

Fiscal Narratives and Inflation

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- The views expressed here are those of the authors and do not necessarily represent the views of the European Central Bank -

Research question

Do media narratives about fiscal policy shape household inflation expectations and affect the transmission of fiscal shocks?

We use an LLM to extract fiscal narratives from German newspaper articles and test their macroeconomic effects using the ECB Consumer Expectations Survey.

Newspaper data

Bild
47,230

Tabloid press

SZ
331,637

Quality broadsheet

FAZ
58,290

Quality broadsheet

TAZ
77,783

Alternative daily

514,940

Total articles

Coverage period: 2006 - 2025

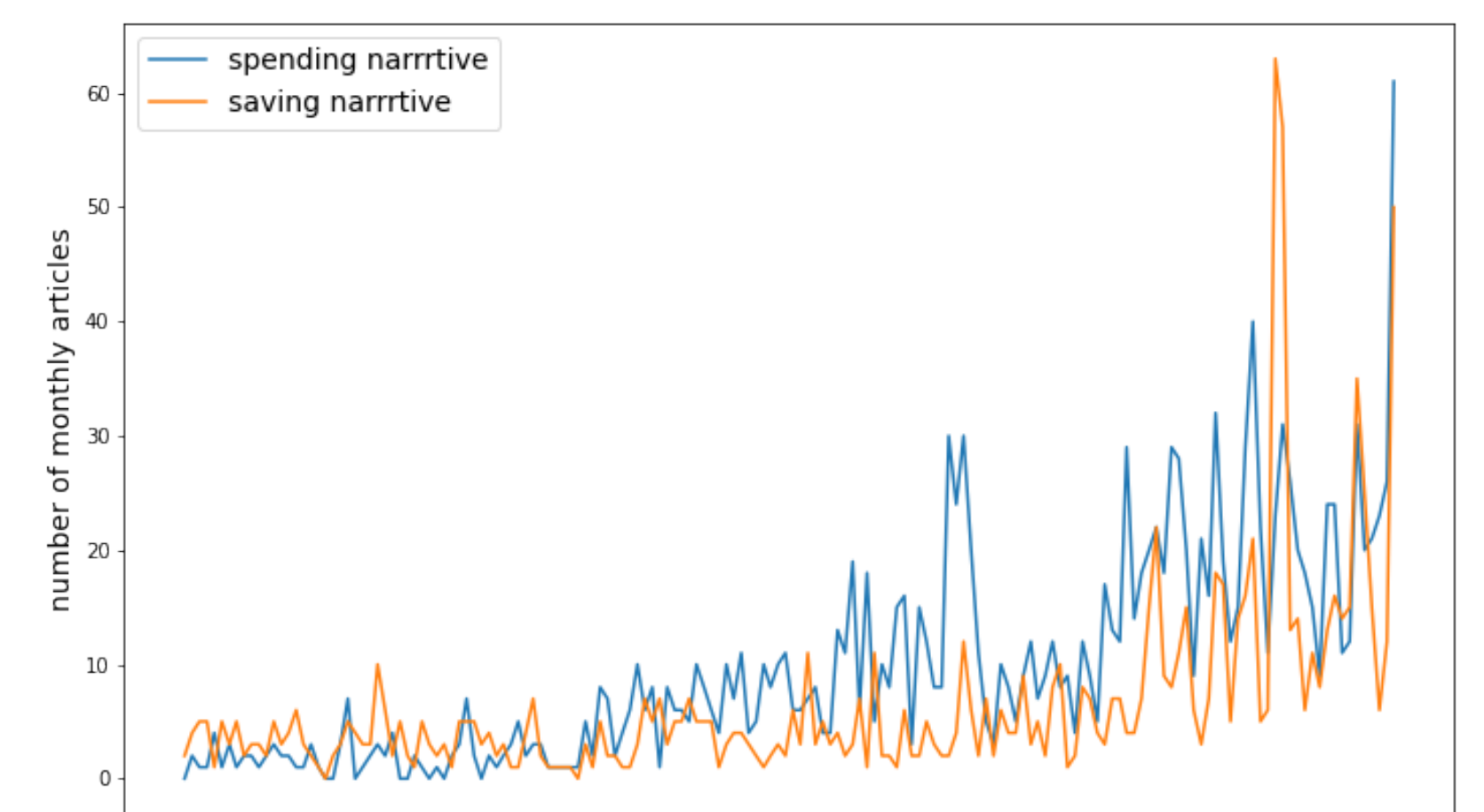
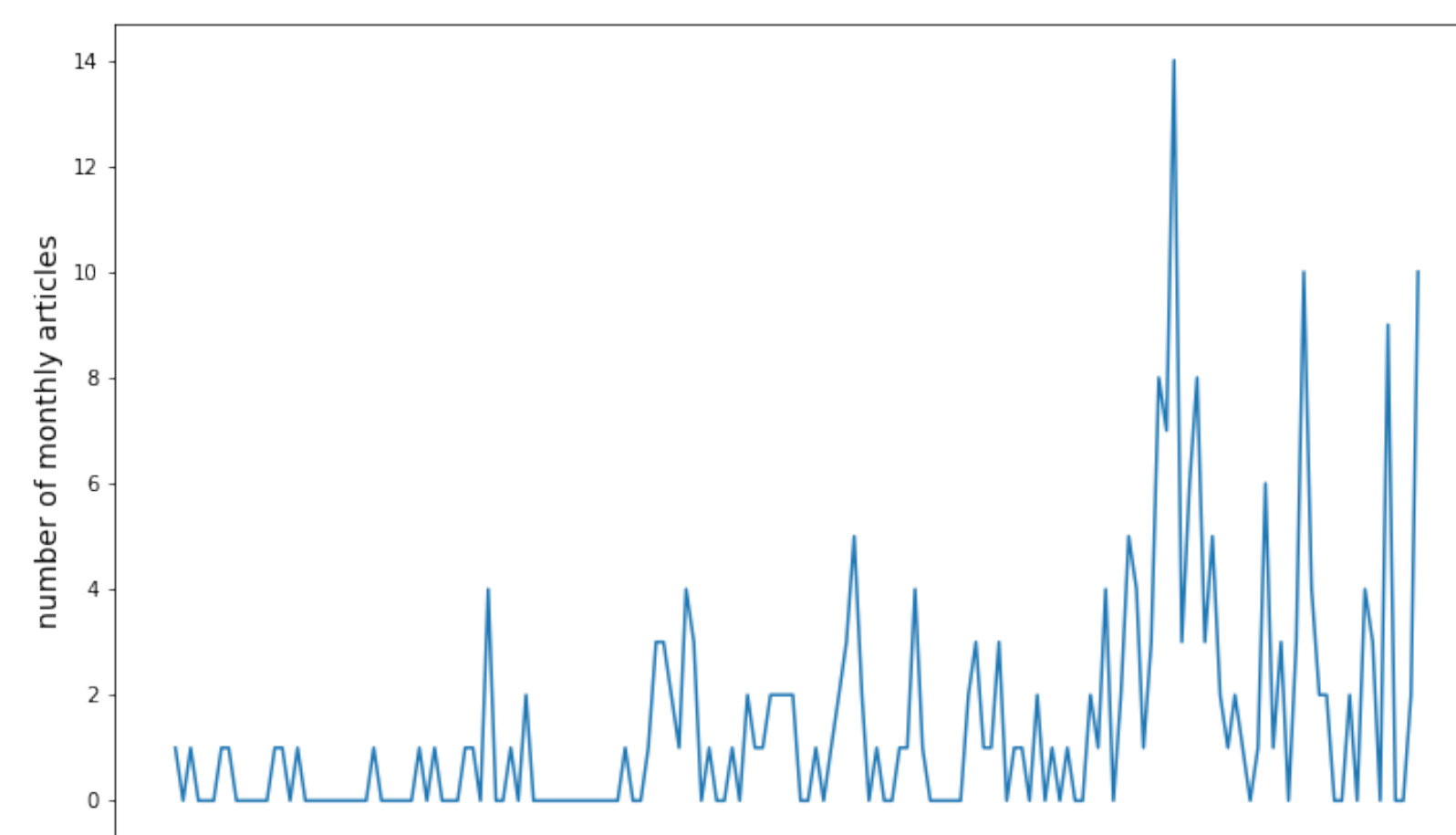
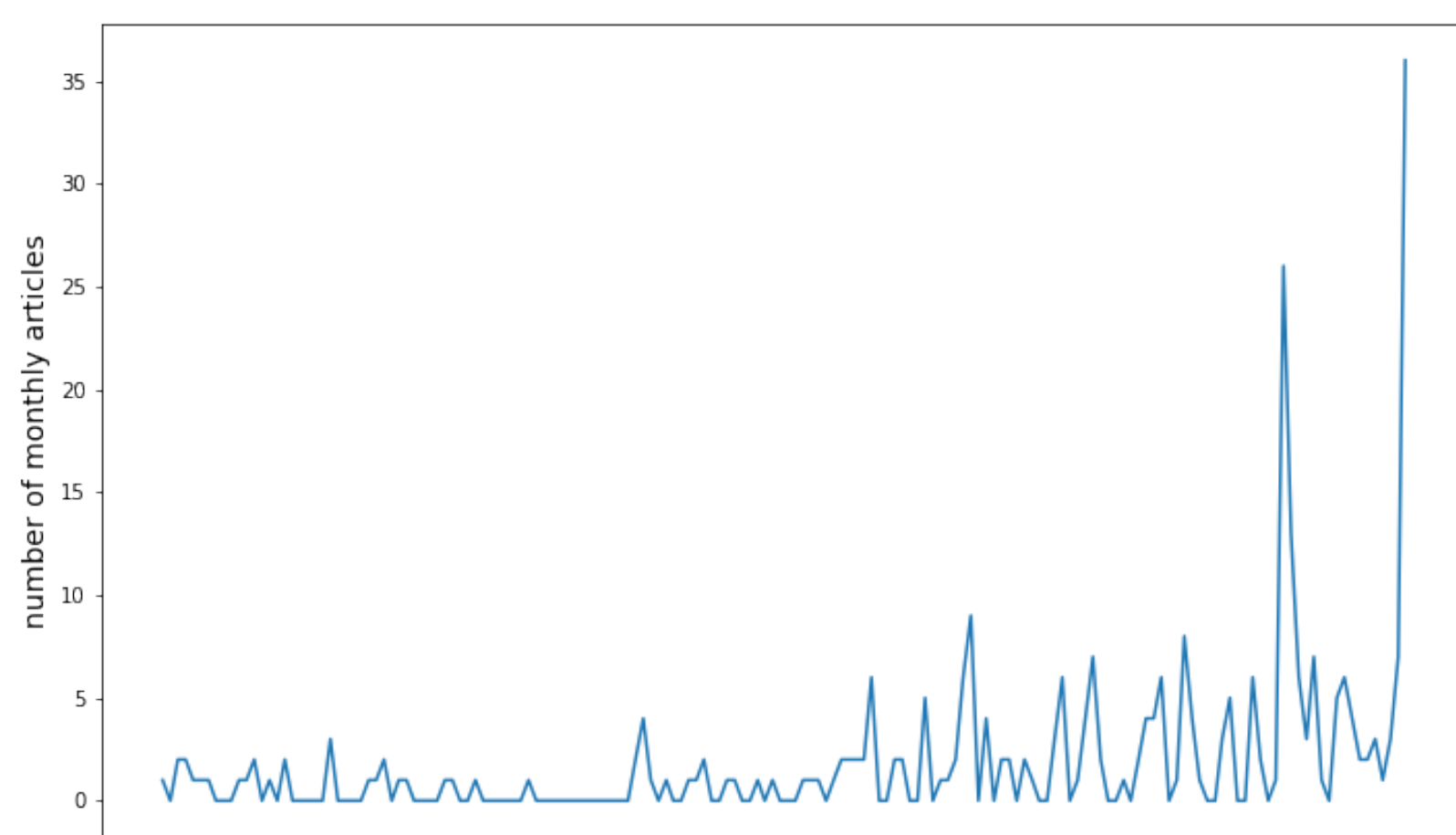
Fiscal narratives across newspapers

