Populism and Monetary Policy Transmission

by Nora Lamersdorf

Discussion: Thomas Lambert (Erasmus University)

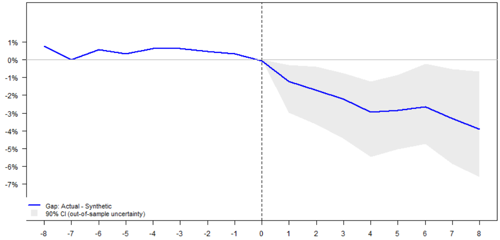
2026 EFA Meetings
Ghent, August 19–22, 2026

Central banking and "elected" populism

Governor independence and populism

	(1)	(2)	(3)
Dependent variable:		GI index	
Populist leadership	-0.174**		
	(0.080)		
Populist leadership (left-wing)		-0.133	
		(0.127)	
Populist leadership (right-wing)		-0.189**	
		(0.086)	
EU accession			0.111
			(0.178)
De jure CBI	0.022	0.023	0.017
	(0.042)	(0.042)	(0.039)
Other country characteristics	YES	YES	YES
Governor characteristics	YES	YES	YES
Country FE	YES	YES	YES
Observations	222	222	222
R-squared	0.482	0.482	0.470

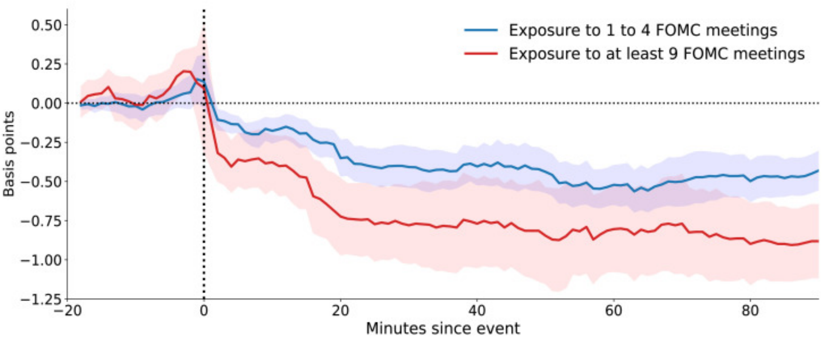
Governor independence and inflation (SCM estimation)



Source: Ioannidou, Kokas, Lambert and Michaelides (2026 [5])

Central banking and "elected" populism (cont'd)

Trump tweets and actual monetary policy



Source: Bianchi, Gomez-Cram, Kind and Kung (2023 [1])

Populism faces

This paper: central banking and unelected populism

$$\underbrace{\boxed{\text{Information}} \longrightarrow \boxed{\text{Trust}}}_{\boxed{\text{Populism/AfD}}} \longrightarrow \boxed{\begin{array}{c}\text{Inflation}\\ \text{Expectations}\end{array}} \longrightarrow \boxed{\begin{array}{c}\text{Credit}\\ \text{Demand}\end{array}}$$

$\rightarrow$ Twin deficits problem of public understanding and public trust (Haldane 2017 [4])

Is it fundamentally about populism?

My discussion

1. What does AfD vote share proxy for?
2. Information vs. trust: two channels, or one?
3. Do firms reducing credit demand by less consume AfD-affiliated media?
4. Is ECB trust a stable characteristic, or endogenous?
5. Are nominal hurdle rates really sticky?
6. Is the effect meaningful?

1. What does AfD vote share proxy for?

Identification rests on AfD vote share = “populist exposure”

AfD share plausibly correlated with:

- East vs. West Germany
- Inflation experiences
- Age structure, urbanization
- Manufacturing / trade-shock exposure
- Historical banking structure (Sparkassen density)

Existing controls (sales and employment growth, firm counts) unlikely to absorb this

Not just about local economic conditions

→ Bottom line: populism and local conditions cannot yet be distinguished

Suggestions

1. **Balance table:** high- vs. low-AfD counties on rich observables
2. **East/West split or restriction:** distinct post-reunification dynamics
3. **Instrument:** refugee allocation rules, shift-share trade/China exposure
4. **IPWRA local projections and synthetic control estimation:** cf. Funke et al. (2023 [3]) and Ioannidou et al. (2026 [5]) as an alternative to linear controls

2. Information vs. trust: two channels, or one?

The paper's mechanism has two legs:

(i) **Information channel:** AfD-affiliated media are less prompt / more negative

