EUROPEAN CENTRAL BANK

EUROSYSTEM

Monetary Policy Communication: Perspectives from Former Policy Makers at the ECB

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The views expressed here are our own and do not necessarily reflect those of the ECB, the Central Bank of Ireland or the Eurosystem

Introduction

- Profound changes to monetary policy, reflected in changing (and more) communication by central banks

  – New tools

  – New mandates

  – Controversial public debate, discussions about central bank independence

- This paper: step back, see whether communication is fit for purpose

  – Blinder et al. (2017): necessity as the mother of invention

  – Ask former policy makers (as Cecchetti and Schoenholtz (2019) did for the US)

  – Part of the ECB's strategy review

The survey

- Online survey in November-December 2020, sent to all 46 surviving former Governing Council members

- Comments from an academic and a former policy maker (thanks!)

- Invitations sent directly from ECB and NCBs, with a letter by Philip Lane

- Ensured anonymity

- Breakdown by

  – Executive Board or NCB Governor (if both, allocate to ExB)

  – Early/late term of office (cutoff: "whatever it takes" speech in July 2012)

  – Citizens of formerly "stressed" countries (Cyprus, Greece, Ireland, Italy, Portugal, Slovenia or Spain)

The survey

- 27 responses (59% response rate, but small sample!)

- Representative for the three groups

- 13 closed and 2 open-ended questions

  – Why communicate

  – With whom to communicate

  – What to communicate

  – How to communicate

  – General reflections on communication challenges and the future evolution of monetary policy communication

Key findings

- Key objective: credibility and trust

- Need for clarification of the ECB's inflation aim at the time

- Communication with experts seen as effective; room for improvement in communication with the wider public

- Forward guidance: support for state-contingent FG, not so much for calendar-based FG

- Less representation of individual views seen as preferable

- Hardly any differences across respondent groups, suggesting broad consensus

Why communicate?
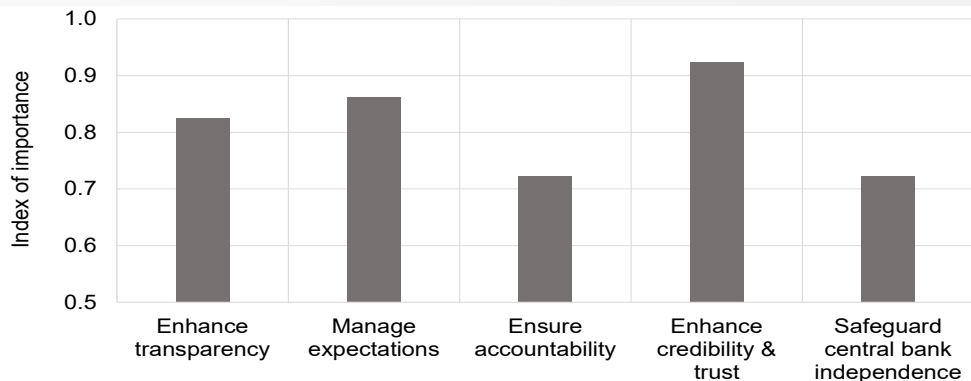
Notes: Responses to Question 1 ("What do you see as the main objectives of monetary policy communication?"). "Index of importance" is the percentage of respondents reporting on the importance of objectives weighted by the level of importance attached to each. If all respondents answered 'extremely important' the index would be 1; 'very important' the index would be 0.75; 'important' the index would be 0.5; 'somewhat important' the index would be 0.25; and if all respondents reported 'not important at all' the index would be 0.

- Not a single "not important" answer was recorded, at least 63% answered "very important" or "extremely important"

- Most important: credibility and trust, then: expectations management and enhancing transparency

With whom to communicate? The importance of different audience groups
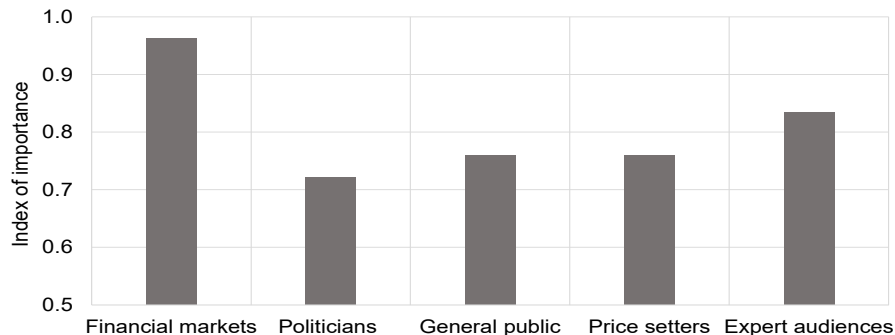
Notes: Responses to Question 2 ("With regard to the effectiveness of monetary policy, how important is it to communicate with different audience groups?" 1 is "not important at all", 2 is "somewhat important", 3 is "important", 4 is "very important" and 5 is "extremely important")

