

Informal Central Bank Communication

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Informal communication – including unattributed (“on background”) comments -- plays a central role

- **Facts**
- **Benefits** and **costs** of using unattributed communication as an **institution**, or as an **individual policymaker**
- **Suggestions** to reduce use of unattributed communication. Discuss **recent ECB efforts**.

THREE FACTS: INFORMATION FLOWS FROM THE FED TO THE STOCK MARKET AT UNEXPECTED TIMES

Fact 1. Lucca and Moench (2015), data for 1994-2011

Average US stock return in 24-hour period from 2pm-2pm *prior to* scheduled FOMC announcements was 49 bps

They view this as a puzzle:

- Monetary policy news coming out would have to be systematically positive
- Leaks are “unrealistic from an institutional viewpoint”

Fact 2. Cieslak, Morse and Vissing-Jorgensen (2019), data for 1994-2016

Stock returns (over T-bills) much higher on days that fall in even weeks relative to FOMC announcement (Fig 1a)

Figure 1a

Stock returns over the FOMC cycle, 1994-2016

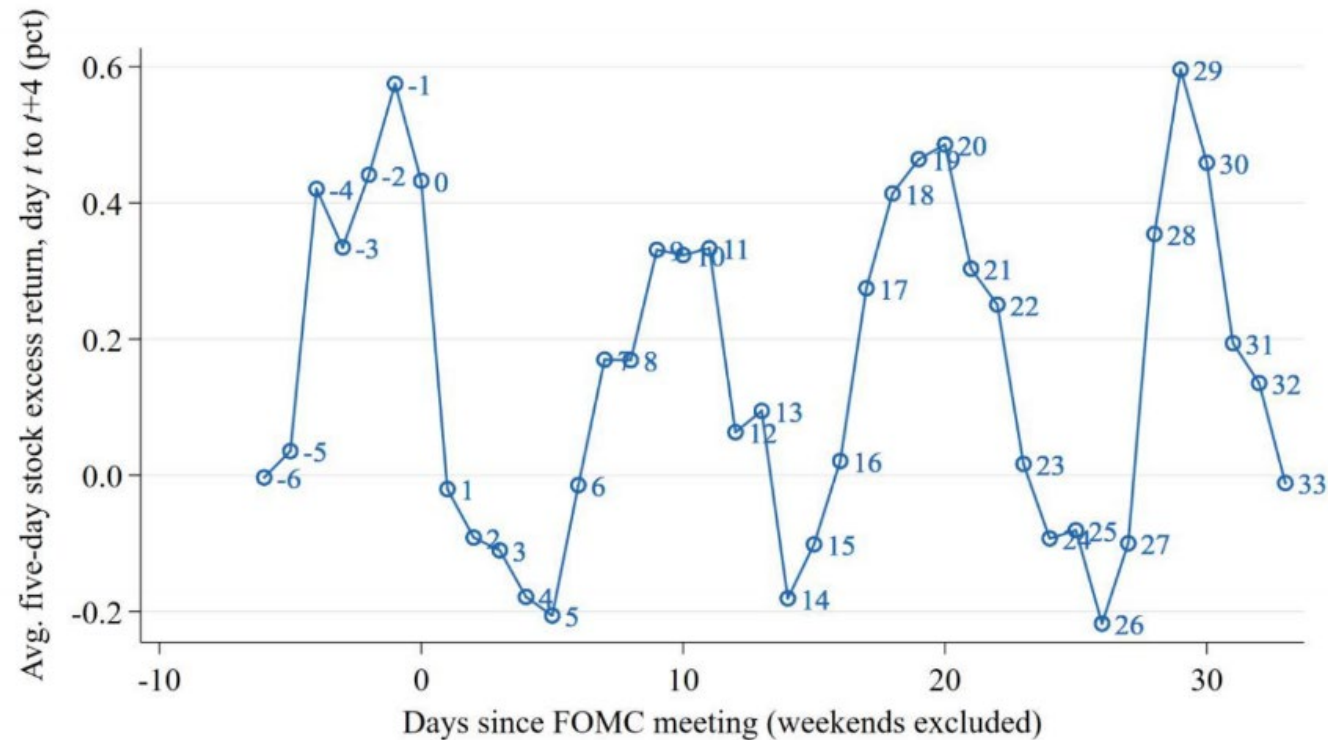
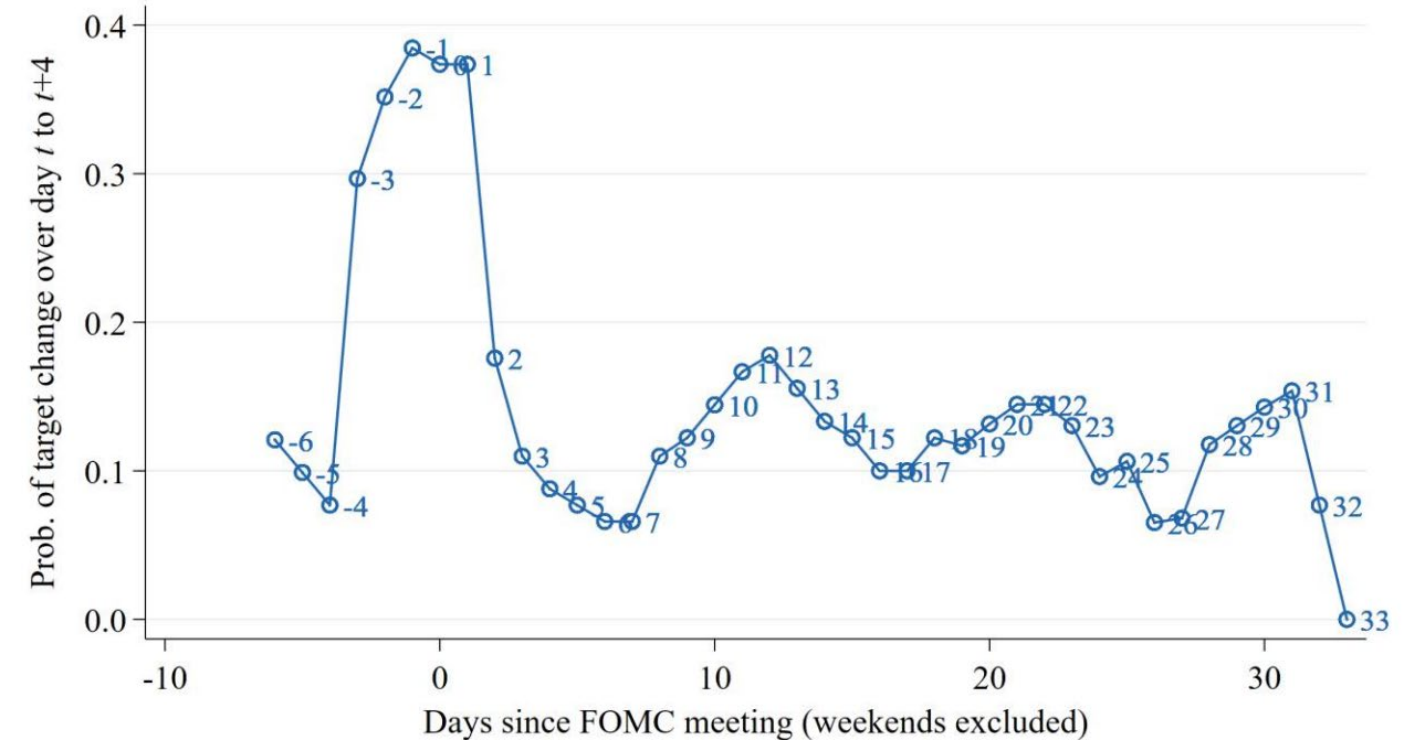


Figure 1b

Target changes over the FOMC cycle 1982M9-1993M12



- **Pattern due to monetary policy news:** Prior to 1994, intermeeting target changes were common and reveal timing of Fed decision making/debate and disproportionately took place in even weeks in FOMC cycle time (Fig 1b)

- Over 1994-2016 period, monetary policy news was **systematically positive**
 - **Fed funds futures yields** on average fell in even weeks in FOMC cycle time
 - Even-week stock returns were particularly high following low prior stock returns: **A surprisingly strong “Fed put”**
- Even-week timing of Fed news may arise from frequency of **discount rate requests** from Federal Reserve Banks

Fact 3. Morse and Vissing-Jorgensen (2020), calendars of six Federal Reserve governors, 2007-2018

Interactions between Governors and Reserve Bank Presidents are tightly linked to information flow to markets

- **Even-week returns are particularly high** on days with governor-president interactions, at FOMC events or in phone calls or meetings
 - Even more so **if there is informal communication** via **on-the-record** public commentary (FOMC Speak) or **on background** media interviews (governors' calendars)

All three facts unaffected by controlling for formal Fed communication (formal information releases, speeches)

I want to focus the rest of my comments on **unattributed communication**.

