

## Mario Draghi: Central bank communication

Opinion piece by Mr Mario Draghi, President of the European Central Bank, of the edited transcript of his speech at the PR Manager of the Year Award (15 July 2014), published in *Handelsblatt*, 4 August 2014.

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Today, central bank communication is right at the heart of monetary policy. It is actually a monetary policy tool in itself. Even for those with little interest in central banking, it is difficult to avoid the pronouncements of one or other of us in the newspaper. Those people may even end up reading the articles, if only because central bank communication can have a major impact on financial markets – and hence on their savings.

Central bank communication was not always so extensive. Think back to the days when the most important central bank in the world – the Federal Reserve (Fed) – would not even publish its interest rate decisions; rather, it would let the outside world derive them from the market reaction. Today, this sounds unbelievable. But it was only in 1994 that the Fed decided to make its interest rate decisions public in real time.

Designed between 1994 and 1998, the European Central Bank (ECB) was born at the start of a new era for central banking. Two developments during this period raised the importance of communication. First, the increasing independence of central banks made it more important to communicate with and be accountable to the public. Second, against a backdrop of liberalising financial markets, the effectiveness of monetary policy became more and more dependent on steering expectations of future interest rate policy.

In the first case, the main challenge for the ECB was to reconcile three attributes of central banks that do not immediately fit together: being very powerful and independent yet unelected. The best example of a country that had done this successfully was Germany. Its answer was to uphold the Deutsche Bundesbank's independence but to constrain its powers within a narrow mandate. And the contours of that mandate were not set by the central bank itself, but by legislators, who themselves were democratically elected.

This model has worked because, by sticking closely to its mandate, the Bundesbank has gained the trust of the people. It has cultivated this trust by actively communicating the rationale for its mandate and its plans to achieve it. This inspired the ECB's founding fathers to give the ECB an equally clear and narrow mandate oriented towards price stability. And we have established trust by clearly communicating that mandate and, of course, delivering it.

This task is more complex for the ECB, however, than it was for the Bundesbank in the past or the Fed today. Building trust among the 335 million citizens of the euro area is a major communication challenge. We are communicating in 18 countries using 15 different languages. In all these countries, citizens' expectations are different. For example, my predecessor as ECB President would tell me that if he took a walk in Frankfurt, people would often ask him "when are you finally going to raise interest rates?" But if he took a walk in another major city just a few days later, people would ask him "when are you going to lower interest rates?" We deal with this plurality by making use of the inherent advantage of having a Eurosystem of 18 national central banks – that is, having communications departments in each country that make our messages heard and understood in the local context. But this remains a continuous challenge.

The ECB also plays its part in building trust by opening up to the public. From the outset, we have taken a lead on transparency: for example, we were the first major central bank to offer monthly press conferences. But in these challenging times, when monetary policy has become more unconventional, we cannot stand still. That is why we have taken another step forward: from the start of next year we will publish summaries of the monetary policy

meetings of the Governing Council. This will be an additional way to explain our actions and the discussions that inspired them.

We are currently working on finding the right format by conducting test runs. After all, we want these summaries to be understandable to interested members of the public. Only that way can they be fully effective.