- Emphasis on more traditional target audiences (for the effectiveness of monetary policy)

With whom to communicate? Adequacy of ECB communication with different audience groups
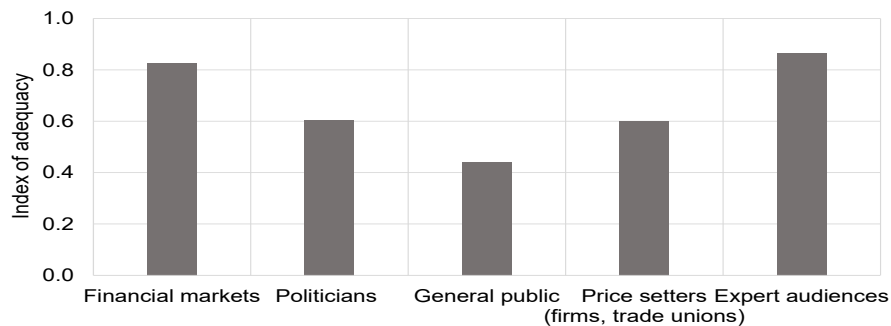
Notes: Responses to Question 3 ("In terms of increasing understanding of monetary policy, how would you rate current communication with each audience in the euro area?" 1 is "a lot of room for improvement", 2 is "some room for improvement" and 3 is "currently adequate".).

- Communication with more traditional target audiences seen as adequate

- Room for improvement in communication with general public (22%: adequate; 33%: a lot of room for improvement)

What to communicate? Forward guidance
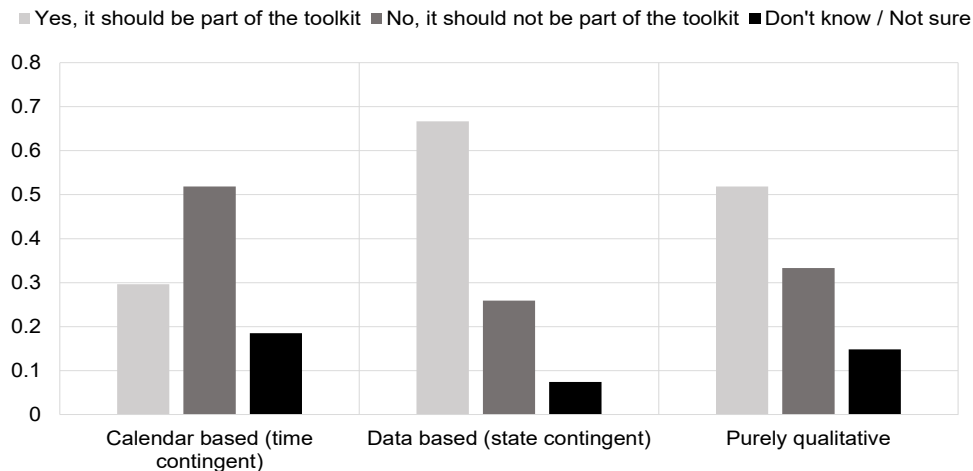
Notes: Responses to Question 5 ("For several years, the ECB has provided forward guidance, in different forms. Forward guidance is often classified as being either calendar based (or "time contingent"), data based (or "state contingent"), or purely qualitative (that is, providing neither a time frame nor economic conditions). Which type(s) of forward guidance do you believe should be part of the ECB toolkit?")

