



EUROPEAN CENTRAL BANK

EUROSYSTEM

Credibility Gains from Central Bank Communication with the Public

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Disclaimer

This presentation regards the authors' personal opinions and does not necessarily reflect the views of the ECB or the Eurosystem.

Background

- Central banks: **traditionally** focused their communication on **expert** audiences; **more recent efforts** (often debated) to communicate with the **general public**
- **ECB**: complement MP communication with explainers, visualised statements, contact outreach events with the public to ensure “***public understanding of and trust in the actions of the ECB***”
- **8 July 2021**: the ECB announced its **new strategy** (SR) that adopts a **symmetric inflation target of 2% over the medium term**

Communication with the general public: explainers

Why are stable prices important? x +

ecb.europa.eu/ecb/educational/explainers/tell-me-more/html/stableprices.en.html

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Why are stable prices important?

8 May 2017 (updated on 25 August 2021)

The ECB's main task is to keep prices stable. This is the best contribution central banks can make to improving people's individual welfare.

By stable prices, we mean that prices should not go up (inflation) significantly, and an ongoing period of falling prices (deflation) should also be avoided. Long periods of excessive inflation or deflation have negative effects on the economy. Whereas stable prices help to ensure that the economy is growing, jobs are safe and you can feel confident that the money in your pocket will be worth roughly the same tomorrow as it is today.

Keeping prices stable is the best contribution central banks can make to improving people's individual welfare

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Questions

- Did households **listen** to the SR communication?
- Which **elements** of the underlying policy decisions and their communication are likely to bring the **highest credibility gains** among the public?
- Do credibility gains (if any) **differ** across population subgroups?

Consumer Expectations Survey (CES)

- **Internet panel**; DE, FR, ES, IT, BE, NL; ~ 10,000 households (by now: +5 EA countries; 19,000 households); sample weights: nationally representative
- Household **perceptions, expectations** and **behavior** (incl. consumption, saving/ investing, borrowing)
- **Mixed-frequency modular approach** (background; monthly, quarterly, annual topical modules; special-purpose ad hoc surveys)
- For a description see: *ECB Evaluation Report (OP, 2021)* and *Georgarakos and Kenny (JME, 2022)*



Latest results - June 2023

Inflation



Consumers' inflation expectations for the year ahead decreased further.

[> More on inflation](#)

Housing & credit



Consumers expect the same increase in the price of their own home over the next 12 months.

[> More on housing and credit](#)

Income & consumption



Consumers expect their net income and spending to increase less over the next 12 months.

[> More on income and consumption](#)

Labour & growth



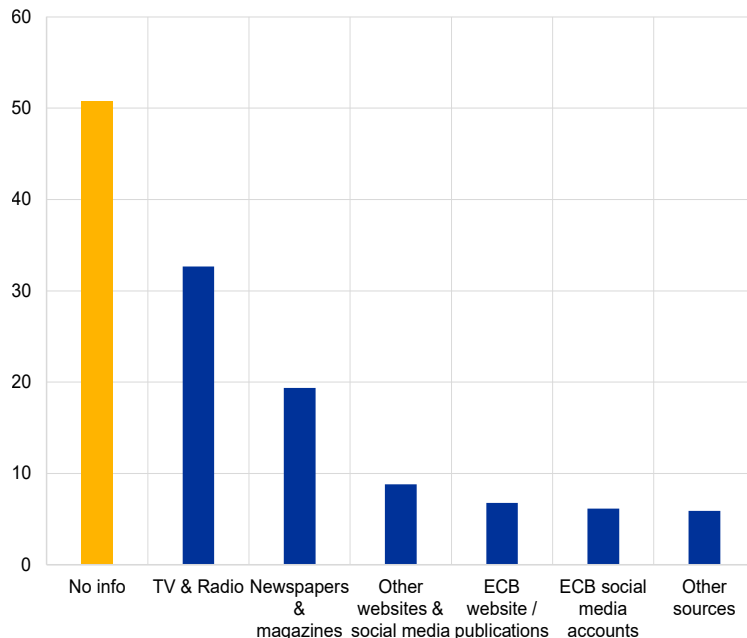
Consumers' expectations for economic growth over the next 12 months became less negative.

[> More on labour and growth](#)

Did households listen to the SR communication?

