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Women and monetary policies¹

Despite the progress made in recent decades, the underrepresentation of women in decision-making positions is still a widespread phenomenon. Yet, women's empowerment is a top priority for institutions and firms, not only because of descriptive representation but also because gender balance in decision-making positions may be linked to a different style of leadership and a different agenda. Using a new large dataset for 103 countries over the period between 2002 and 2016, we documented the evolution of female presence in central banks' monetary policy committees and their role in monetary policies. The results show that a higher share of women on central bank boards is associated with a higher interest rate and that women in central banks have a more "hawkish" attitude, i.e. they are more aggressive in fighting inflation.

Keywords: women on boards, central banks, risk aversion

Despite the progress made in recent decades, the underrepresentation of women in decision-making positions is still a widespread phenomenon. According to Catalyst (2020), women represent only 30% of senior management in the European Union and 29% in North America. Among the largest publicly listed companies in the European Union (EU-28) in 2020, only 19.3% of executives and 7.9% of CEOs were women. In the US, there are still nearly 13 companies run by a man for every company run by a woman. In politics, only in 9 countries out of 153 a woman is head of state and only in 13 out of 193 head of government. The global share of women in national parliaments is 25.5% (IPU, 2021).

Yet, women's empowerment is a top priority for institutions and firms. There is not only an issue of descriptive representation but also of substantial representation. In fact, gender balance in decision-making positions may be linked to a different style of leadership and a different agenda (Profeta, 2020).

In business, recent analyses which exploit the introduction of board gender quotas find that the presence of women on boards has positive effects on the selection of board members

(male and female), increasing the qualification level of all members (see Ferrari et al., 2021 for the case of Italy). The effects on performance are less conclusive, but most of the rigorous studies seem to suggest a null or positive effect (see Profeta, 2020 for a review). Another important outcome related to the presence of women in decision-making positions is the policy agenda. The presence of women in politics, for example, has been associated with more effectively voicing "women's interests" and influencing policy outcomes (see Hessami and Lopes da Fonseca (2020) for a recent review).

But what about monetary policy? Monetary policy committees of central banks decide monetary policies, which are crucial for the economic situation of a country. The presence of women in these committees has been historically quite limited. However, a small but increasing number of women has risen to the top of central banks in recent times, for example Elvira Nabiulina in Russia, Karnit Flug in Israel, Janet Yellen in the US and Christine Lagarde at the European Central Bank. For most central banks around the world, the main instrument of monetary policy is the

¹ This policy brief is based on my presentation at the 48th OeNB Economics Conference in cooperation with SUERF and the JVI on the topics of gender, money and finance on May 20 and 21, 2021. The results presented are based on the paper "Do women matter on monetary policy boards?" joint with D. Masciandaro and D. Romelli (see references).

short-term interest rate, at least until the financial crisis of 2008. Central banks make their decisions based on the current interest rate and on the expected deviations of the inflation rate and the output gap. The nature of the decision reduces the endogeneity problem, which typically arises when we assess the relationship between the presence of women in decision-making positions and outcomes. In this context and given the recent trends as well as the relevant impact of monetary policy on the economy, it becomes particularly interesting to investigate the role of women in decision-making positions in the context of monetary policy.

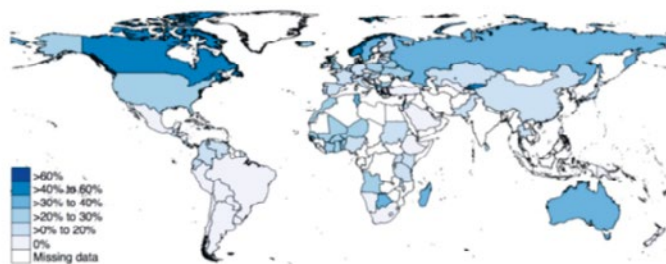
In a recent joint paper with Donato Masciandaro and Davide Romelli (Masciandaro et al., 2020), we construct a new large dataset on the presence of women in central banks' monetary policy committees for 103 countries from 2002 to 2016. This dataset delivers a complete picture of central bank boards' gender compositions (figure 1): the average share of women on monetary policy committees is 14%. The top-performing countries are Canada, Sweden, Serbia and Bulgaria with around 55% to 60% of women. The increase in the share of women during the considered period is substantial: from 11% in 2002 to 16% in 2016. The average

size of the board remains at around seven members. Women governors or deputy governors show a similar trend, increasing from 9% to 16%. The largest increase in women board members was found in North America. Middle-East and North Africa improved their quota as well, while Europe, Central Asia and Sub-Sahara Africa experienced a small contraction in women's representation. We also find that central banks with no women on the board saw little change in gender representation over the decade considered. Over the period between 2002 and 2016, 20% of the countries in our sample never appointed a woman to their monetary policy committee, while in any given year around 50% of the countries have no women.

When we used our dataset to investigate the determinants of female presence, we found that a variable which is positively related to the share of women in monetary policy committees is the staff gender ratio reported by the Central Banking Directory from 2016, providing information on the total number of female employees in central banks from 2012 to 2015. It suggests that central banks with overall more women employees have a higher female representation on boards as well. Other variables, including the gender gap

Figure 1

Share of women in monetary policy committees in 2016



Source: Masciandaro et al. (2020).

index by the World Economic Forum, show no connection to the presence of board women members. In other words, the general level of gender inequality in a country seems not to be related to women's representation in central banks.

Then we used our dataset to analyze the relationship between the presence of women on central bank boards and their monetary policy decisions. To isolate the effects of gender heterogeneity on policy decisions, we estimated a forward-looking Taylor rule that relates the target policy rate to deviations of expected inflation and output and augmented it to include the share of women board members and its correlation with the inflation rate. Furthermore, we performed several estimations with different methodologies. Our results show that, for the same level of inflation, a higher share of women on a central bank board is associated with a higher interest rate. In terms of magnitude, an increase of one percentage point in inflation leads to an interest rate that is 30 basis points

higher in a central bank with a 50% share of women members compared to the rate with a 10% share of women. This suggests that women in central banks have a more “hawkish” attitude, i.e. they are more aggressive in fighting inflation. In other words, the presence of women in central bank boards can be a signal of prudence when implementing monetary policy actions.²

Our results are in line with more general research results on different traits of men and women, which translate into different styles of leadership and actions when making decisions. In other words, women are more risk-averse than men and take more conservative decisions. This result is typically obtained in an experimental setting and applies to the general population. However, it cannot be confirmed entirely considering the highly selected group of women in decision-making positions (see Profeta, 2020 for a review). Still, we provide evidence that women's empowerment does affect the policy, and risk aversion may play a significant role in a context of real decision-making.

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² It is important to note that we are cautious about inferring causality between the gender composition of boards and monetary policy outcomes, since our analysis cannot provide a causal interpretation.