„The level of government debt is unsustainable“

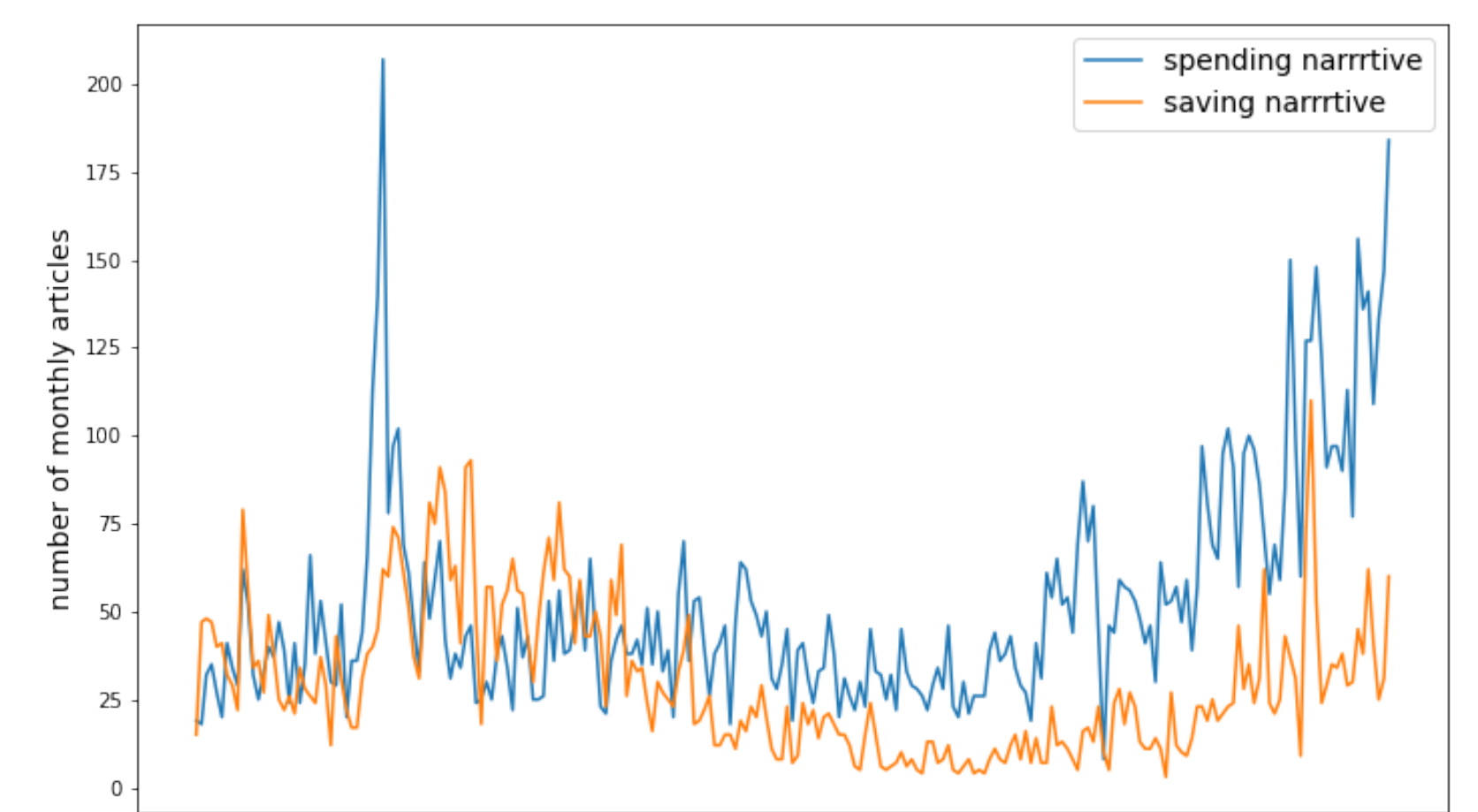
