

The Long-Run Information Effect of Central Bank Narrative*

Stephen Hansen[†] Michael McMahon[‡] Matthew Tong[§]

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Abstract

Central bank communication is an increasingly important policy tool, but its impact on market expectations arises through many potential channels. We use the publication of the Bank of England's Inflation Report to study the market impact of communication about expected future economic conditions can move short- and long-run market rates. We find compelling evidence for a long-run information effect driven more by narrative than by quantitative forecasts. The dominant channel of this effect operates largely via its impact on the term premium through narrative about risks and uncertainty. We conclude that central banks can impact long-run interest rates without making explicit future policy commitments.

Keywords: Monetary Policy, Communication, Machine Learning

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[†]University of Oxford, Alan Turing Institute and CEPR. Email: stephen.hansen@economics.ox.ac.uk

[‡]University of Oxford, CEPR, CAGE (Warwick), CfM (LSE), and CAMA (ANU). Email: mcmahon@economics.ox.ac.uk

[§]Bank of England. Email: matthew.tong@bankofengland.co.uk