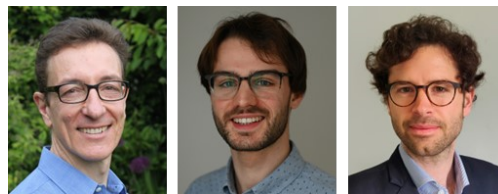


The Economics of Public Policy Leaks: New Evidence from Central Banking*



By Michael Ehrmann (European Central Bank and CEPR), Phillipp Gnan (Vienna University of Economics and Business), and Kilian Rieder (Oesterreichische Nationalbank, CEPR, and SUERF)

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Leaks of confidential information emanating from public institutions have been the focus of a longstanding line of research. Yet, their determinants as well as their potential impact on public views and on policy effectiveness remain elusive. This article argues that studying leaks from central banks can address these gaps in the literature because news about monetary policy instantaneously move financial markets. Based on a novel database of anonymous monetary policy leaks in the euro area as reported by newswires, the article provides evidence that many of these leaks are likely placed by individual insiders with minority opinions. While the article shows that leaks have large effects on markets and weaken official policy announcements, the analysis also suggests that leaks do not lock in decision-makers, and that attributed communication can mitigate some of their effects.

*Authors' note: The views expressed in this article present the authors' personal opinions and do not necessarily reflect the views of the ECB, the Oesterreichische Nationalbank or the Eurosystem. This article is also published on VoxEU.

According to practitioners and scientific experts, public institutions around the world “leak like sieves” (Grønbach Jensen, 1998; Pozen, 2013; Rottman, 2019). Disclosures of confidential information which are transmitted by insiders to the media with an expectation of anonymity have even been characterized as a “routine method of communication about government” (House Committee on the Judiciary, 1982; Lee, 2008; Herrmann, 2015).

Leaks can have a large impact on public policy-making. For instance, they may harm the credibility and reputation of public institutions, in particular if they trigger unintended side effects or turn out to be factually wrong (Oei and Ring, 2018; Assenmacher et al., 2021). In addition, leaks could reduce policy flexibility (Fehrler and Hahn, 2023) and cause considerable welfare losses whenever they lock in decision-makers on undesirable paths by moving public opinion in specific directions (Vissing-Jorgensen, 2019).

Despite the long-standing interest in leaks and their potential implications, in the academic literature “our comprehension of leaking has not kept pace with our fascination” (Pozen, 2013). For example, we still know little about how leaks affect public views and attempts to quantify the precise impact of leaks on the effectiveness of public policy have remained elusive. We also lack systematic evidence indicating whether official communication can act as a tool to mitigate the potentially adverse impact of leaks on public opinion and institutional credibility. Another fundamental, yet difficult to answer question concerns the nature of leaks. While public policy leaks may simply be random accidents, they could also represent intentional releases by individuals with their own agendas or constitute institutionally authorized “plants”.