More evidence for **unattributed communication**:

- **FOMC statement** emerged in 1994 following congressional pressure for transparency after a series of newspaper stories revealing confidential Fed information
- Governor Meyer's 2004 book: "The use of reporters as part of **the Fed's signal corps** is not official Board or FOMC doctrine. The public affairs staff and the Chairman like to pretend it doesn't happen."
 - Greg Ip (a top Fed reporter) was asked in 2012 whether he does a lot of "on-background" interviews.
"Yes, I do tons of them. With the Federal Reserve, for example, it's always been that way"
- Vissing-Jorgensen (2019) document **114 FOMC documents with discussions of "leaks"**

THE STANDARD VIEW OF MONETARY POLICY COMMUNICATION

Communication is for:

- **Accountability, to sustain independence:** Parliamentary and public oversight
 - **Policy effectiveness:** Impact of forward guidance and asset purchases on longer-term interest rates depends on public understanding of likely duration of low rates/asset purchases.
- **Communication should be public and on-the-record**

POTENTIAL EXPLANATIONS FOR UNATTRIBUTED COMMUNICATION

1. The Federal Reserve as an **institution** may prefer unattributed to on-the-record communication in some situations
2. Unattributed communication could be driven by **individual** policymakers

INSTITUTIONAL USE OF UNATTRIBUTED COMMUNICATION

Benefit:

Many White House leaks are **authorized “plants” of information in media outlets** (Pozen (2013))

- Allow the sender to “impart information about executive branch policies **without officially acknowledging those policies and thereby inviting unwanted forms of accountability or constraints**”.

Map to central banking:

1. Communication ties policymakers’ hands if the public does not fully understand state-contingent nature of policy
Perhaps **unattributed comments retain more flexibility than public** communication
2. Explaining policy without attribution (on background) **avoids time-consuming public debate**
3. Unattributed communication is a convenient way to **gauge support** outside the central bank for a particular policy change

Costs:

1. **Loss of credibility:** Unattributed communication is the **opposite of transparency and accountability**

- Bank of England's citizens' panels, "Fed Listens" events, "ECB Listens" events
- **What would the newly-engaged citizens think** if we told them that the Federal Reserve and perhaps other central banks appears to do a lot of its communication in ways that are not well understood but appears to have enormous impact on asset prices?

2. **Institutional use facilitates use by individual policymakers**

While there are pros and cons of using unattributed communication for institutional communication, its use for individual policymaker purposes is clearly welfare reducing

INDIVIDUAL POLICYMAKER USE OF UNATTRIBUTED COMMUNICATION

Central bank communication with **disagreeing policymakers**: Not only institutional but also individual

- Drive market/public expectations to improve your bargaining position in policy negotiations

Posturing: Making firm statements of what policy the policymaker prefers to make opponents think you will not budge

- Best done via public **on-the-record** communication, in speeches or interviews

Influencing: Changing the public's view of appropriate policy by putting forward arguments

Spin: Distort the public's assessment of what the likely policy decision is.

- Crucially: If information used for influencing or spin is **confidential**, it has to be done using **unattributed communication** (staff projections, internal deliberations, views of colleagues are often confidential)

The game-theory of unattributed individual communication – the “quiet cacophony”

Vissing-Jorgensen (2019) models the (unattributed) tug-of-war over market expectations between policy makers.

