

Determinants of Central Banks' Preferences, Communication, and Reactivity

Description for the General Public

The starting point of the project is the need and will to better understand behaviour of central bankers, the decision-making inside monetary policy committees, as well as the degree of harmonization of central banks' communication policies and their actual policy-making.

Such research is important for the functioning of the national economy and the so-called ordinary people, as the decisions made by central banks with respect to interest rates as well as other monetary policy instruments almost directly impact the debtors (and savers) and less directly influence most of key macroeconomic variables such as inflation rate, economic growth or unemployment rate.

Therefore, the aim of the project is a complex and interdisciplinary analysis of the factors influencing the functioning of central banks, in particular their preferences, communication and in consequence the way they react to economic events and disturbances.

The project will be divided into three main parts drawing from three groups of factors potentially impacting the monetary policy making by decision-makers: their individual preferences, which may be formed in the socialization process (during their childhood and early youth), perspectives of future career (if the central banker wants and may be re-elected) and new economic phenomena which emerged after the financial crisis, among them modifications in central banks' communication with financial markets and societies.

Thus, in the first part of the project we will investigate the way the preferences of central bankers are formed, and how they can influence their decision-making processes, e.g. how much an early experience of recession can impact the behaviour of central bankers. In particular, we will try to clarify if experiencing a longer period of recession during childhood results in a higher aversion to recessions, and consequently in reluctance to an increase in interest rates (or a greater willingness to cut the rates).

The second part of the project would add to the picture the fact that central bankers can have some career or reputational concerns. Many examples of electable offices have been shown to be more active in the period preceding possible re-election dates (e.g. in order to be re-elected, the mayor build a new sidewalk). However, facing the end of their final term, officials tend to stay inactive – they become “lame ducks”. Our aim is to systematically analyse the behaviour of central bankers facing an opportunity for reappointment nomination using the sample of as many countries as possible. We will try to demonstrate that central bankers – just like politicians – behave differently in the middle of the monetary policy council term and before the end of the term.

The third part of the project is focused on the macroeconomic aspects of central banks' behaviour and their preferences with respect to alternative macroeconomic objectives (like price and output stability), as well as the importance of foreign monetary and financial conditions for the conduct of domestic monetary policy. This part of the research will lead to the contribution to on-going, unsettled debate on the effectiveness of alternative exchange rate regimes. However, the view taken in our studies will go beyond a simple trade-off “flexible vs. fixed exchange rate”, and take into account cross-border effects of monetary policies, notably the actions of central banks in important economic and financial centres (such as the US or euro area).