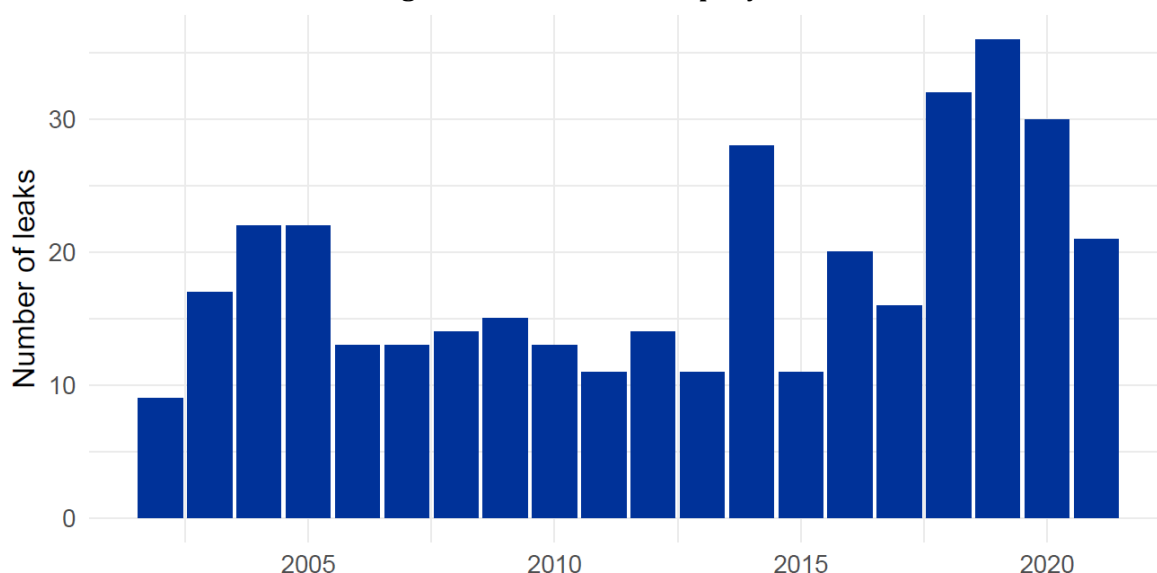
Central banks constitute promising cases to study public policy leaks

One important reason for these gaps in the literature is the mismatch between the high-frequency nature of news about leaks and the lack of fast-moving variables that could capture public perceptions and public policy outcomes. In a recent paper (Ehrmann et al., 2023), we attempt to overcome this challenge by analyzing leaks from one specific area of public policymaking: central banking. Central banks constitute particularly promising cases to study public policy leaks because news about monetary policy instantaneously move financial markets. Since markets listen when central banks speak, we can obtain a reliable high-frequency measure to study the impact of leaks on public views and policy effectiveness: financial market tick data. To be sure, there are also other advantages of studying central bank leaks. On the one hand, the well-defined scope and the recurrent nature of monetary policy decisions ensure that the content of related leaks is comparable over time, allowing the compilation of a consistent database over a long sample period. On the other hand, monetary policy represents a clear-cut case of decision-making by committee. Therefore, our analysis speaks to a form of decision-making prevalent in many public institutions, especially at the supranational level (e.g. the Council of the European Union, the United Nations Security Council or the World Trade Organization’s General Council).

What 368 Eurosystem leaks can tell us about the impact and nature of public policy leaks

In our study, we focus on the case of the Eurosystem, i.e. the National Central Banks (NCBs) of the euro area countries and the European Central Bank (ECB). We compile a novel database of 368 leaks related to monetary policy, including their precise time stamps to the minute, by filtering the Reuters, Bloomberg and Market News International archives between 2002 and 2021. Figure 1 shows that the number of annual Eurosystem leaks peaked in 2019, with an average of more than four leaks per policy meeting.

