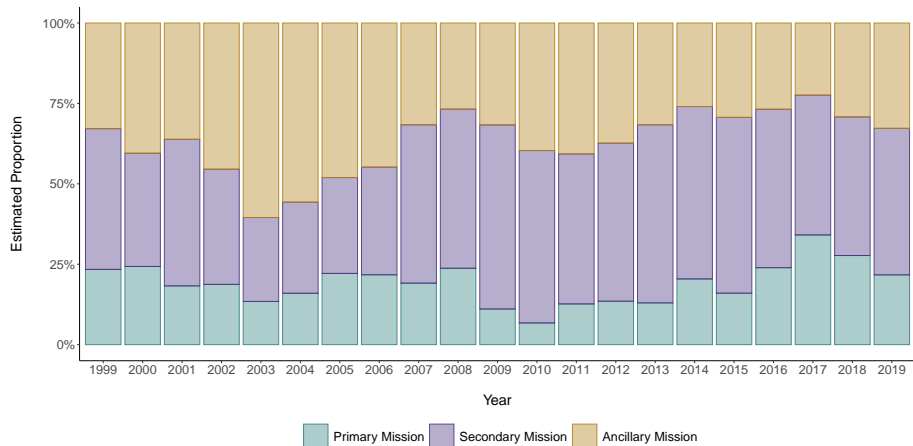
Topic 11: Monetary Policy / Interest Rate Policy and Inflation Outlook

inflat, wage, rate, price, oil, rise, inflationari

Topics in MEPs speeches



Topics proportion, 1999-2019



Topics proportions

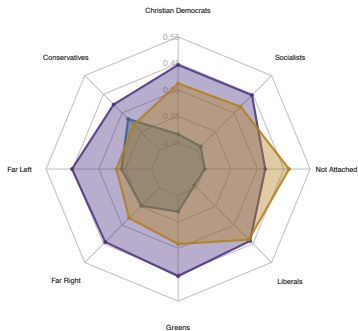


Figure: Political affiliation

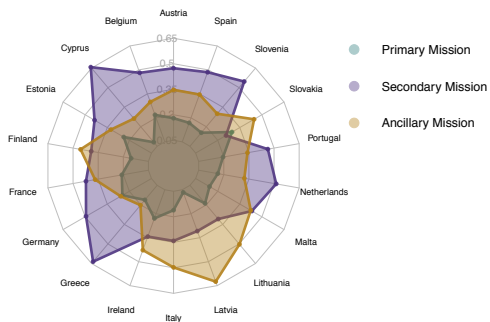
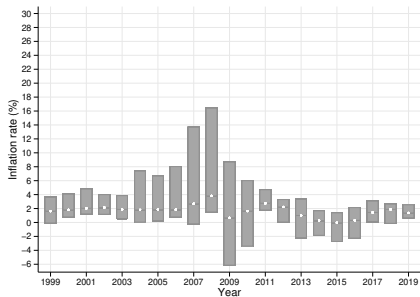
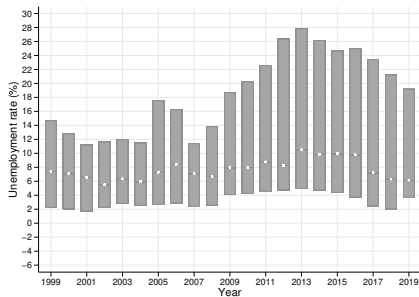


Figure: Country

Inflation and unemployment rate differential across countries (1999-2009)



