

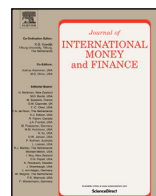


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## Central bank communication in the financial crisis: Evidence from a survey of financial market participants



Bernd Hayo <sup>a,\*</sup>, Matthias Neuenkirch <sup>b</sup>

<sup>a</sup> Philipps-University Marburg, School of Business & Economics, D-35032 Marburg, Germany

<sup>b</sup> University of Trier, Department of Economics, D-54286 Trier, Germany

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### ABSTRACT

In this paper, we investigate the relationship between market participants' perception of central bank communication and their evaluation of central banks' (i) credibility, (ii) unorthodox measures, and (iii) independence. We utilise a survey of more than 550 financial market participants from around the world who answered questions in reference to the Bank of England (BoE), the Bank of Japan (BoJ), the European Central Bank (ECB), and the Federal Reserve (Fed). We find that market participants believe that the Fed communicates best, followed by the BoE, ECB, and BoJ. Similar rankings are found on the issues of credibility, satisfaction with unconventional monetary policy, and level of independence. Using ordered probit models, we show that perception of central bank communication is positively related to (i) evaluation of central bank credibility, (ii) satisfaction with unorthodox measures, and (iii) perceived level of central bank independence.

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## 1. Introduction

The role played by central banks has changed dramatically since the financial crisis. Before the crisis, during the 'Great Moderation' period, central banks were primarily concerned with ensuring stable

\* Corresponding author. Tel.: +49(0)6421 2823091.

E-mail address: [hayo@wiwi.uni-marburg.de](mailto:hayo@wiwi.uni-marburg.de) (B. Hayo).

prices and stabilising the economy. Following the outbreak of the global financial crisis, the scope of central bank activity increased markedly. Rather than focussing on inflation rates, many central banks are now heavily engaged in jump-starting economic activity in an environment characterised by low GDP growth and high unemployment. To this end, they continue to keep monetary policy rates extremely low and engage in several types of unconventional monetary policy, such as asset purchases, exceptional liquidity provision, and conditional commitments, and sometimes are even willing to purchase large amounts of public debt.

Starting with attempts to fine-tune monetary policy during the ‘Great Moderation’, central banks have become increasingly concerned with improving their communication with financial markets. Better communication is believed to facilitate the conduct of monetary policy by anchoring inflation expectations and reducing private-sector uncertainty over monetary policy. Communication is also supposed to increase the transparency of independent central banks, thus making them more accountable to the public. Reflecting this trend toward more transparency, central banks have invested a great deal of effort in communicating about the unconventional monetary policies adopted during the financial crisis. An important purpose of these communications is to reassure financial market participants that despite providing almost unlimited amounts of liquidity, there is no reason to doubt central bank credibility and independence.

By asking financial market participants for their perceptions of the performance of four major central banks – the Bank of England (BoE), the Bank of Japan (BoJ), the European Central Bank (ECB), and the Federal Reserve (Fed) – this paper examines the relationship between central bank communication and perceptions of bank credibility, satisfaction with unorthodox measures, and central bank independence during the financial crisis. The analysis is based on a unique dataset of more than 550 market participants from financial institutions located across the globe that was collected by Barclays in 2013 using an extensive questionnaire jointly developed with us.

Our paper contributes to two different branches of the literature. One branch evaluates the usefulness of central bank communication (for a comprehensive literature review, see [Blinder et al., 2008](#)). Several papers in this field quantify the impact of statements by central bank officials concerning monetary policy inclination and near-term economic outlook on financial market returns and find that central bank communication moves returns in the ‘intended’ direction (see, among many others, [Guthrie and Wright, 2000](#); [Jansen and de Haan, 2005](#); [Andersson et al., 2006](#); [Ehrmann and Fratzscher, 2007](#); [Conrad and Lamla, 2010](#); [Rinaldo and Rossi, 2010](#)). Another set of papers evaluates the usefulness of central bank communication for predicting upcoming interest rate decisions by comparing forecasts based on ‘hard’ macroeconomic data with the information content of statements by central bank officials. Communication is found to contain valuable information, as the near-term predictability of interest decisions improves when considering communication as a complement to or even as a substitute for macroeconomic data (see, e.g., [Jansen and de Haan, 2009](#); [Hayo and Neuenkirch, 2010](#); [Sturm and de Haan, 2011](#)). Central bank communication also appears to play a notable role in the monetary policy transmission process. [Neuenkirch \(2013\)](#) finds that communication has an influence on inflation (expectations) similar to that of actual interest rate changes and is also relevant in the transmission of monetary policy innovations to output.

All these studies rely on economic outcomes to assess the relevance of central bank communication, but how communication influences private actors’ expectations is of interest, too, in that central banks influence the expectations of economic agents and this change in expectations affects economic outcomes (see, e.g., [Woodford, 2005](#)). Thus, how communications are *perceived* by economic agents appears to be a crucial component of the transmission process from monetary policy to economic outcomes, and yet this topic has been neglected in the literature. Indeed, to the best of our knowledge, this is the first paper that studies central bank communication from that angle.<sup>1</sup>

Our paper also contributes to that branch of the finance literature that uses surveys of financial market participants to glean insight into, for example, information acquisition and trading behaviour (see, e.g., [Shiller and Pound, 1989](#); [Menkhoff, 1998](#); [Cheung and Chinn, 2001](#); [Oberlechner and Hocking,](#)

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<sup>1</sup> A different part of the questionnaire is used as input for a study on how financial market participants process central bank news (see [Hayo and Neuenkirch, 2015](#)).

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