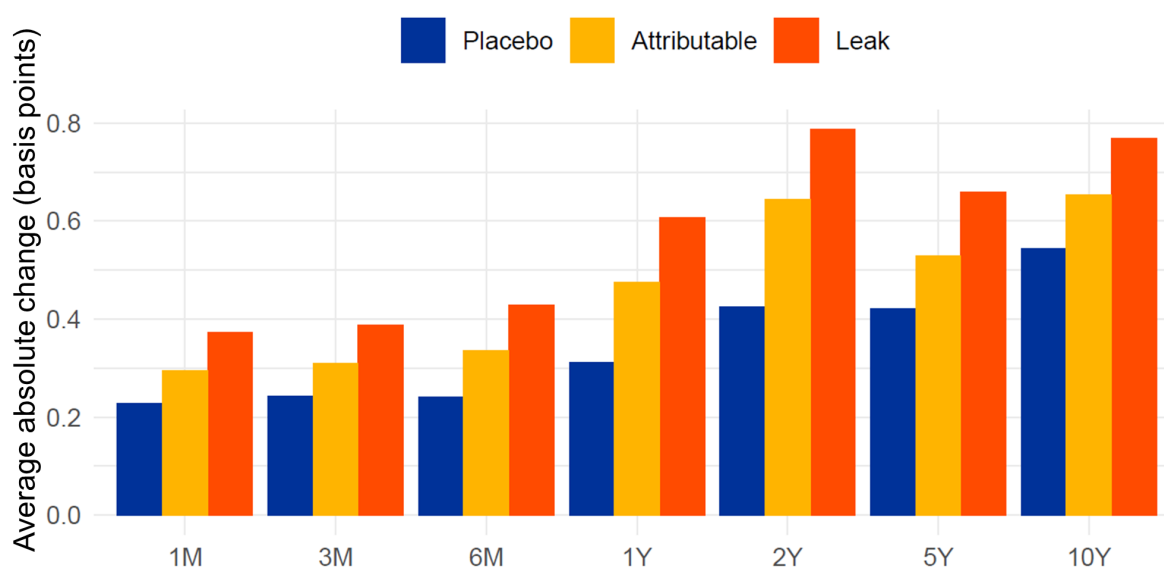
Figure 1: Number of leaks per year



Notes: This figure plots the annual counts of all Eurosystem leaks related to monetary policy topics, i.e. “policy rates”, “unconventional monetary policy (UMP)”, “economic growth”, “inflation” and “euro exchange rate” for the period 2002 to 2021. Source: Ehrmann et al. (2023).

Our study delivers three sets of results. First, to quantify the market impact of leaks, we look at high-frequency movements in overnight indexed swaps (OIS) over 35-minute event windows around the occurrence of leaks. We find that leaks trigger market movements that are around 60-95% larger than normal, and around 15-30% larger than the average effect of public statements by Governing Council members (see Figure 2). While our results show that leaks counteract prevailing trends in market expectations and weaken the effect of official policy announcements on longer-term expectations, the average pre-meeting leak does not move public expectations closer to the eventual policy outcome. This suggests that leaks largely originate from insiders with minority opinions, but also that the Governing Council is not locked in by anonymous disclosures. Hence, leaks appear to mainly add noise to official central bank communication, such that market participants would seem to be better off if they treated most leaks about Eurosystem monetary policy with caution.

