

CEPR Research and Policy Network in central bank communication

Summary of the workshop

held at the European Central Bank, Frankfurt am Main, Germany,

on 10-11 October 2019

At a workshop hosted by the European Central Bank (ECB) in Frankfurt am Main, Germany, 28 participants of the CEPR Research and Policy Network (programme and full list of attendees attached) discussed the current state of central bank communication research and practice, shared findings and identified research gaps. While a significant body of research on central bank communication, in particular with the focus on financial markets, already exists, other aspects, such as the impact of central bank communication on people's spending, saving and investment decisions or the limits of central bank communication have not yet been sufficiently explored.

The workshop was structured around three sessions focusing on central bank communication with the wider public, the limits of central bank transparency and the role of intermediaries of central bank communication. In addition, direct interaction with two prominent practitioners of central bank communication offered further important insights. Markus Gürne, presenter of Germany's prime time TV programme on finance and economics, shared his experience on how to 'get through' to the wider public with messages about the economy, emphasising the need to make such issues concretely relevant to people's lives, and that his coverage of central banking matters is overwhelmingly determined by the demand of his viewers, rather than the supply of communication by the central bank. ECB Chief Economist Philip Lane, in his dinner speech, gave insight into communication challenges for monetary policymakers.

On the occasion of the workshop, the ECB also announced to start making available a precompiled, easy-to-use and regularly updated [dataset](#) containing speeches of ECB/EMI policy-makers from 1997 until today for the purposes of text analysis.

Session 1: "What do they know? Do they care? The general public as a target of central bank communication"

Torsten Busse (ECB): Findings from recent qualitative research (focus groups) on young people's view of the economy, finance, the ECB & preferred communication channels

Key takeaways:

- The young people (18-35 years) surveyed have a very superficial understanding of the ECB.
- There is little interest among young people in economic/financial matters.
- Young people really care about climate change, unemployment, and social responsibility.

- Simple, credible, relevant, explanatory, and layered messages resonate well with young people.
- The main message for the ECB was that it is necessary to connect the institution and its work to the topics people are genuinely interested in (e.g. climate change).

Discussion:

- People want authentic communication, which includes talking about side effects of policy measures.
- For communication to be effective, the financial literacy of non-expert audiences needs to be improved significantly.
- Do the benefits of communication with the wider public outweigh the risks?
- “Quantitative easing of communication” needed?, i.e. employing a set of unconventional measures (large-scale training programmes) to improve financial literacy.
- Gathering information on peoples’ knowledge and preferences (‘micro-targeting’) to then lever these insights to influence peoples’ opinion may raise ethical concerns.
- Word of mouth as a major source of information is risky for central banks. Social circles as intermediary, rather than media, reduce the central bank’s control over narratives.

Luba Peterson (Simon Fraser University): Central bank communication that works – Lessons from lab experiments

Key takeaways:

- People’s decisions may be affected by the amount and complexity of information.
- Subjects are very reluctant to acquire information that is not easy to process.
- Expectations are not rational:
 - significant backward-looking component in the subjects’ behaviour
 - People are prone to switch their heuristics (rule of thumb, educated guess, intuition, etc.)
- Environment matters: In an environment where the central bank has a dual mandate, communicating the inflation target can help to reduce the volatility of inflation and interest rates.
- Providing people with more information about the economy they are interacting in does not necessarily improve their ability to forecast.
- Central bank communication works with simple, relatable and accessible messages.

Discussion:

- Especially for young people it is hard to de-codify signals sent by central banks.
- It is difficult to communicate uncertainty with simple messages. Only relying on simple messages carries the risk of always ending up wrong because the reality is more complex.
- Lab experiments cannot substitute real-life tests, as participants in lab experiments are naturally exposed to central bank communication, whereas people in real life situations may not be.
- Central banks may be criticised for being manipulative in situations where they communicate that their targets can be reached – even though they know this is unlikely – in order to influence peoples’ expectations until inflation actually picks up.

Session 2: “Too much of a good thing? Shocks, surprises and the boundaries of central bank transparency”

Refet Gürkaynak (Bilkent University): Central bank communication that does not work: Lessons from well-meaning but overambitious central banking?

Key takeaways:

- Too much communication creates too much noise and a cacophony of voices; markets are not interested in internal central bank communication.
- It is not clear that central banks have informational advantage for current or future state of the economy - private sector projections can be equally good.
- Overambitious communication entails the risk of mission creep which may ultimately lead to loss of credibility if the newly created expectations cannot be met and it lets other policy makers (fiscal policy) off the hook.
- It seems central bank communication may have passed the optimum. Central banks should think about the optimal amount of communication that is needed to best serve the people.