- **Two policy makers:**
 - **Choose what to reveal to the public** about policy preferences at an intermediate date between policy decisions
 - **Care about not being viewed as “flip-flopping”**: Both incur a loss if someone communicates and the chosen policy rate deviates from market expectations
- **If no information is revealed** to the public:
 - Chosen policy rate = **Average preferred policy rate** at the time of the meeting.
- **If either policymaker communicates** with the public:
 - Chosen policy rate = $w \cdot \text{Average preferred policy rate} + (1-w) \cdot \text{Market expectation of avg. preferred policy rate}$

- Policy makers can, within limits, **spin** market expectations of policy preferences by selectively revealing internal information

Result: If

- (1) **disagreement is sufficiently strong** (judged relative to the amount of news that may arrive before the next policy meeting), and
- (2) **sufficient spin is possible**

the unique Nash equilibrium is that **each policy maker communicates with his/her preferred spin** in order to move the policy rate chosen in his/her preferred direction.

The **spin cancels** and **each are worse off from lost policy flexibility, relative to non-disclosure**

Analogue to the **prisoners' dilemma** in which both prisoners would be better off if neither confessed (to get a reduced sentence) but both confess in equilibrium

Sometimes **internally known information may favor one side**, with the other side unable to counter.

- Over time, each side gains from spin as often as they lose. And flexibility loss remains.
- Two **recent disclosures of ECB staff projections** the day before scheduled policy announcements exemplify this

Reuters, Sep 11, 2019 (dovish leak)

ECB projections to show future growth barely above 1%: sources

“Growth will be not far above 1 percent both this year and next, the figures are expected to show, **underpinning the ECB’s plans to approve more stimulus**, the sources, who **asked not to be named**, told Reuters.”

Bloomberg, Sep 9, 2020 (hawkish leak)

ECB Forecasts Said to Show More Confidence in Economic Outlook

“The latest projections for output and inflation will show only slight changes to the June outlook, the people said, **asking not to be named** because the report will only be published after the Governing Council meets on Thursday.”

“The officials also said that in their view **additional monetary support** beyond the current 1.35 trillion-euro (\$1.6 trillion) emergency bond-buying program **doesn’t appear warranted** from the current perspective, though that could change.”

Other costs of unattributed individual communication

- **Harm to credibility:**

- “it **damages the reputation and credibility** of the institution if the outside world perceives us as using leaks and other back channels to signal to markets, to disseminate points of view, or to advance particular agendas” (Bernanke 2010 memo to FOMC)

- **Harm to the decision-making process:**

- “such leaks **threaten the free give and take of ideas and collegiality** of the FOMC” (Bernanke 2010 memo to FOMC)
- **Information withholding** to prevent leaks further damages decision quality
 - Meyer (2004): Staff used to omit information from the Greenbook for fear of leaks by policymakers
 - 2014 Reuters article: “Several ECB sources said **Draghi had cut back on circulating policy papers** in advance of council meetings, apparently **out of concern that opponents**, notably in the German Bundesbank, **were leaking them** to try to block or discredit decisions.”

SUGGESTIONS TO REDUCE USE OF UNATTRIBUTED COMMUNICATION

1. **Resist communicating via expensive Fed-watcher or ECB-watcher newsletters whether for individual or institutional reasons**

Yes, it is easier to talk to experts, and they can drive market expectations quickly, but so can financial newspapers

- **Medley Global Advisors scandal** in 2012 was very harmful to the Fed's reputation
Unequal access to information. The Medley newsletter is \$120,000/year. Heated hearings in congress followed.
- **Central bank independence cannot be taken for granted:**
Trust in institutions low, populisms prevalent, government debt high

2. Stop the prisoners' dilemma of disagreement-driven unattributed communication: Seek consensus

Reuters, Feb 9, 2020. **No phones, no leaks: How Lagarde is making her mark on ECB**

“A greater emphasis on **consensus** has boosted the Governing Council’s role and given **more voice to critics**”

- “Lagarde pledged to spend **more time listening**, and not to front-run decisions”, “**more time for deliberating**”
- “Meeting proposals are now handed to governors up to a week in advance, [...], **not just hours before for fear of leaks**”

“In return, she asked for **discipline**”, “keep internal disputes out of the media”

Repeated game with “punishment”: Consensus-building → President can **remove influence**

- Leakers are hard to identify.
But improved culture makes leaking less acceptable among colleagues who know the identity
- Pozen (2013), US politics: Leakers are often disciplined informally via “shaming, shunning and exiling”