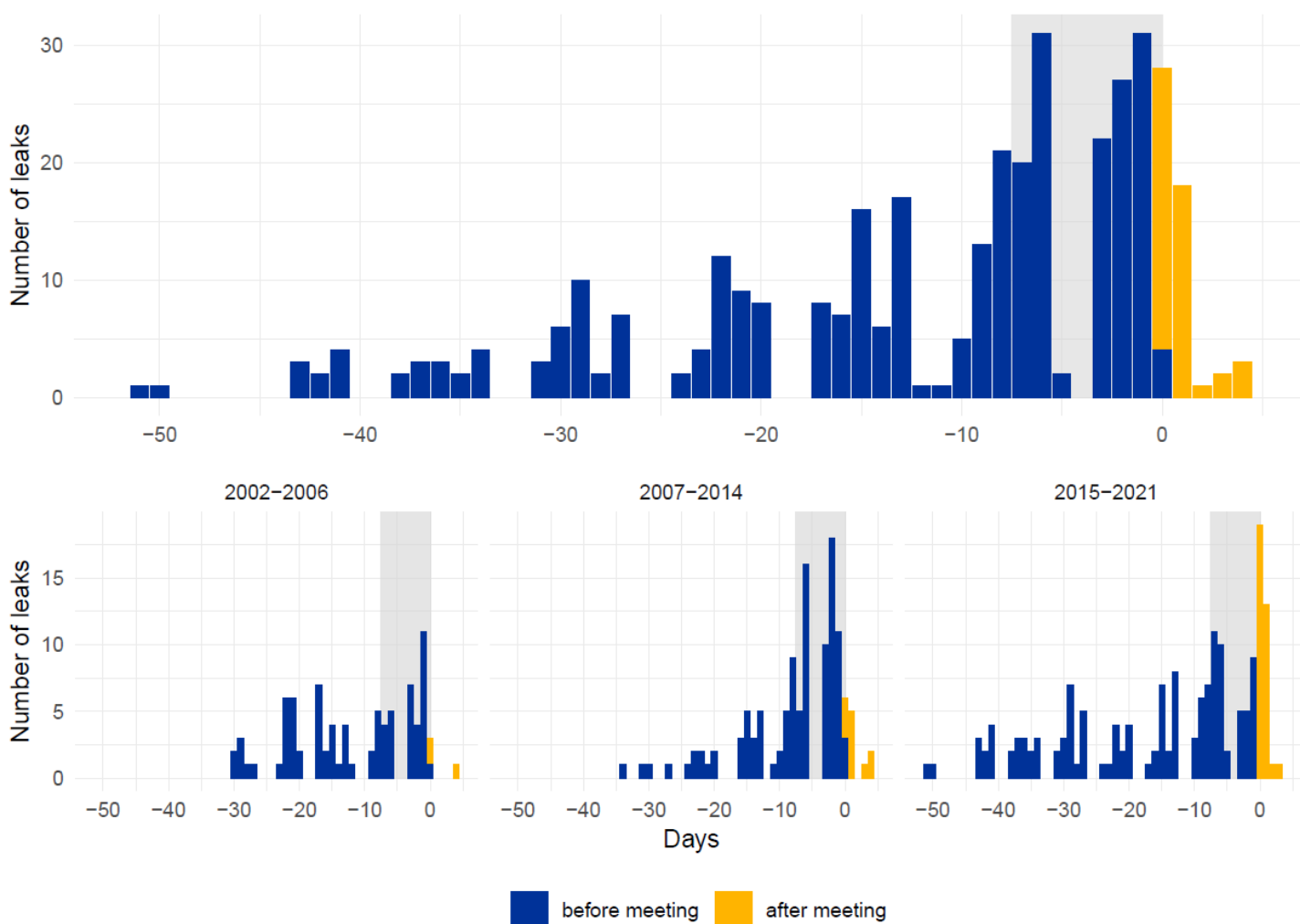
Figure 2: Market reaction to events (basis points)



Notes: The figure plots the average absolute change in basis points in overnight indexed swap (OIS) rates over an event window from five minutes before attributed statements (yellow bars) or leaks (red bars) to 30 minutes afterwards, compared to the average absolute change in OIS rates during a 35-minute time window around 5,000 placebo events (i.e. normal movements) that match the distribution of leaks over time (blue bars). For each maturity and comparison, the differences in the effects are statistically significant at the 1% level. Source: own calculations based on Ehrmann et al. (2023)