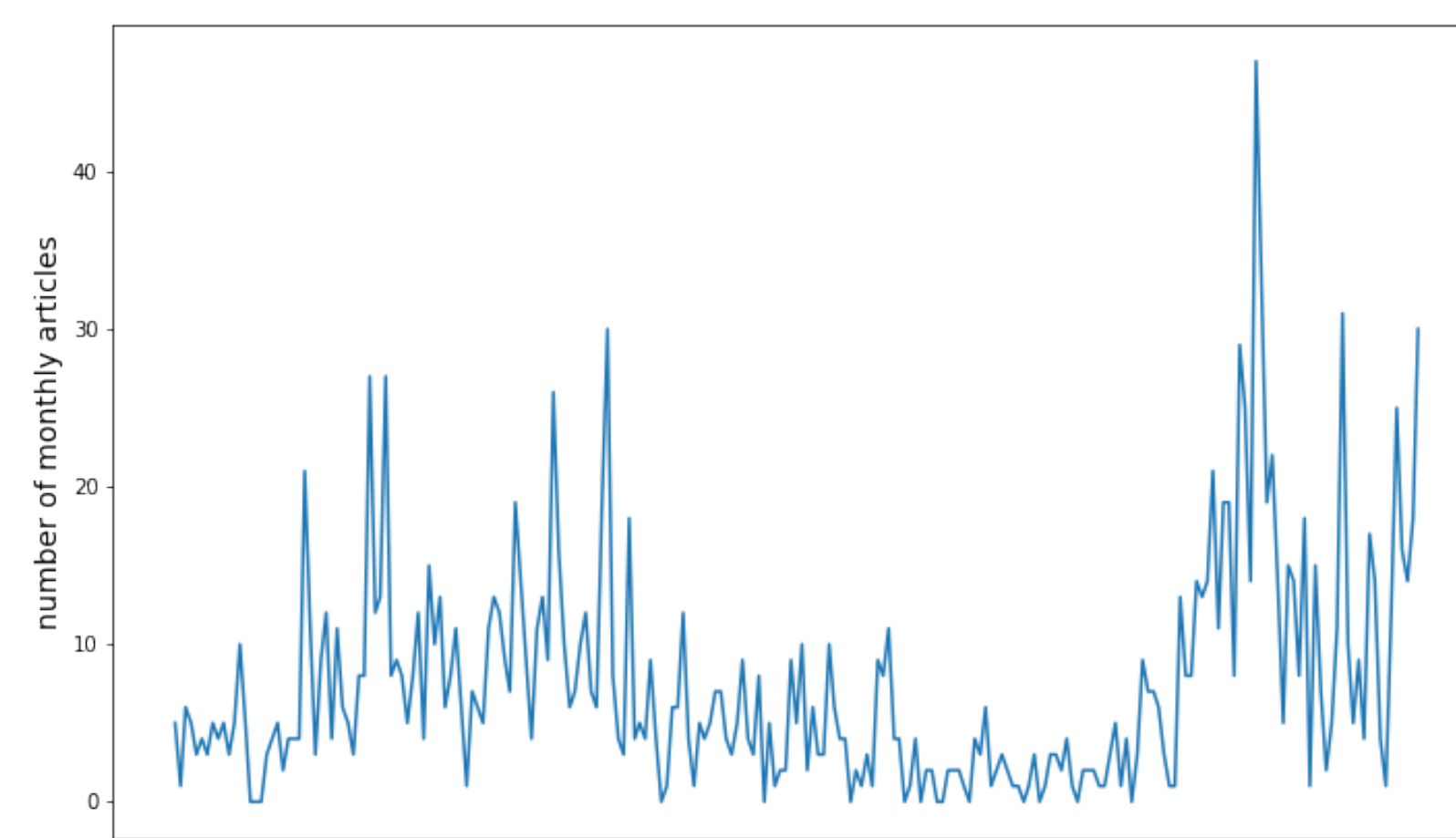
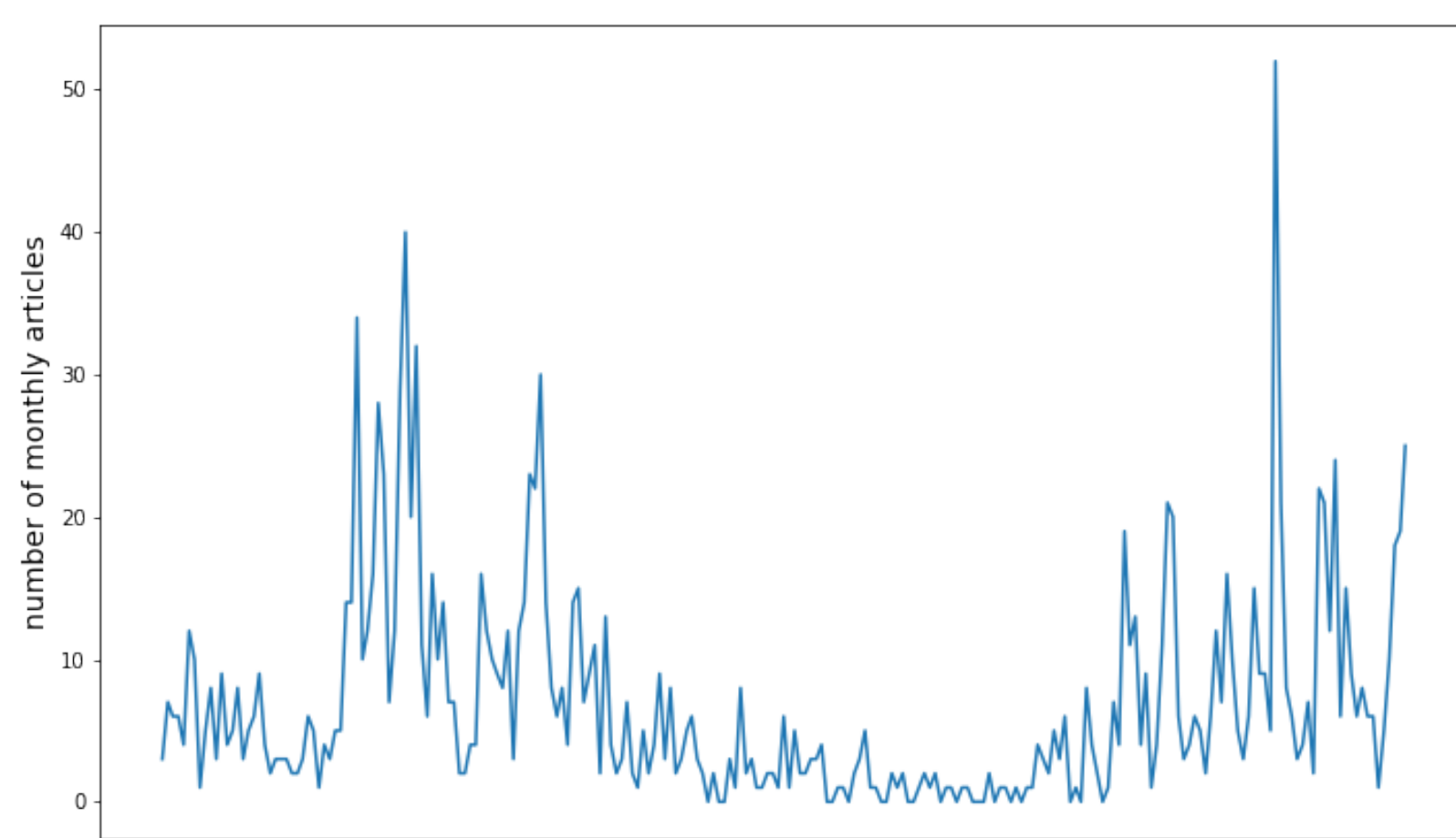
„Fiscal expansion leads to inflation“