Information about the ECB: channels

(% of all respondents, by information source)



- Majority of HHs have not heard about the ECB in July/ August 2021
- Main channel: traditional media

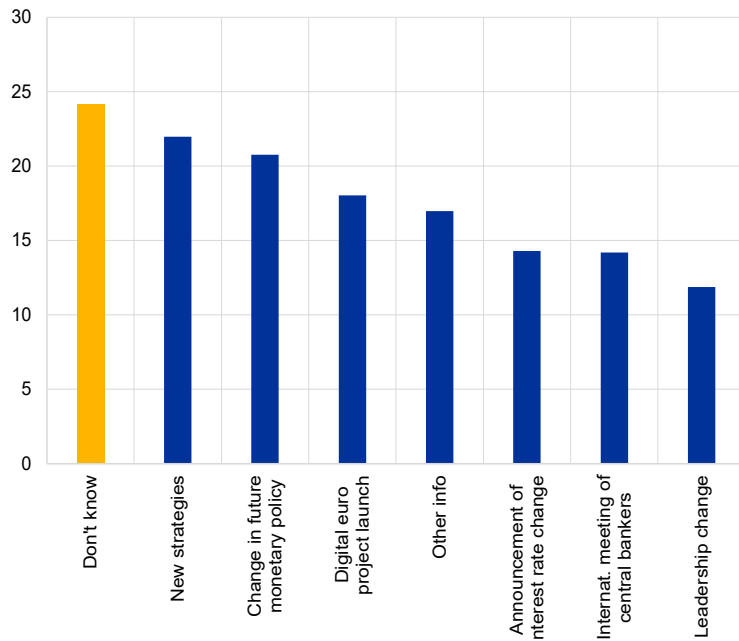
Source: ECB Consumer Expectations Survey (CES) – September 2021

Note: "In the past two months, have you seen or heard information about the European Central Bank (ECB) from any of the following sources?" Apart from "No info", all other options are not mutually exclusive, leading to a total sum higher than 100% of the respondents. Weighted estimates.

Did households listen to the SR communication?

Information about the ECB: topics

(% of respondents who have seen or heard information about the ECB, by topic)



Source: ECB Consumer Expectations Survey (CES) – September 2021.

Note: “What were the main pieces of information about the European Central Bank (or its monetary policy) that you heard about in the past two months?” Apart from “Don't know”, all other options are not mutually exclusive, leading to a total sum higher than 100% of the respondents. Weighted estimates.

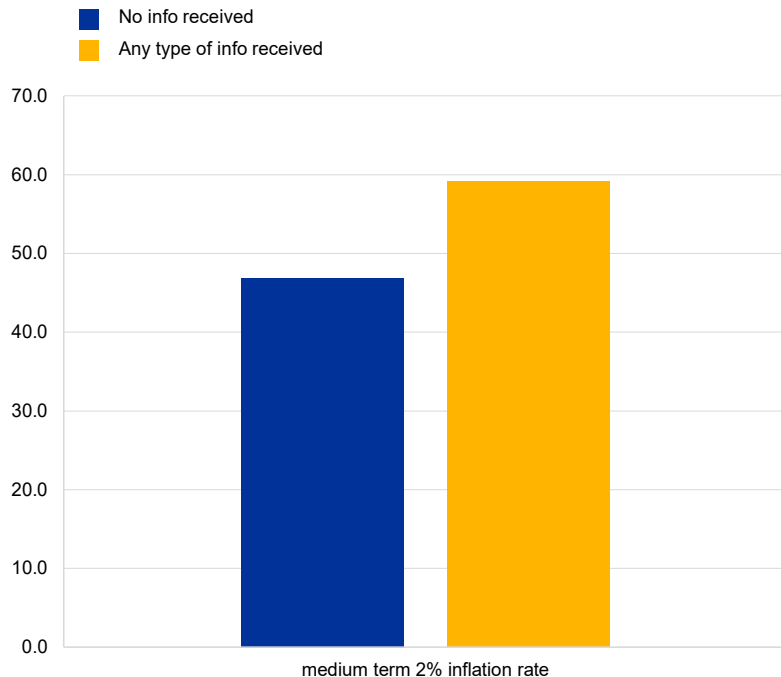
Among those who have heard about the ECB:

- Many do not recall what they heard
- Several mention new strategy (22%) and digital euro (18%)
- Still, some inaccurate answers

Did those (few) households that listened understand?

