20 years of central bank communications, and lessons for the future

Tiff Macklem and Jill Vardy

Abstract

Central bank communications have undergone profound changes over the past two decades as central banks greatly enhanced their transparency and openness in order to support their monetary policy objectives. It has become widely accepted that clear communication by central banks is important in order to enhance credibility, improve monetary policy effectiveness and reinforce accountability. Some key lessons have emerged, notably the following seven: (i) public support of inflation targeting objectives and means is essential; (ii) central bank mandates must be focused and achievable; (iii) credibility is enhanced when central banks acknowledge uncertainty; (iv) crises require a different style of communicating; (v) public demand for information has increased; (vi) central banks must deploy new ways of reaching audiences; and (vii) central banks need to listen to a wide range of stakeholders. Central bank performance is judged by results and economic outcomes, but success is more likely if central banks clearly communicate to help citizens navigate the broader economic forces at work and understand how policies affect them. These efforts improve policy decisions, reinforce legitimacy and cement public trust.

Introduction

Over the past two decades, we have witnessed a sea change in central bank communications. The adoption of inflation targeting regimes by central banks and governments – including Canada's – in the early 1990s served as the catalyst for enhanced transparency and communication. Clarity about the monetary policy objective put the onus on central banks to provide clear and accessible communication about what they were doing to achieve their objective. It also made central banks more accountable by giving them a clear mechanism for explaining the effectiveness of their policy actions. Inflation-targeting central banks were at the vanguard of this shift in communication, but it spread beyond those with formal inflation targets.

The benefits of transparency

Over the past 20 years, it has become widely accepted that clear communication by central banks is important for several reasons (BIS (2021)). First, it can help to build credibility and trust in the central bank and its actions. If the public understands why the central bank is making certain policy decisions, they are more likely to trust that those decisions are in the best interest of the economy. Second, clear communication can help manage expectations. If the central bank effectively communicates that its primary objective is price stability, it can help to anchor inflation expectations around the target inflation rate (Blinder et al (2022)). Effective communication can also promote independence and accountability. Clear objectives and transparent actions help hold a central bank accountable for its performance. This can reinforce the idea that the central bank is working in the public interest.

Making a history of mystery

To fully appreciate the sea change in central bank communications in recent decades, we must recall that, for the better part of the 20th century, central bank goals and actions were cloaked in secrecy. Central banks, including the Bank of Canada, said little publicly to explain what they were up to and why.

With multiple and often unclear monetary policy objectives and instruments, policy actions were hard to predict. The view among central banks was that it was best not to talk about policy actions – let alone future policy intentions – and instead let these actions speak for themselves. Furthermore, the conventional wisdom was that financial markets needed to be surprised if monetary policy was to be effective. Without a clear monetary policy framework and a well-defined basis for evaluating their performance, central banks were less open to scrutiny and public accountability. But with increased public expectations for openness, this opacity regarding monetary policy decisions was viewed to be at odds with the transparency expected of public sector institutions.

Through the 1980s, academic literature accumulated on the merits of making a credible commitment to a clear, sound monetary policy objective (rather than chasing multiple goals). There was also increased recognition of the merits of working with the markets rather than against them. These developments motivated central banks to look for a clearer policy framework that would focus on the single goal of controlling inflation through a primary instrument – the policy rate – and provide scope for choosing a suitable horizon for returning inflation to target after a shock, thus minimising fluctuations in economic output. An important and related development was the increase in central bank independence and, by extension, accountability in many emerging market economies, particularly in Latin America, in the 1990s and 2000s. Central banks across the region adopted clear mandates for inflation targeting and moved to flexible exchange rates. These new policy regimes, along with enhanced independence, necessitated more transparency and clear and regular communications.

The adoption of inflation targeting, flexible exchange rates and central bank independence have all contributed to making central banks more accountable and credible. This has in turn helped to improve confidence in many countries' economies and financial systems.