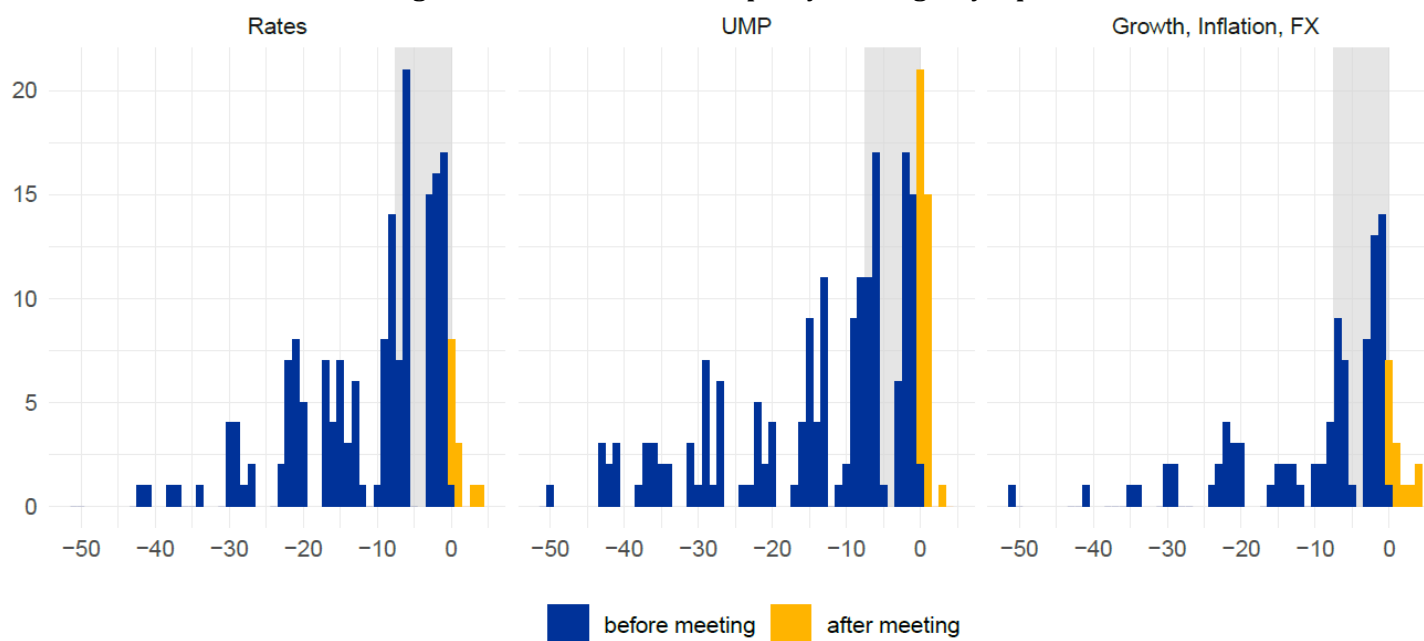
Our second set of results suggests that many Eurosystem leaks are no accidents. We find that the incidence of leaks exhibits clear patterns over time. Anonymous disclosures generally cluster around monetary policy meetings, partially at a time when policy-makers’ media contacts are restricted by the ECB’s quiet period rules (see Figure 3). We also observe a notable shift in the timing of leaks from before the monetary policy meetings to after the meetings since 2015, a development driven by leaks related to unconventional monetary policy (UMP) (see Figure 4). Our study corroborates this descriptive evidence by uncovering several empirical regularities using regression analysis. We document a systematic relationship between leaks, proxies for disagreement among policy-makers and specific events linked to the conduct of monetary policy.

Figure 3: Distance of leaks to policy meeting



Notes: This figure plots the distribution of all leaks related to the topics “policy rates”, “UMP”, “economic growth”, “inflation” and “euro exchange rate” around policy meetings. On the policy announcement day, a leak is classified as ‘before meeting’ if it occurs before the ECB’s press release (13:45 CET) and as ‘after meeting’ otherwise. The horizontal axis measures the distance to the closest policy meeting in calendar days. The upper panel summarizes our whole sample period (January 2002 – December 2021), whereas the lower panel distinguishes three sub-periods – the pre-crisis period (2002-2006), the acute crisis phase (2007-2014) and the subsequent years of extensive use of UMP (2015-2021). The area shaded in gray indicates the ECB’s quiet period. Source: Ehrmann et al. (2023)

Figure 4: Distance of leaks to policy meeting – by topic



Notes: This figure plots the distribution of leaks around policy meetings for three types of leaks – leaks related to policy rates, unconventional policy tools (UMP) and economic conditions. The latter category comprises leaks about economic growth, inflation and the euro exchange rate. The vertical axis measures the distance to the policy meeting in calendar days. On the policy announcement day, a leak is classified as ‘before meeting’ if it occurs before the ECB’s press release (13:45 CET) and as ‘after meeting’ otherwise. The area shaded in gray indicates the ECB’s monetary policy quiet period. Source: Ehrmann et al. (2023)

Our third series of findings reveals that most Eurosystem leaks are unlikely to represent institutional plants. We find that attributable statements by ECB policy-makers systematically counteract the market impact of leaks. This result has two implications. First, many Eurosystem leaks seem to be released by individuals pursuing their own agendas instead of being intentionally placed by the institution. Second, attributed communication appears to be effective in mitigating the impact of leaks. Related to this second point, we also show that a higher intensity of attributable communication before leaks correlates with lower market impacts of these anonymous disclosures.