Knowledge of ECB's price stability objective, by info received: N/ Y

(% of respondents answering correctly)



- Households that listened more likely to know the correct (new) price stability objective

Source: ECB Consumer Expectations Survey (CES) – September 2021.

Note: "Which of the statements below on the main objectives or tasks of the ECB do you think are true or false: An inflation rate that is 2% over the medium term in the euro area". "Don't know" responses are classified as not correct. Weighted estimates.

Likely credibility gains

- Which **elements** of the underlying policy decisions and their communication *are likely* to bring the **highest credibility gains** among the public?
- Work around the fact that **most households did not hear** about SR
- **WHAT IF** the message had reached the public?
- **Reach out** directly and **provide info** to consumers

RCT: Directly inform random sub-groups in the CES

- **One control group** (aka placebo in med trials) received *no information*
- **Four treatment groups** received information about different *elements* of the ECB communication
 - *baseline info vs. explanation vs. relatable info*
- Test the **causal effect** of information treatments (relative to the control group) **on credibility**:

*How likely do you think it is that the **ECB will maintain price stability in the euro area economy over the next 3 years?** [0%....100%]*

- free of numerical framing to 2%

Treatment group 1: *Symmetric Target (ST) only*

The ECB aims for a **2% inflation target** over the medium term as the best way to maintain price stability. The target is **symmetric**: inflation may sometimes be slightly above it or below. The ECB looks through short-term deviations. **Persistent negative and positive deviations are regarded as equally undesirable.**

Treatment group 2: *Symmetric Target (ST)* + *Explanation*

The ECB aims for a **2% inflation target** over the medium term as the best way to maintain price stability. The target is **symmetric**: inflation may sometimes be slightly above it or below. The ECB looks through short-term deviations. **Persistent negative and positive deviations are regarded as equally undesirable.**

A target of 2% has an important function: it creates space so that monetary policy can have its stabilising effect. **In bad times, such as during the pandemic, monetary policy stimulates the economy through low interest rates and so has significant favourable effects on economic growth and employment. This may also imply a transitory period in which inflation is moderately above the target of 2%.**

Treatment group 3: *Symmetric Target (ST)* + *Environment*

The ECB aims for a **2% inflation target** over the medium term as the best way to maintain price stability. The target is **symmetric**: inflation may sometimes be slightly above it or below. The ECB looks through short-term deviations. **Persistent negative and positive deviations are regarded as equally undesirable.**

In addition, the ECB has acknowledged that climate change is an existential challenge for the world, and it is of strategic importance for the ECB's mandate. As a result, **the ECB has decided on a number of measures to account explicitly for the implications of climate change and the carbon transition in its new monetary policy strategy.**

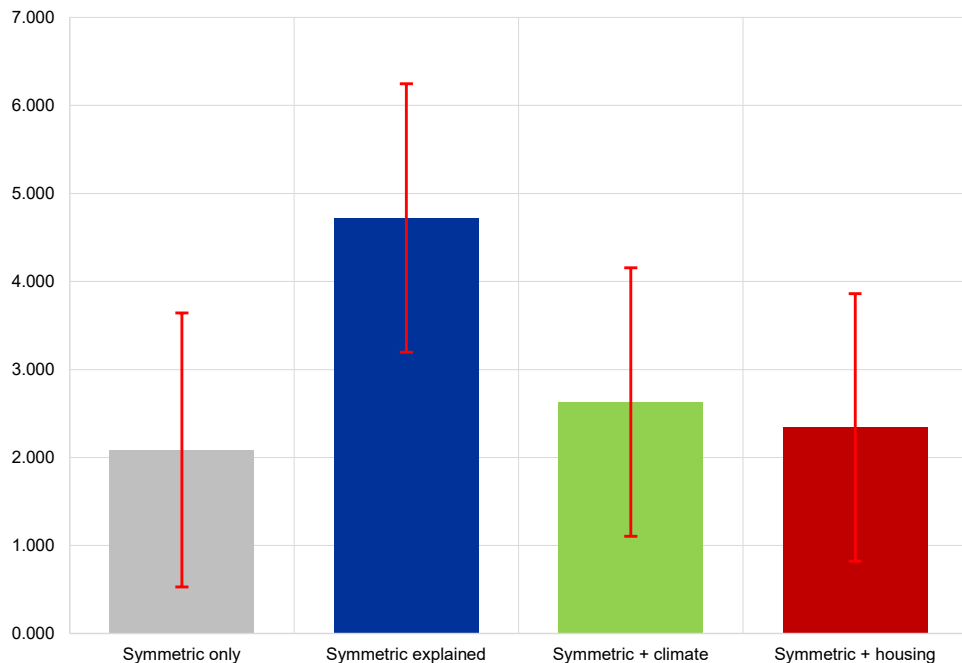
Treatment group 4: *Symmetric Target (ST)* + *Housing costs*