Discussion:

- Central banks should focus on clear and full forward guidance, and be explicit on the expected path.
- How can central banks contribute to reducing information asymmetry in an environment with many inefficiencies and policy-makers with different opinions and goals?
- Central banks need to act as “honest broker” coordinating economic uncertainty rather than being “benevolently dishonest” in seeking to people’s expectations as the central bank would wish to see them develop, i.e. “spinning” economic information.
- It is difficult for central banks to avoid mission creep but it is crucial for a central bank to only commit to actions that it can deliver on.

Michael Ehrmann (ECB): Shocks, surprises, and the boundaries of central bank transparency – the same for all? (Study of Twitter activity about the ECB)

Key takeaways:

- There is little research on central bank communication on social media.
- Activity is very unequally distributed and strong opinion leaders could be identified.
- Much of the ECB-related activity on Twitter is done by experts.
- Central bank communication has an immediate effect and there is a clear distinction between experts and non-experts.
- Exceptions that sparked strong reactions: July 2012 ‘Whatever it takes’ speech (where Twitter traffic spiked only 20 days later) and the January 2015 press conference during which the ECB announced QE.

Discussion:

- To what extent do experts on Twitter influence non-experts, for instance in relation to purchase decisions (inflation expectations)?
- Is it feasible to extract sentiment from tweets?
- Focusing on tweets in languages other than English might be a good proxy for non-expert audiences in the euro area.

Session 3: “Better directly from the source? Measuring the influence of intermediaries of central bank communication”

Carola Binder (Haverford College): Central banks and the media

Key takeaways:

- Media coverage especially responds to press conferences. Coverage is usually rather short-lived and event-specific.
- Congressional attention in the Fed also drives the media coverage on the Fed.
- The relations between central banks and politicians in terms of communication offer new research avenues. This also includes the question of how politicians can be intermediaries for central bank communication.
- News coverage and its focus on newsworthiness may drive cacophony of voices.

Discussion:

- Political interest in central banks may be an opportunity for central banks to reach non-expert audiences.
- Central banks need to communicate to the advisers of politicians. This needs to be done carefully in order to not compromise independence.
- Media mainly cover dissent and conflict which dilutes the signal central banks want to send.

Presentation by Alessandro Merli (Johns Hopkins University SAIS, formerly Il Sole 24 Ore): At the receiving end – central bank communication from an ECB watchers perspective

Key takeaways:

- Rapidly and fundamentally changing media landscape creates challenges for journalists and central banks.
- In a fiercely competitive media environment, journalists constantly produce content on central banks.
- Constant reporting creates noise around central banks which raises the risk of misinterpretations and cacophony.

Discussion:

- Coverage on central banks is increasingly mixed with political coverage.

- Political correspondents may not have the full understanding of the details of monetary policy.
- It is sensible for central banks to also employ people who have experience as journalists to benefit from these relations and insights.
- This approach is not without risks either, as the people that replace the journalists might not be as knowledgeable and/or more political, which poses certain risks.

General discussion and avenues for further research

Key questions and issues that emerged in the course of the workshop and that point to further topics for deeper analysis:

- How much should central banks communicate, and how much is too much?
- Most research and discussion on central bank communication so far mainly focused on monetary policy; there is a need to broaden the scope and include other central bank activities, e.g. banking supervision.
- In order to address the increased political pressure that central banks have to face, they need to practice credible transparency.
- In the context of increasing politicisation of central banking, central banks will need to carefully balance their communication on issues outside their core remits.
- While it is important to be clear on the fact that governments need to contribute, too (e.g. through fiscal policy and structural reforms), central banks must be careful to avoid impressions of giving instructions to governments.
- People, as social beings, constantly process information to construct individual understandings of the world around them. Therefore, emotions are not just noise but, in fact, key to getting to people.
- In order to cater the emotions and needs of people, central banks must be more engaging. Listening to the people is fundamental.
- Engagement needs to be underpinned and supported by explanation and education, and also tie in with branding efforts. Central banks should portray themselves less as elitist institutions.
- Financial literacy needs to be improved. Central banks can play a major role in this regard. Central banks might also raise the need for more financial literacy to policy makers (benevolent pressure).
- Central banks have to decide to which extent they can or should be “benevolently dishonest” in order to steer expectations, i.e. if they guide or rather nudge people through their communications.
- More work is needed on measuring the impact of central bank communication. There is the need for clear measurements of what form/content of communication works and what does not. Proposals that were put forward:
 - develop common metric for trust
 - develop a metric for relatability
 - develop a metric for success, i.e. how to define successful communication?
- Necessity for more interdisciplinary approaches and broader research agendas needed, e.g. moving from surveys to experiments.