(a) Inflation



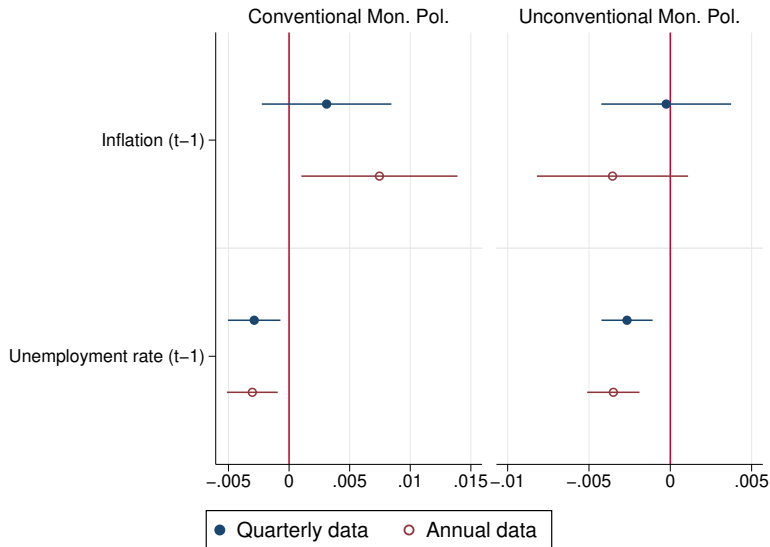
(b) Unemployment rate

Macroeconomic Determinants of MEPs' Voice on Primary Mission

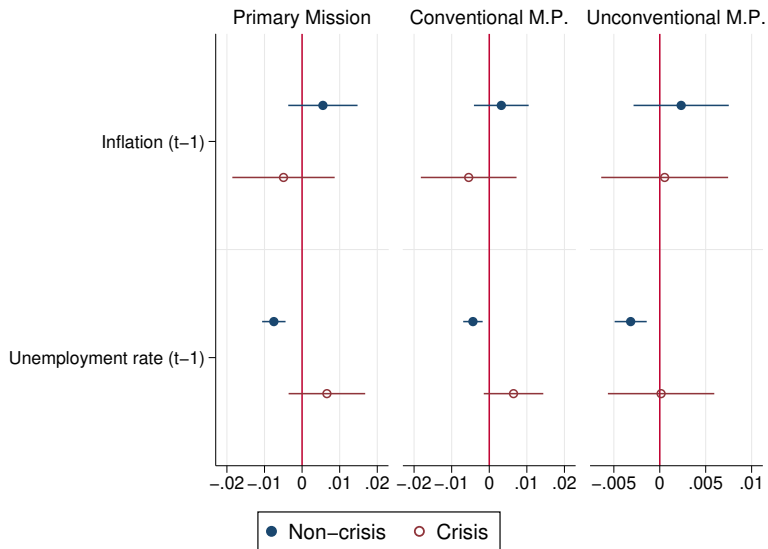
$$\text{Primary Mission}_{i,m} = \alpha + \beta_1 \pi_{i,c,t-1} + \beta_2 u_{i,c,t-1} + \theta' X_{i,c,m} + \gamma' Z_i$$

	Share of speeches dedicated to Primary Mission				
	(1)	(2)	(3)	(4)	(5)
Inflation	0.0019 (0.002)	0.0006 (0.002)	-0.0031 (0.003)	0.0066 (0.004)	0.0028 (0.004)
Unemployment Rate		-0.0016* (0.001)	-0.0068*** (0.002)	-0.0035** (0.002)	-0.0055*** (0.002)
Additional controls:					
Country FE			Yes	Yes	Yes
Year FE				Yes	Yes
Political Party FE					Yes
Observations	1,909	1,906	1,906	1,906	1,906
R-squared	0.001	0.003	0.057	0.200	0.259

MEPs' Voice on Conventional and Unconventional Monetary Policy



MEPs' Voice on Primary Mission and Subtopics during Non-crisis and Crisis Years



Elections and MEPs' Voice on Primary Mission

	Share of speeches dedicated to Primary Mission				
	(1)	(2)	(3)	(4)	(5)
Inflation _{t-1}	0.0013 (0.003)	-0.0000 (0.003)	-0.0039 (0.004)	0.0057 (0.004)	0.0012 (0.004)
Election dummy	0.0002 (0.014)	-0.0075 (0.027)	-0.0055 (0.027)	-0.0302 (0.027)	-0.0460* (0.027)
Inflation _{t-1} × Election dummy	0.0044 (0.006)	0.0047 (0.007)	0.0045 (0.007)	0.0067 (0.007)	0.0100 (0.007)
Unemployment Rate _{t-1}		-0.0017* (0.001)	-0.0068*** (0.002)	-0.0039** (0.002)	-0.0061*** (0.002)
Unemployment Rate _{t-1} × Election dummy		0.0007 (0.002)	0.0005 (0.002)	0.0021 (0.002)	0.0028 (0.002)
Controls:					
Country FE			Yes	Yes	Yes
Meeting FE				Yes	Yes
Political groups FE					Yes
Observations	1,906	1,903	1,903	1,903	1,903
R-squared	0.001	0.003	0.058	0.198	0.258

Macroeconomic Determinants of MEPs' Voice on Secondary and Ancillary Missions

Share of speeches dedicated to:	Secondary Mission		Ancillary Mission	
	(1)	(2)	(3)	(4)
Inflation _{t-1}	-0.0056 (0.005)	-0.0031 (0.005)	-0.0058 (0.005)	-0.0042 (0.005)
Unemployment Rate _{t-1}	0.0045*** (0.002)	0.0063*** (0.002)	-0.0002 (0.002)	0.0003 (0.002)
Controls:				
Country FE	Yes	Yes	Yes	Yes
Meeting FE	Yes	Yes	Yes	Yes
Political groups FE		Yes		Yes
Observations	1,906	1,906	1,906	1,906
R-squared	0.427	0.464	0.371	0.400

Robustness

- Additional control variables:
 - ▶ Real GDP growth
 - ▶ Credit to private sector (% of GDP)
 - ▶ Long-term interest rate
 - ▶ Nonperforming loans to total loans
- Alternative measure on inflation: Inflation deviation from 2% target
- Focus on alternative models: 10 and 12 topics

Conclusions

- Systematic examination of the policy issues that politicians hold the central bank accountable for
- Investigate the determinants of the political voice's reaction function
- Methodological contribution: application of STM to identify the content of political voice