The ECB aims for a **2% inflation target** over the medium term as the best way to maintain price stability. The target is **symmetric**: inflation may sometimes be slightly above it or below. The ECB looks through short-term deviations. **Persistent negative and positive deviations are regarded as equally undesirable.**

In addition, the ECB has heard the calls of European citizens for a broader coverage of housing costs in the measurement of inflation and it will work towards making this possible.

The effects of communication on ECB credibility

Effects on the likelihood that the ECB delivers price stability (in p.p.) relative to control group



- Communicating the target improves credibility
- Adding **explanation** has the **highest credibility gains**
- Adding reference to **easy to relate concepts** (environment/housing costs) has **no additional** credibility gains, but also does not harm credibility

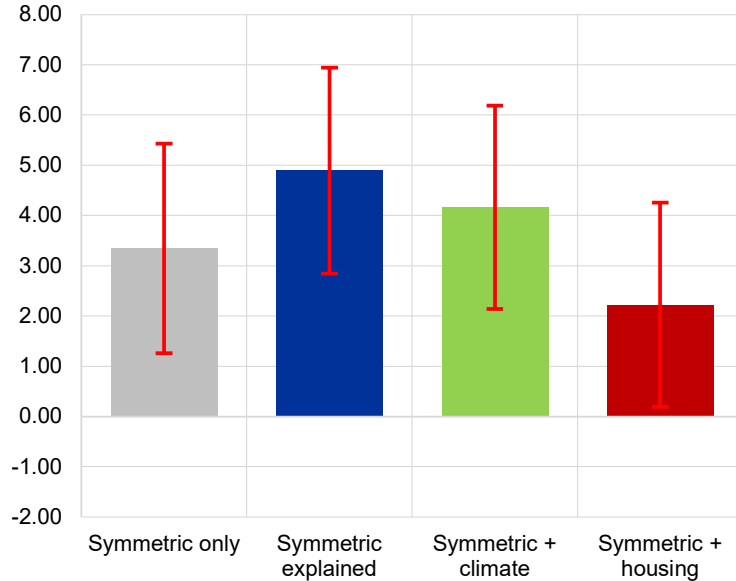
Source: ECB Consumer Expectations Survey (CES) – September 2021.

Note: Regression estimates and 95% confidence intervals per treatment group.

The effects of communication on ECB credibility by financial literacy

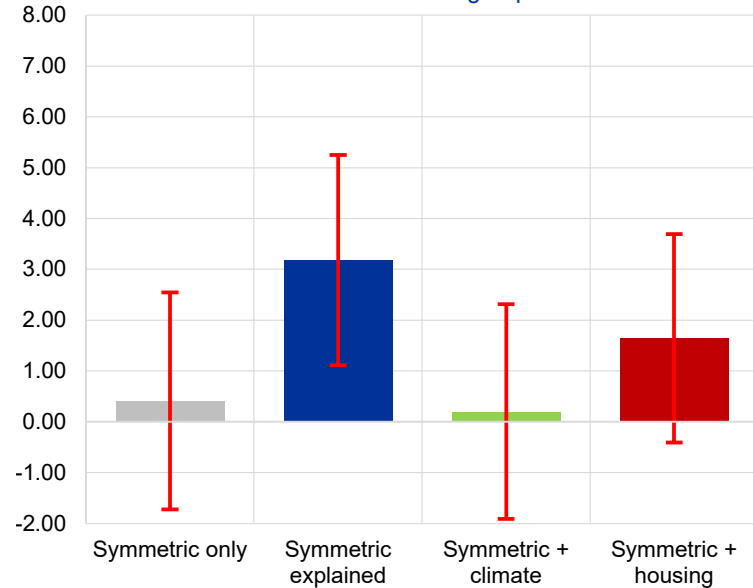
High financial literacy

Effects on the likelihood that the ECB delivers price stability (in p.p.)
relative to control group



