

Video: How does ECB communication influence financial markets?

Transcription

Every six weeks the Governing Council of the European Central Bank gathers to set the monetary policy for the euro area, in particular, deciding whether to raise, lower or maintain interest rates.

During the six weeks between one meeting and the next, investors or “the market” scrutinise every piece of information and data to try to predict – and anticipate – this decision.

One way investors obtain new information on future monetary policy is by paying attention to the public statements of members of the ECB Governing Council, which may trigger market movements.

My co-authors and I have analysed the impact of ECB Governing Council members’ public statements on the markets and the direction of their influence.

To this end, we created a database of their public statements consisting of 4,400 public statements between 1999 and February 2024 and analysed the market reaction to them.

What do we mean by this?

We mean any movement in market interest rates following the words of a Governing Council member. For example, during an interview published in the spring of 2023, a Governing Council member mentioned the strong underlying inflation, which was considered by the market as a sign that interest rates might rise more than previously expected.

What conclusions have we drawn?

- Public statements, including both official statements after monetary policy meetings and any messages conveyed between Governing Council meetings, have a significant impact on interest rates.

This shows that communication in the period between meetings also plays an important role in shaping financial conditions.

- The effect of public statements varies over time, reaching its peak during monetary tightening cycles (when interest rates rise). This was particularly the case in 2022-2023.
- And, public statements convey multidimensional information, affecting market perceptions of the possible trajectory of monetary policy and the state of the economy.

Most of the ECB members analysed have swayed market interest rates, both upwards and downwards.