(ii) **Trust channel:** managers who distrust the ECB respond less to policy

But high-AfD counties are, almost by definition, counties where individuals disproportionately (i) consume AfD-affiliated social media and (ii) distrust the ECB

Paper's claim: the "mirror-image" finding (direct ECB trust flips the sign relative to AfD exposure) validates two separate, reinforcing channels

Equally consistent alternative: trust is a single underlying channel, which AfD vote share proxies for imperfectly and noisily at the county level (i.e. same latent construct)

Suggestion

1. **Horse race:**
   Does AfD exposure retain explanatory power once firm-level ECB trust is controlled for directly (in the, admittedly smaller, matched sample)?

3. Do firms reducing credit demand by less consume AfD-affiliated media?

1. **Sample size:** 1,307 tweets from 135 hand-selected "AfD-affiliated" accounts over nearly ten years is a relatively small sample
2. **Representativeness:** Twitter may not be enough as the ecosystem of right-wing alternative media also includes Telegram, YouTube, etc.
3. **Construct validity:** Tweet sentiment is not the same thing as tweet informativeness
4. **Exposure:** difficult to establish that firms/managers are actually exposed to these tweets

→ Bottom line: try to link media exposure with AfD vote share at the county level

4. Is ECB trust a stable characteristic, or endogenous?

ECB trust measured only once (waves 27–29, Apr–Jun 2023) and then assigned backward/forward to all waves (2019–2024) in which the same firm reports inflation expectations

Treating trust as structural, time-invariant characteristic is a strong assumption here:

- The 2019–2024 window includes COVID, the inflation surge, and a rapid rise in AfD vote share
- Exactly the kind of period where trust itself plausibly moves

→ Bottom line: if trust erodes because of the inflation surge, assigning a single 2023 snapshot to earlier waves builds in measurement error correlated with the regressors of interest (not classical noise) + reverse causality concerns

5. Are nominal hurdle rates really sticky?

The mechanism relies on a specific chain:

Attenuated inflation expectations → Attenuated increase in perceived real discount rate → Attenuated credit-demand contraction

The load-bearing assumption: firms do not adjust nominal discount rates in response to changing inflation expectations Fukui et al. (2026 [2]) → borrowed directly, not tested

If nominal hurdle rates adjust at all with local AfD exposure or firm characteristics, the mechanical translation from expectations to credit demand (and investment) breaks down

→ Bottom line: perhaps show, not assume, that this stickiness holds in its own sample

6. Is the effect meaningful?

Economic magnitudes are relatively small:

- Inflation expectations: 0.17–0.18pp gap (vs. mean $\sim$4.5–4.8%)
- Credit demand: 0.5–1pp attenuation against a baseline tightening response of only 2–3.5% (Fig. 3a)
- Roughly 15–40% attenuation of an estimate that is itself imprecisely estimated

Inference may overstate precision:

- Key regressor (AfD share) varies at county-quarter level, yet SEs clustered at firm/year-quarter (Moulton-type concern)
- Confidence bands in Fig. 4a (+ appendix) do not exclude zero at several horizons

$\rightarrow$ Bottom line: benchmark the magnitudes against other sources of heterogeneity and avoid strong language ("most strikingly")

My take

Timely paper at the intersection of Central Banking and Political Economy

Amazing data on a very important question: highly recommended!

My discussion focuses on causality and identification:

1. What does AfD vote share proxy for?
2. Information vs. trust: two channels, or one?
3. Do firms reducing credit demand by less consume AfD-affiliated media?
4. Is ECB trust a stable characteristic, or endogenous?
5. Are nominal hurdle rates really sticky?
6. Is the effect meaningful?

Great paper – good luck!

Thank You

thomaslambert.org
poleconfin.org

References i

F. Bianchi, R. Gómez-Cram, T. Kind, and H. Kung.
Threats to central bank independence: High-frequency identification with twitter.
Journal of Monetary Economics, 135:37–54, 2023.

M. Fukui, N. Gormsen, and K. Huber.
Sticky discount rates.
Working Paper, 2026.

M. Funke, M. Schularick, and C. Trebesch.
Populist leaders and the economy.
American Economic Review, 113(12):3249–3288, 2023.

A. Haldane.
A little more conversation, a little less action.
Bank of England-Speech, 2017.

V. Ioannidou, S. Kokas, T. Lambert, and A. Michaelides.
(In)dependent central banks.
Working Paper, 2026.