



Central banks' voting records, the financial crisis and future monetary policy[☆]



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ARTICLE INFO

Article history:

Received 31 August 2014

Received in revised form 28 February 2015

Accepted 15 March 2015

Available online 21 March 2015

JEL classification:

D78

E52

E58

Keywords:

Voting records

Financial crisis

Central bank

Monetary policy

ABSTRACT

We examine whether central banks' voting records help predict the future course of monetary policy in the Czech Republic, Hungary, Poland, Sweden and the United Kingdom, controlling for financial market expectations. Unlike previous research, we first examine the period of the global financial crisis, characterized by a high level of uncertainty, and second, examine the predictive power of voting records over longer time horizons, i.e., the next monetary policy meeting and beyond. We find that voting records predict the policy rate set at the next meeting in all central banks that are recognized as independent. In some central banks, voting records are found—before, but not during, the financial crisis—to be informative about monetary policy at even more distant time horizons.

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1. Introduction

An enormous increase in central bank transparency over the last two decades has attracted extensive research efforts aimed at uncovering the implications of this increased transparency (Blinder et al., 2009; Geraats, 2009). While theoretical research has mainly focused on the welfare effects of increased transparency (Morris and Shin, 2002; Angeletos and Pavan, 2007; Cornand and Heinemann, 2008; Dale et al., 2011; Hahn, 2012), empirical research has examined the implications of increased transparency with respect to monetary policy predictability (Gerlach-Kristen, 2004; Crowe, 2010; Sturm and de Haan, 2011; Horváth et al., 2012a), macroeconomic outcomes (Dincer and Eichengreen, 2014) and dissent among central bankers (Meade and Stasavage, 2008).

In this paper, we analyze whether central banks' voting records help predict the future course of monetary policy, a question that has been examined by Gerlach-Kristen (2004) and Horváth et al. (2012a). The seminal paper of Gerlach-Kristen (2004) examines the Bank of England voting record and constructs the variable *skew*, defined as the difference between the average policy rate voted for by individual committee members¹ and the policy rate that is the outcome of the majority vote. Gerlach-Kristen (2004) finds that *skew* is

[☆] We thank the editor, two anonymous referees, Cristina Bodea and Davide Romelli for their helpful comments. We appreciate the support from the Grant Agency of the Czech Republic, no. P402/12/G097. The Online Appendix to this paper is available at <http://ies.fsv.cuni.cz/en/staff/horvath>.

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¹ We use the terms “monetary policy committee members,” “bank board members” and “central bankers” interchangeably in this paper.

informative even when controlling for financial market expectations. Horváth et al. (2012a) provide international evidence and confirm for a group of five inflation-targeting central banks – that release the voting records of their central bankers – that voting records are indeed informative about future monetary policy.

We extend these two studies in two directions. First, we update them to cover the period of the global financial crisis, a period characterized by a high degree of economic uncertainty. The theoretical model of Horváth et al. (2010) shows that voting records should be informative about future monetary policy unless the economic environment is too volatile, in which case dissenting votes are too noisy. Therefore, our sample allows us to test this hypothesis using actual data, thus determining whether it is indeed the case that voting records lose predictive power in more uncertain economic environments. In addition, we also examine whether the size of skew matters for the probability of policy rate change to further elucidate how many board members must dissent for a future policy rate change to become highly likely.

Second, Gerlach-Kristen (2004) and Horváth et al. (2012a) examine whether voting records help predict the monetary policy rate at the next meeting (i.e., at time $t + 1$). We examine whether voting records are informative about monetary policy meetings not only at time $t + 1$ but also times $t + 2$ and $t + 3$. It may well be that some “early birds” receive a signal about the appropriate course of monetary policy “too early”, and it may take some time for other central bankers to recognize this signal and finally change the policy rate in an optimal way.

We find that central banks' voting records help predict the monetary policy rate set at the next monetary policy meeting in all central banks except Hungary. This is an interesting result in light of concerns about central bank independence in Hungary (see, for example, Reuters, 2014, among others). The European Central Bank (ECB) expressed its concerns about the lack of Hungarian central bank independence in a legal opinion issued on January 31, 2014 (ECB, 2014). Therefore, the financial markets may pay less attention to the voting records released by the Hungarian central bank. Our findings regarding Hungary broadly correspond with Jung and Kiss (2012) and Eijffinger et al. (2013a).

In addition, we find that voting records are informative, to a certain extent, about monetary policy meetings at times $t + 2$ and $t + 3$. However, if we restrict our sample period to the period of the global financial crisis, we find that voting records are never significant and are therefore uninformative about future monetary policy. This finding supports the hypothesis that voting records are informative unless the economic environment is too volatile. Finally, we find that the probability of policy rate change increases with the size of skew and that many central bankers precede the collective decision and may be considered to be “early birds”.

The remainder of the paper is structured as follows. A literature survey is provided in Section 2. Our model is presented in Section 3. Section 4 provides our empirical results. Concluding remarks are presented in Section 5. Appendix A, including a description of the data follows.

2. Literature survey of central bank voting

We provide a very brief literature survey in this section, largely focusing on theoretical and empirical research that examines whether central bank voting records help forecast future policy adjustments. We refer the reader to the following more comprehensive surveys. Reis (2013) provides a general survey of central bank governance, while Blinder et al. (2009) survey central bank communication strategies. Geraats (2002, 2009) provides surveys of central bank transparency.

Riboni and Ruge-Murcia (2014) present a theoretical model of committee decision making and show the conditions under which dissent helps predict future policy adjustments. They find that frictions in the decision-making of committees are behind the predictive power of current dissent for future policy. Frictions in turn arise from two factors: committee members' wish to achieve consensus and discrete policy changes (typically with magnitudes of 25 basis points).

Horváth et al. (2010) note that for dissent to be informative about future policy, actual monetary policy cannot precisely follow optimal policy. Under imperfect information, some board members receive a signal of a change in the optimal rate sooner than others and vote accordingly. Another condition for dissent to contain information about future policy is that central banks must maintain decision-making rules that allow dissent. The theoretical model of Horváth et al. (2010) also stipulates that voting records (dissent) are informative about future policy adjustments if the economic environment is not too volatile, as voting records become too noisy under conditions of high economic volatility.

Gerlach-Kristen (2004) empirically examines whether voting records contain useful information about future policy adjustments. Using UK data, she finds that this is indeed the case, even after controlling for financial market expectations. Horváth et al. (2012a,b) confirm her results for a broader set of central banks: the Czech Republic, Hungary, Poland, Sweden, the UK and the US. Neuenkirch (2013) examines the Bank of England's voting record regarding asset purchase decisions and finds that it helps forecast future asset purchase decisions.

Additional research that examines different aspects of central banks' voting records include Chappell et al. (2005), Besley et al. (2008), Bhattacharjee and Holly (2015), Brooks et al. (2011), Eijffinger et al. (2013a,b), Farvaque et al. (2009), Horváth et al. (2014), Gerlach-Kristen and Meade (2010), Jung and Kiss (2012) and Tillman (2011), among others. Interestingly, Neuenkirch and Siklos (2013, 2015) examine the voting records of so-called shadow committees of professional and academic economists, which provide alternatives to the official voting records of central banks. Hayo and Neuenkirch (2010) examine the effect of communication strategy on monetary policy predictability in the US.

Note that few central banks release their voting records; therefore, most of the literature focuses on a single central bank or a narrow group of central banks. Most frequently, the US and UK central banks are examined, while evidence pertaining to other central banks, especially those in Central Europe, is more limited.

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