

The evolving nature of central bank communication

Speech at the virtual anniversary event to celebrate 50 years of Reuters Germany

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1 Welcome

Ladies and gentlemen,

I hope this look back at Reuters' history has not given rise to any misplaced expectations of me on your part. For I can assure you I am not about to spring any surprise announcement on key interest rates.

As I see it, this video from the Reuters archives highlights more than just how important reliable journalism is. The anecdote about the interest rate cut of April 1993 also tells the story of a very different era of monetary policy. For central banks have come a long way since then, particularly when it comes to communication.^[1] For example, we have been left with only a very brief job description for the Bank of England's first press officer in the 1940s and 1950s: his remit was simply to "keep the Bank out of the press, and the press out of the Bank".^[2] Central banks nowadays have large communications departments and social media teams. Indeed, some central bankers are even said by many to have the popularity of rock stars.^[3]

2 Communication and monetary policy

At any rate, central banks have become much more transparent over the intervening decades, and now communicate more clearly. There are two reasons in particular for this change.

The first is that in the meantime many central banks have become independent – which means they are now accountable. After all, in a democracy the public must be able to assess whether an independent central bank is acting within the confines of its mandate and indeed fulfilling that

mandate.

The second reason is the effectiveness of monetary policy. For example, transparency can have the effect of enhancing the credibility of monetary policy and entrenching long-term inflation expectations more firmly. At the same time, monetary policy can be easier to predict, which in turn enables economic agents to alter their behaviour accordingly. As a result, the interaction between private sector and central bank improves – a bit like a footballer who plays a “through ball” in anticipation of a team-mate’s forward run. In our case, this means that enabling the private sector to better anticipate monetary policy will encourage them to act in a way that is conducive to stability, thereby helping central banks to achieve their own price stability objective.

If this process of “expectation management” succeeds, a central bank will have less of a need to intervene with its traditional monetary policy instruments. Accordingly, the economist Michael Woodford argues that successful monetary policy does not lie so much in the management of short-term interest rates, but in the management of market expectations regarding future policy rates.^[4]

Policy rates have been close to their lower bound in recent years, and the space for deploying conventional instruments has been largely exhausted. Against this backdrop, communication has actually evolved into a monetary policy instrument in its own right: for example, the ECB Governing Council uses forward guidance to communicate its conditional expectations regarding the future path of policy rates or asset purchase programmes. By so doing, the ECB Governing Council provides the markets with a point of reference for their own expectations and thus has an influence on long-term interest rates.

Experts at the Bundesbank have shown that the linking of securities purchases to forward guidance on interest rates has made an important contribution to the decline in longer-term rates, which is desirable from a monetary policy perspective.^[5] In other words, forward guidance has proven to be an effective monetary policy instrument in an environment of very low interest rates.^[6]

Generally speaking, financial markets and financial experts understand the communication of central banks. Not least thanks to the news agencies, they receive rapid and reliable information. But when it comes to price developments in markets for goods, the inflation expectations of households and enterprises are another crucial element. Their expectations play a role too – for example, when households decide what to spend their money on, when enterprises set prices for their products, or when the social partners negotiate over wage levels.

However, it is only relatively recently that the way central banks communicate with the wider public has been better researched. Starting last year, the Bundesbank now carries out online surveys of households in Germany every month.^[7] Surveys like these help us to gain a better understanding of how people form and adjust their expectations.

For example, we have been able to demonstrate through these surveys that respondents adjust their inflation expectations upwards somewhat if they are informed about the new monetary policy strategy of the Eurosystem with its symmetric target of 2%.^[8] This highlights something

that the Bundesbank has long recognised and indeed acted upon: the importance of sufficient economic education and broad access to information if we are to be able to fulfil our mandate properly.

On the other hand, we encounter a fundamental problem in both our economic education work and our general communication with the public: our messages often risk getting lost in today's flood of information. After all, the competition for people's attention is fierce nowadays. Many people clearly find YouTube videos of pets or the latest Netflix series more entertaining than the dry topic of monetary policy.

But monetary policy can also be entertaining – just take a look at the now legendary music videos used by the Bank of Jamaica to communicate its monetary policy strategy and the benefits of stable prices. One of the key lines in the video is: "Low and stable inflation is to the economy what the bassline is to reggae music".

But even without possessing any musical talent, we as central banks can help to make it easier for people to understand our messages. And specifically by using more clearly understandable wording.^[9] That said, for all our efforts to make things easier to grasp, we have to accept that "[m]onetary policy is not simple."^[10] This point was emphasised in a recent study produced by our colleagues at the Reserve Bank of Australia. Sometimes a simple explanation is even wrong, while an accurate and comprehensive explanation may not be understood easily enough.

In short, simple language cannot be an end in itself. In our communication we must always keep a clear focus on the accuracy of our arguments. This too is a question of credibility.

Furthermore, the Bundesbank now has an established presence on social media. This milieu acts as an initial direct channel to the public, and can stimulate people's interest in engaging more closely with our topics and themes.

All in all, it seems to me that a broad communicative approach is best suited to our communication. The traditional media remain important to us, because they can act independently when preparing key information for the public, and are expert at placing monetary policy developments in the wider scheme of things. Contrary to some perceptions, the majority of Germans continue to obtain their information from the traditional media, above all TV, followed by the daily newspapers. And they also trust these sources of information.^[11]

From the media's perspective, a key objective is to disseminate news in a reliable way. News agencies such as Reuters play an outstanding role here, as for many traditional media they act almost as a kind of information wholesaler. Another key objective must be for people to trust the media to filter out an appropriate selection from the flood of available information.

Overall, the media and central banks appear to me to have two key things in common. First, people's trust is a precious asset in both cases. You have to work hard to earn trust, and it can easily be lost.

Secondly, the independence of the press and central banks is an important prerequisite for people being able to trust us in the first place. For it is this independence that enables us to fulfil our remit without interference from without. This makes it a vital achievement, and one that should not be diluted.

This is an area in which I see central banks themselves as having to be proactive. Over the last few years the central banks of the Eurosystem have become the largest creditors of EU Member States thanks to their purchases of government bonds. As such, they must be careful not to end up becoming harnessed to fiscal policy. And in view of the high level of government debt, central bankers must be alert to any pressure to keep monetary policy on its extremely accommodative course for any longer than the price outlook warrants.

Above and beyond this, I am convinced that the independence of central banks goes hand in glove with a narrow interpretation of our mandate. These are two sides of one and the same coin. The more broadly central banks interpret their monetary policy mandate, the more they run the danger of getting entangled in politics. This would make it all the more likely for them to become overburdened with new targets and requests. And hence all the more likely that their independence will be called into question.

But enough about the commonalities of central banks and the media. Obviously there are differences too. For example, in our society the press plays a key role in forming opinions and holding policymakers to account. Hence the media have been described as the “fourth estate” in some quarters.

3 Conclusion

Ladies and gentlemen,

The German Reuters service has played its part over the last 50 years in ensuring that the general public, experts, and financial markets are provided with proper information. Today we are not only in another era of monetary policy; the news business has likewise undergone a significant transformation. The entry of the German Paul Julius Reuter into this business dates back a great deal further. He kicked things off in the mid-19th century with 40 carrier pigeons; news was transported later on by, for instance, mailboats. And as the global cable network grew, Reuters grew from its London base into one of the first-ever globalised companies.

I wish you every success in fulfilling your key task over the next 50 years, too!

Footnotes:

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