Discussion and outlook

To the best of our knowledge, our unique data and setting make the study underlying this article the most systematic quantitative assessment of public policy leaks to date. Our study contributes to several literatures, including interdisciplinary scholarship studying anonymous disclosures of confidential information in the realm of public policy-making, papers on the economics of decision-making by and disagreement in (monetary policy) committees (McMahon et al. 2015, Tietz et al. 2021), and past work on the effects of ad hoc central bank communication.

We would like to highlight two particular implications of our paper. First, our findings imply that markets respond to leaks although they are generally not informative. The market reaction to leaks can be rationalized by models formalizing the impact of media reporting on economic outcomes. Chahrour et al. (2021) show that accurate reporting about unrepresentative developments may still affect agents’ behavior. The analogy to leaks that mainly represent minority views is straightforward. Also, according to Nimark (2014), “unusual events are more likely to be considered newsworthy than events that are commonplace”, and the mere availability of these signals is in itself informative and affects agents’ beliefs. Leaks are a good example of “man-bites-dog” news: both their form and their information content are highly unusual because most central bank communication goes through official channels and contains little information about disagreement on the Governing Council.

Second, we find that Eurosystem leaks on monetary policy often are released shortly before or after official monetary policy announcements. Hence, pre-policy announcement leaks could affect market expectations prior to the start of event study windows, thereby altering the surprise component of official announcements (Karadi and Jarocinski 2018, Schrimpf and Cieslak 2018). Likewise, post-meeting leaks dampen policy announcement effects. In both cases, monetary policy shocks extracted from official announcements alone may miss the overall extent of new information available to financial market participants. At the same time, accounting for leaks when identifying monetary policy shocks may also increase the relevance of available high-frequency surprise instruments (Ramey, 2016; Bauer and Swanson, 2022; Swanson, 2023).

Several questions remain for future research. In particular, this article has focused on the short-term impact of public policy leaks, leaving aside their potential longer-term implications, e.g. for the reputation of the institutions concerned. ■

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About the authors

Michael Ehrmann is Head of the Monetary Policy Research Division in the ECB's Directorate General Research, and a CEPR Research Fellow. Previously, he worked as Director in the International Department and as Head of Research at the Bank of Canada, and held various positions at the ECB, including Head of the Financial Research Division. His research covers central bank communication, monetary policy transmission, international finance and household finance. It has been published in leading academic journals, including the *Journal of Finance*, the *Review of Economics and Statistics* and the *Journal of Monetary Economics*. He holds a PhD in Economics from the European University Institute in Florence, Italy.

Phillipp Gnan is currently a Teaching and Research Associate at Vienna University of Economics and Business, where he also obtained his PhD in Finance. His current research interests include the interaction of monetary policy and financial markets, monetary policy communication, subjective beliefs of households, applied machine learning and natural language processing.

Kilian Rieder is a lead economist at the Economic Analysis and Research Department of the Oesterreichische Nationalbank (OeNB, Eurosystem). He is a research affiliate of the Center for Economic Policy Research (CEPR) and of SUERF. Kilian earned his Ph.D. in May 2018 from Oxford University (University College), after completing Master degrees at LSE and Sciences Po Paris. His research interests are in economic history and macroeconomics. He gained full-time working experience in academia, monetary policy and banking supervision at Vienna University of Economics and Business, OeNB, the Austrian Financial Market Authority, the European Central Bank, and the Bank of England.

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SUERF Secretariat
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