Low financial literacy

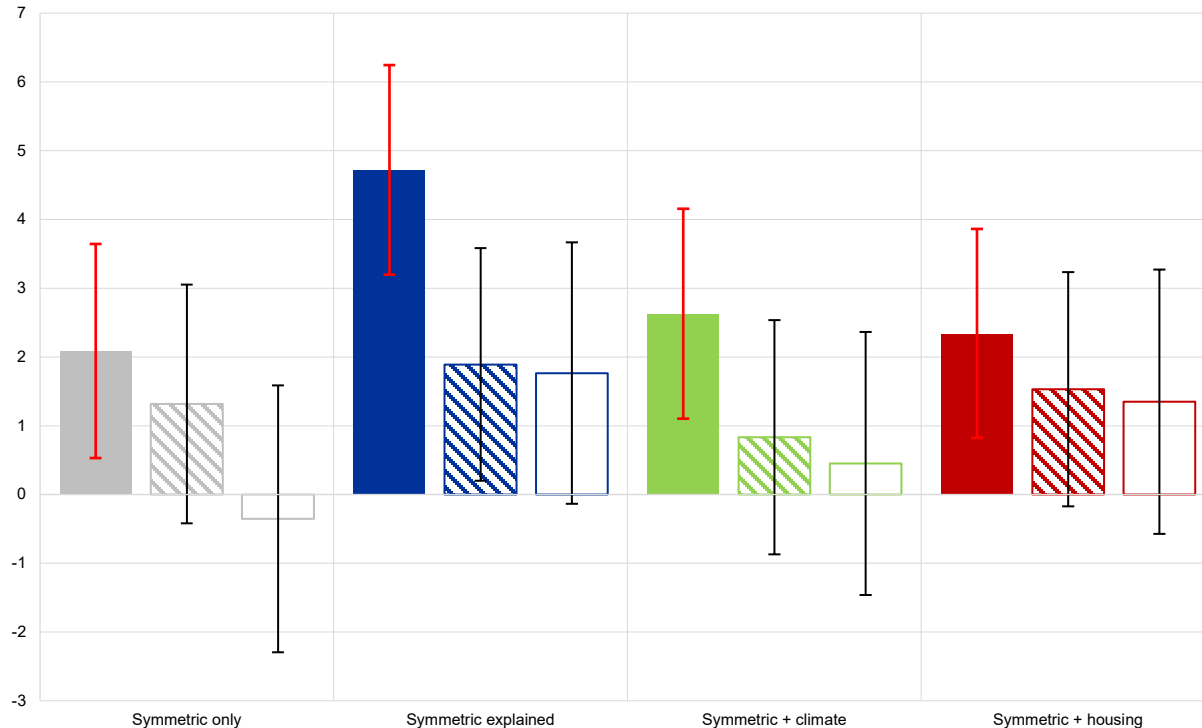
Effects on the likelihood that the ECB delivers price stability (in p.p.)
relative to control group



- Results mainly driven by high financial literacy
- Low financial literacy: credibility gains more limited; clear need to explain

The effects of communication on ECB credibility over time

Effects on the likelihood that the ECB delivers price stability (in p.p.) relative to control group, 3M and 6M post-RCT



- Credibility gains **dissipate** 3M and 6M post information treatment
- **Explanation** has **longer-lasting effects** (+6M), even in a **period of rising inflation**

Did the experiment stimulate interest of receiving ECB info?

- Examine whether the info treatments affect the **likelihood of receiving any info about the ECB** in:
 - *October 2021*
 - *October - December 2021*
 - *October 2021 - March 2022*
- Virtually **zero effects** of each info treatment in all three periods
- Effective way(s) to **reach out** to the public: **unresolved**

Questions & Answers

- Did households **listen** to the Strategy Review (**SR**) communication?
 - **Most did not**
- Which **elements** of the underlying policy decisions and their communication are likely to bring the **highest credibility gains** among the public?
 - **Explaining target**; reference to environment/ housing costs: neither immediate credibility gains nor losses
- Do credibility gains (if any) **differ** across population subgroups?
 - **Financial literacy**: key role

Policy implications

- Households: *hard to reach but not a ‘losing battle’* for central banks
- Importance to **provide explanations**
 - **longer** credibility gains under adverse economic conditions
- **Credibility gains** from promoting **financial literacy**
- More generally, **enhancing trust**: beneficial (e.g., **helps anchor** inflation expectations)

Thank you!