- Strong support for state-contingent FG, slight majority for discontinuation of time contingent FG
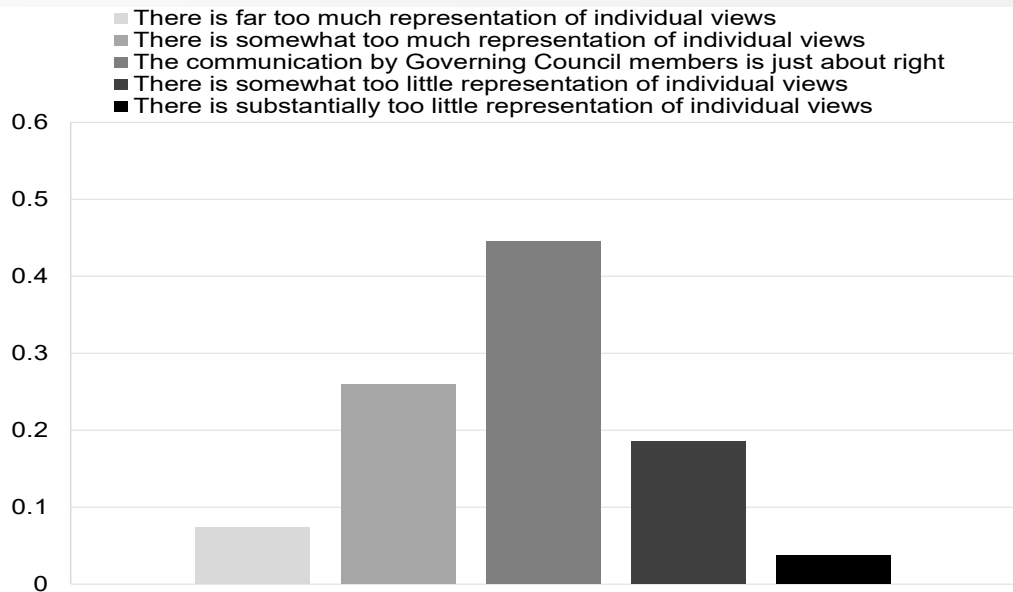
What to communicate? Inflation target
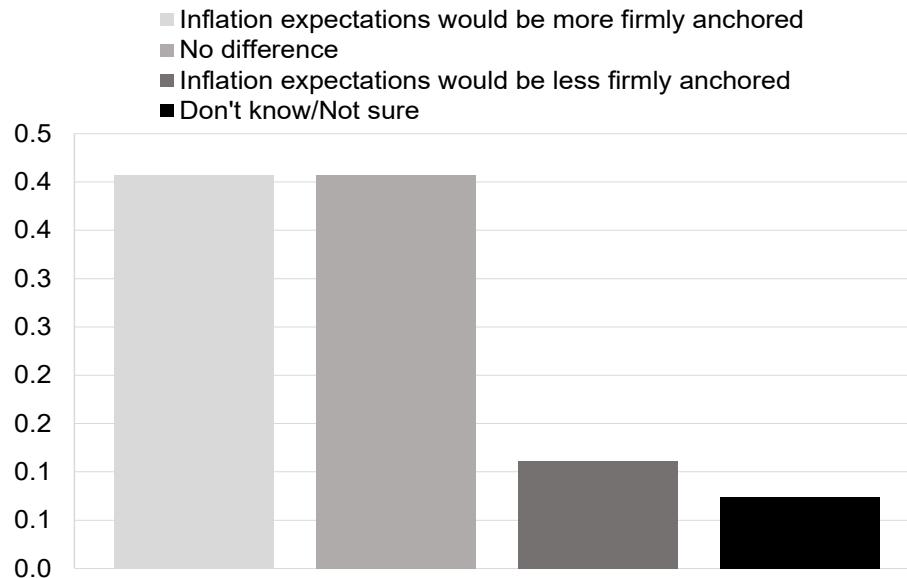
Notes: Responses to Question 6 ("The ECB has often been criticised that its inflation aim lacks precision. Do you feel that communicating a more precise inflation aim would mean that i) inflation expectations would be more firmly anchored; ii) it would make no difference; iii) inflation expectations would be less firmly anchored; or iv) don't know/not sure")

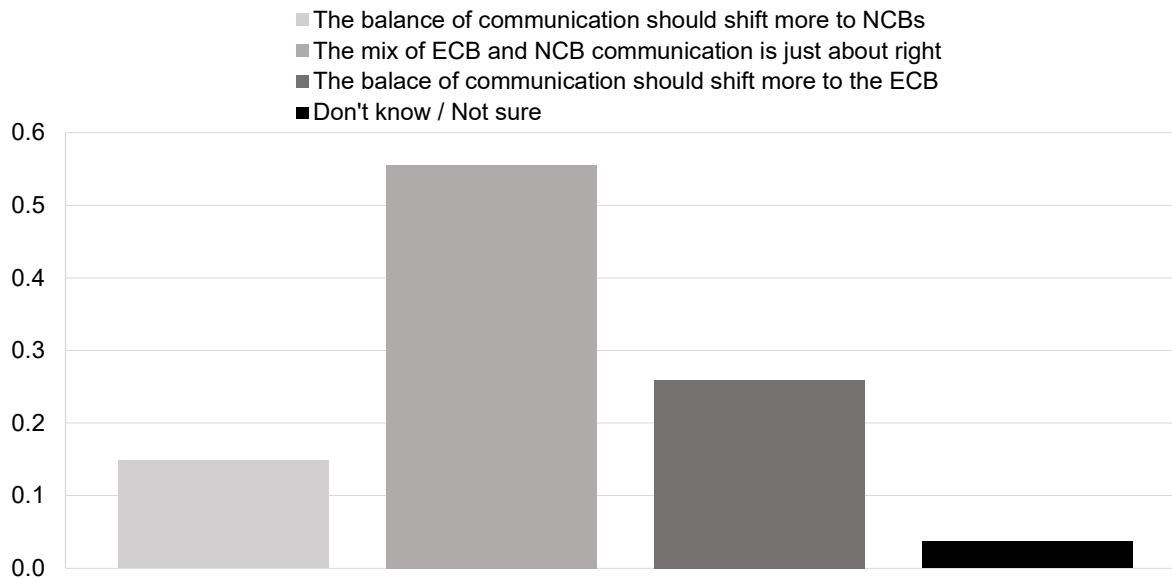- Support for a more precise inflation aim than "below, but close to 2%"