„The government should save/spend more“

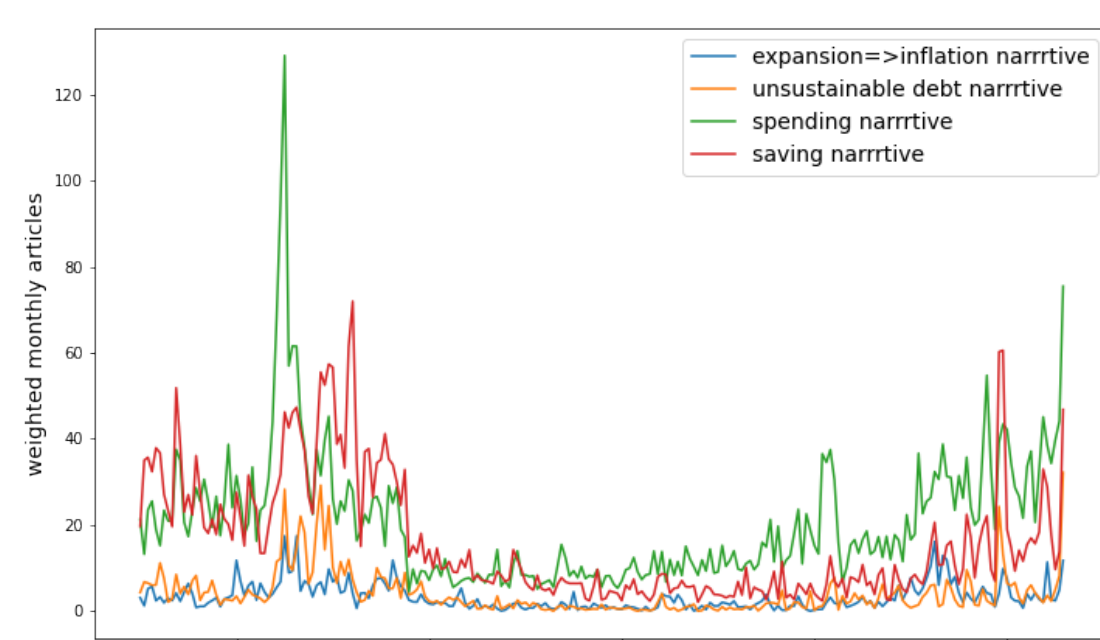
Bild



SZ



Effect on household expectations

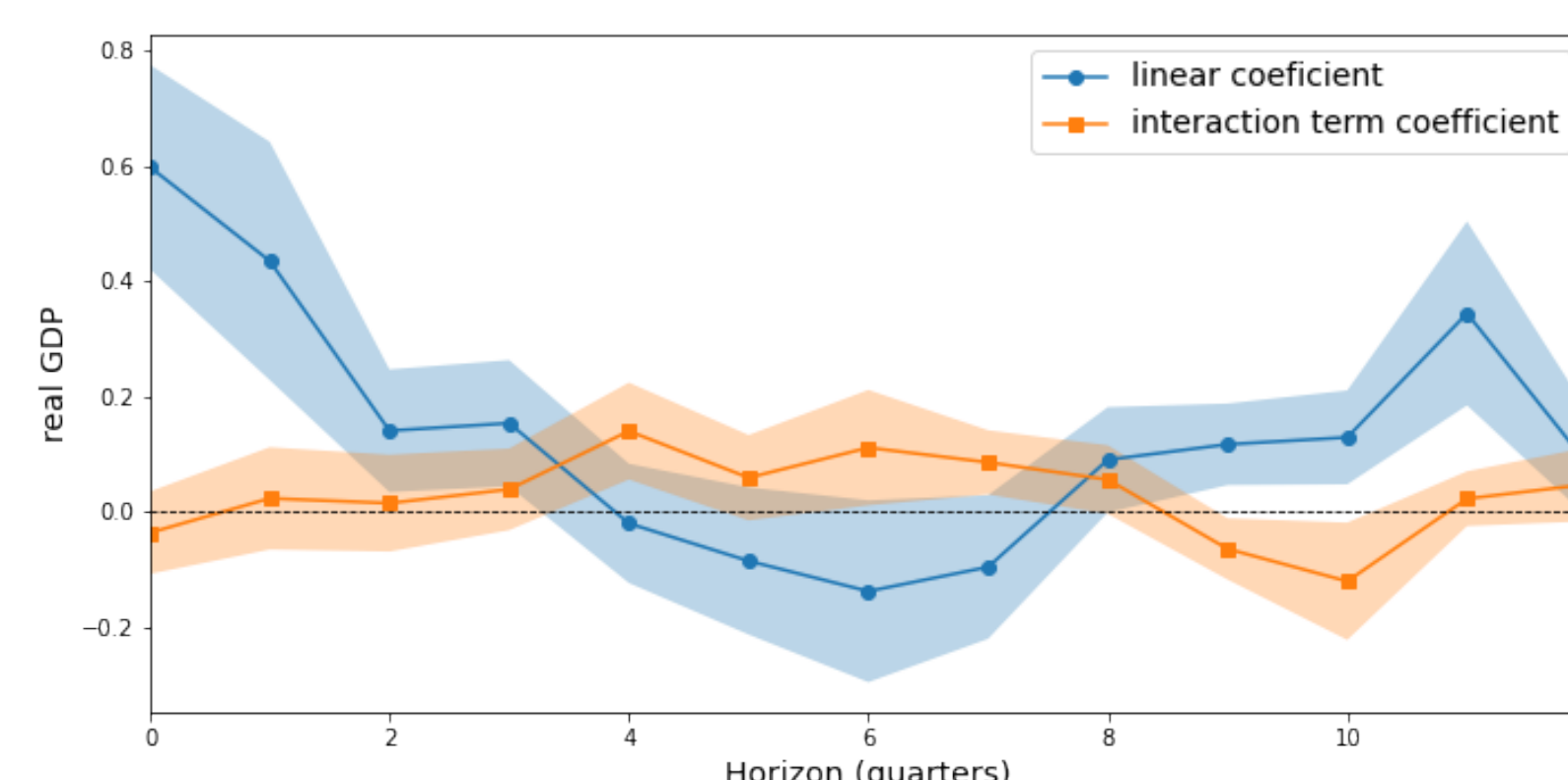


	(1) Exp→Infl	(2) Debt Sus.	(3) Save	(4) Spend
$Narrative_{t-1}$	0.055*** (0.009)	0.004 (0.005)	0.011*** (0.002)	0.018*** (0.003)
π_{t-1}	-0.072*** (0.017)	-0.057*** (0.017)	-0.047*** (0.017)	-0.060*** (0.017)
IP_{t-1}	-0.512 (0.366)	-0.317 (0.369)	-0.269 (0.365)	-0.860** (0.373)
ECB_rate_{t-1}	-0.704*** (0.055)	-0.803*** (0.053)	-0.795*** (0.053)	-0.821*** (0.053)
$total_fiscal_{t-1}$	0.001** (0.001)	0.003*** (0.001)	0.001 (0.001)	0.001* (0.001)
ifo_klima_{t-1}	-0.070*** (0.005)	-0.080*** (0.005)	-0.080*** (0.005)	-0.061*** (0.006)
$fiscal_shock_{t-1}$	0.289*** (0.037)	0.366*** (0.038)	0.337*** (0.038)	0.429*** (0.040)
$unemp_rate_{t-1}$	-0.862*** (0.097)	-0.954*** (0.098)	-0.915*** (0.097)	-0.770*** (0.100)
$energy_idx_{t-1}$	0.045*** (0.005)	0.043*** (0.005)	0.044*** (0.004)	0.045*** (0.004)
$bund_yield_{t-1}$	0.230** (0.100)	0.327*** (0.104)	0.313*** (0.098)	0.336*** (0.098)
Household FE	Yes	Yes	Yes	Yes
Month-of-year FE	Yes	Yes	Yes	Yes
Observations	142,761	142,761	142,761	142,761

