

ACCOUNTABILITY OF CENTRAL BANKS: Evidence from the ECB, the Fed and the Bank of England of how parliamentarians change their tone in a crisis

The obligation for central banks to justify their decisions to citizens and their electoral representatives has become a crucial tool now that concerns over their independence have intensified.

Just like central banks, parliaments have their own 'reaction function': over time, and particularly during the crisis, parliamentarians adjust their focus and tone to economic developments when holding to account the European Central Bank, the Federal Reserve and the Bank of England.

These are among the conclusions of research by **Nicoló Fraccaroli**, **Alessandro Giovannini** and **Jean-Francois Jamet**, to be presented at the annual congress of the European Economic Association in Manchester in August 2019.

The authors find that the tone of parliamentary hearings is mostly driven by the distance of actual inflation from central banks' inflation objective – in line with central banks' primary mandate – and by economic uncertainty: the further away inflation is from central banks' objective and the higher the uncertainty, the worse the tone of parliamentarians during their debates with central bankers.

Moreover, the global financial crisis represented a turning point, which raised the prominence of financial stability concerns in parliamentary hearings.

More...

While during the past 30 years, independence has been a cornerstone of central banking, since the global financial crisis, there has been debate over whether it is legitimate to grant independence to unelected powers in a democracy. As a result, increased attention has been paid to central bank accountability, in particular the obligation, as the necessary counterpart to independence, for the central bank to explain and justify decisions to citizens and their elected representatives.

To assess whether parliamentary accountability played its role by reacting to economic developments just like central banks did, the authors of this study analyse parliamentary debates with central bankers.

The authors propose a new methodology to assess empirically the evolution of central bank accountability, applying text and sentiment analysis techniques to the transcripts of the parliamentary hearings of the three central banks. Thanks to this new approach, their study identifies the evolution of the topics debated and of the tones of the discussions.

This analysis allows tracking of how the interactions between central banks and parliaments evolved to respond to new demand for scrutiny, thus providing key insights on the most relevant and common accountability channel among central banks.

In particular, the researchers propose an application to three central banks, the European Central Bank, the Bank of England and the Federal Reserve, which are held

accountable respectively by the European Parliament, the UK Parliament and the US Congress.

Using the transcripts of their quarterly exchanges from the beginning of 1999 to the end of 2018, the paper compares the evolution of the focus and of the tones of the hearings. This represents a unique source of data that has not been so far analysed. It also allows performing a consistent analysis across different central banks, as parliamentary hearings are for all of them the key forum where they are held accountable.

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VoxEU: <https://voxeu.org/article/accounting-accountability-evolution-ecb-s-accountability-practices-during-crisis> [This is the summary of a previous version of the paper that focussed solely on the ECB].