How to communicate? Diversity of views

■ There is far too much representation of individual views
■ There is somewhat too much representation of individual views
■ The communication by Governing Council members is just about right
■ There is somewhat too little representation of individual views
■ There is substantially too little representation of individual views

Notes: Responses to Question 9 ("In most central banks, monetary policy is set by a committee. Whereas some central banks encourage that the diversity of views on the committee is represented in the external communication, others have adopted a one-voice policy. Where, in your view, is the monetary policy communication by Governing Council members located along this spectrum?").

- Majority: "Just about right", otherwise relatively more calls for less representation of individual views

How to communicate? Role of ECB and NCBs

Legend:
- The balance of communication should shift more to NCBs
- The mix of ECB and NCB communication is just about right
- The balace of communication should shift more to the ECB
- Don't know / Not sure

Notes: Responses to Question 10 ("How do you see the role of the ECB and the NCBs in shaping the Eurosystem's monetary policy-related communication; is the Eurosystem making best use of its decentralised communication structure?")

- Majority: "Just about right", otherwise relatively more calls for a shift towards the ECB

How to communicate? Complexity
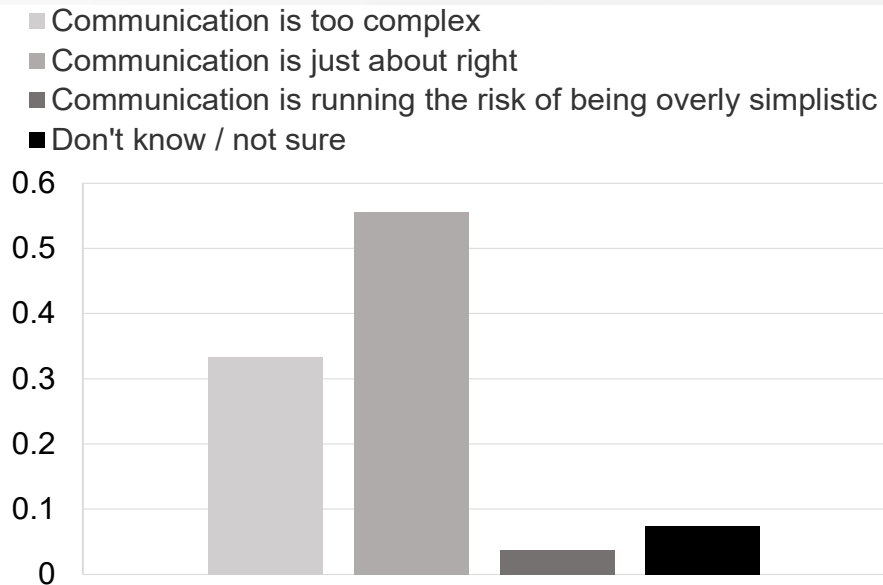
Notes: *Responses to Question 12 ("Central bank communication has often been criticised for using overly complex language that is difficult to understand by the public. There have been attempts to address this, for instance by offering layered communication. In your view, which statement most accurately summarises your feelings on the current monetary policy communication in the euro area?")*

- Majority: "Just about right", otherwise relatively more calls for simple language

General reflections

- 23 (21) answers to our 2 open-ended questions (out of 27)

- Calls for a less ambiguous inflation target

- Importance to generate trust in ECB's ability to reach its inflation aim

- Challenges in communication with diverse audiences, also across countries where business cycles are not aligned

- Call for clear and less complex communication to reach a wider audience

- Call for a "one voice" approach to avoid contradictory communication

Conclusions

- Generally, agreement with the status quo ("just about right"), but areas for improvement

- The outcome of the Strategy Review has dealt with some already; the extent to which these efforts will be successful remains to be seen

- What constitutes effective communication varies across audiences and is likely to evolve over time

- Central banks will need to continue to adapt and adjust to these differences and changes.

Thank you!