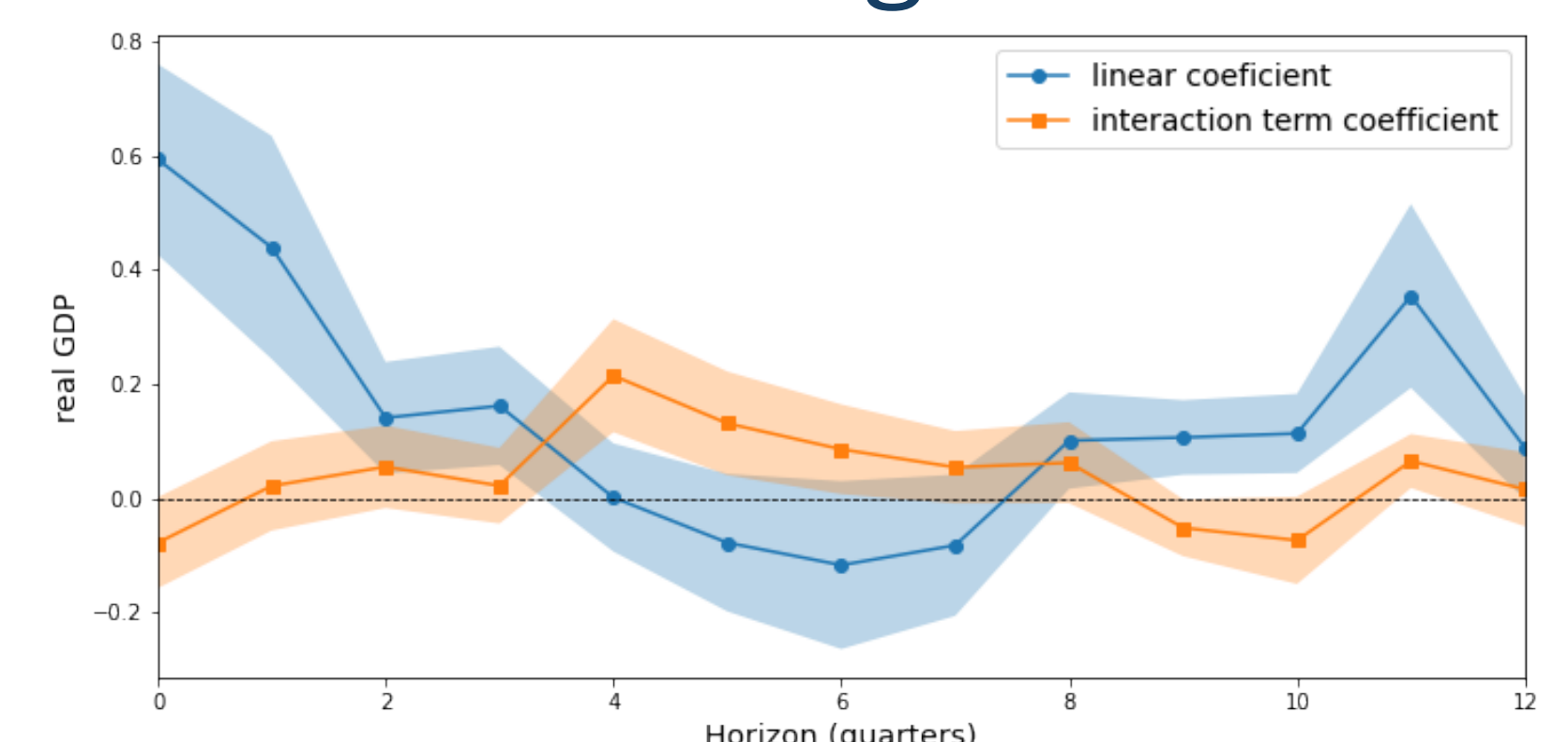
The effect of narratives on GDP

$$y_{t+h} = \alpha_h + \beta_h shock_t + \gamma_h (shock_t \cdot narrative_t) + \sum_{l=1}^n \delta_{h,l} W_{t-l} + u_{t+h}$$

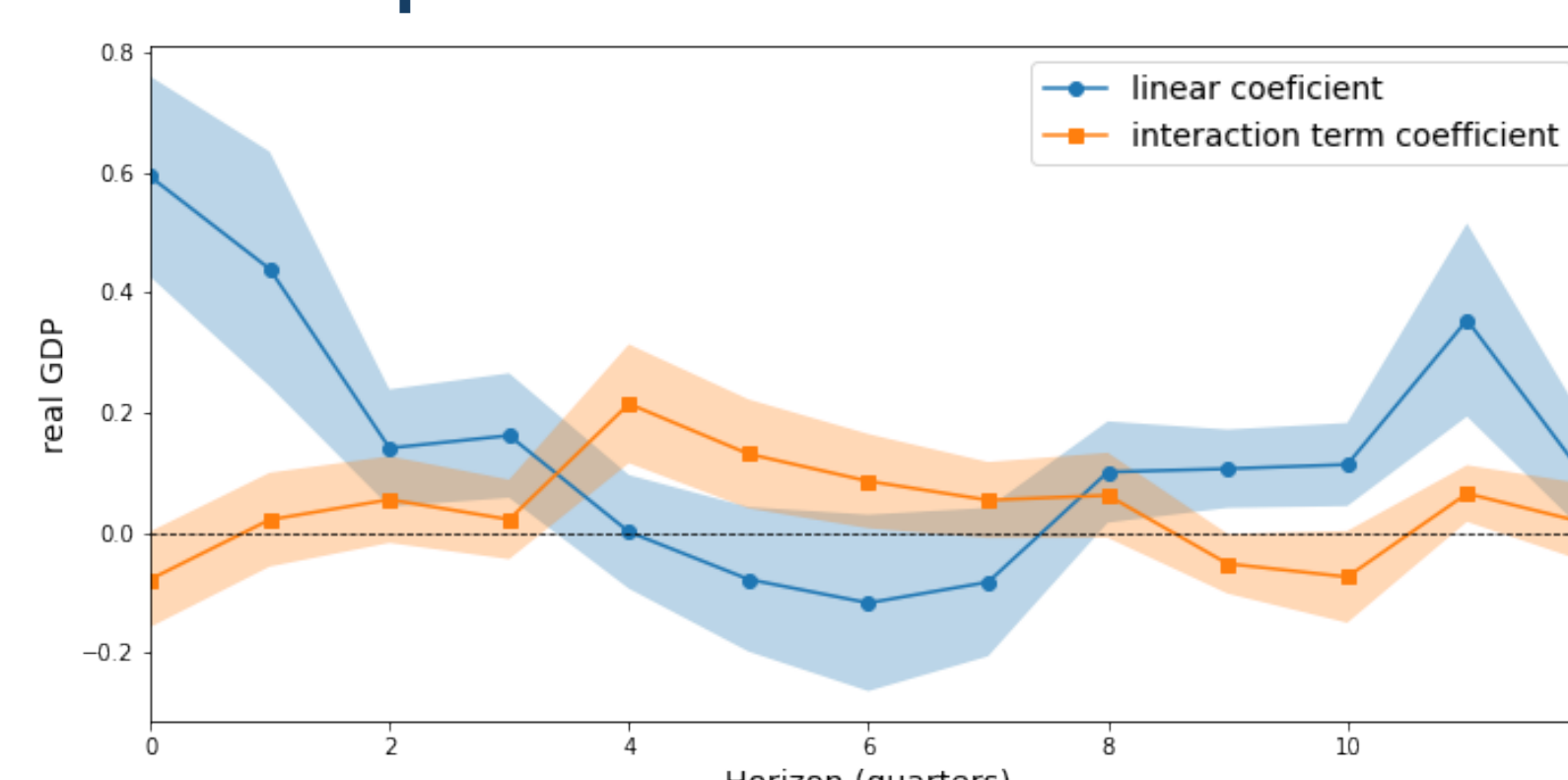
Unsustainable debt



Saving



Expansion => inflation



Spending