The information transformation

The last two decades have also seen a profound change in how information more generally is shared, consumed and debated. The internet slashed the cost of communication. This disrupted traditional media and led a growing segment of the public to get their news from alternative channels and social media. Many had hoped that the democratisation of information would make us all better informed. While the internet and social media have vastly broadened access to information, they are also awash with misinformation, echo chambers and conspiracy theories. So, it has become more important – yet more difficult – for central banks to serve as trusted sources of information and analysis. The imperative is to step boldly beyond market transparency and engage with the public to explain how our actions serve our economy-wide objectives. This means listening to more people; understanding their perceptions, accurate or not; factoring broader public views into central bank policy decisions and communicating with people on their terms.

The post-crisis era

Since the 2007–09 Great Financial Crisis (GFC), expectations for good governance and transparency in public institutions have increased. This has led to greater public demand for more comprehensible information and messaging and more opportunities for central banks to engage with more diverse audiences. At the same time, faced with extremely low interest rates and weak economic growth, central banks expanded their monetary policy and financial stability toolkit to encompass new tools like exceptional forward guidance and quantitative easing (QE). These exceptional tools have brought their own communications challenges. Just as central banks are trying to become more understandable and relatable, increased reliance on more complex exceptional tools has made the task both more difficult and more important.

The Covid-19 pandemic and the associated massive policy response magnified these challenges, forcing central banks to find new ways to convey their economic outlook and explain their exceptional tools during a period of extreme uncertainty. As in the case of other central banks, the Bank of Canada's credibility was put to the test. In 2022, inflation reached its highest level in four decades, and the Bank forcefully raised interest rates by 425 basis points – the fastest tightening cycle in its 88-year history. The combination of past QE and rising interest rates also meant that the Bank incurred losses on its balance sheet for the first time ever, which presented a very different kind of communications challenge.

Through this journey to increased transparency and accountability, some important truths and lessons have emerged that will serve central banks in the years to come.

Broad acceptance of the inflation target and the means to achieve it is essential

While monetary policy works through markets, market understanding alone is not enough to ensure its success. Without public acceptance of the inflation target, achieving it will be difficult.

Nothing works well when inflation is high. Elevated inflation erodes the value of money. It distorts and confuses the information and incentives that consumers, businesses, entrepreneurs, savers and investors rely on to make their economic decisions. It feeds frustration, social tensions and a sense of unfairness. But decades of low inflation in many countries, including Canada, mean that many citizens have no experience with the damaging effects of high inflation. In some ways, central banks are victims of our own policy success – inflation had not been a problem for years, so people were not accustomed to even thinking about it, much less worrying about it.

With inflation fluctuating close to the 2% target for a few decades, most people came to expect inflation to stay around the target, and adjusted their price expectations and wage demands accordingly. However, a resurgence of inflation can start to shift people's expectations away from the target. If people start to base their expectations for inflation on the recently-high inflation they see rather than on the target itself, they begin to expect prices and wages to rise more frequently, causing high inflation to become more self-perpetuating. Without a sufficiently strong policy response, a drift in expectations away from a central bank's inflation target can open the door to persistently high and volatile inflation.

The rapid rise in inflation during late 2021 and early 2022, as well as its persistence, caught central banks by surprise. As inflation increased, so did scrutiny and criticism of central banks' failure to anticipate and respond to it in a timely way. The response to this inflation shock required a combination of rapid, forceful policy actions and clear, frequent communications.

The rapid policy response appears to be yielding positive outcomes, and inflation in many countries, including Canada, is coming down. In Latin America, the central banks that began raising their interest rates in 2021 ahead of advanced economies – including Brazil, Mexico, Chile, Colombia and Peru – saw less severe gross outflows and stronger net inflows than in past global tightening cycles. While strong commodity prices supported flows in these countries, early tightening could also have played an important role by boosting the credibility of these central banks. Even as commodity prices fell in the second half of 2022 and the Federal Reserve began hiking rates aggressively, the central banks that hiked early showed sustained currency strength and lower risk spreads over the entirety of 2022.

More than 20 years of experience in improving our transparency and communications have made central banks better equipped to meet the heightened scrutiny we face in this period of high inflation. For the Bank of Canada, the communications response has been twofold; first, to remind citizens of the detrimental impact of high and unpredictable inflation, and second, to keep inflation expectations anchored by acting forcefully to return inflation to the target of 2%. A third and related message is that low, stable and predictable inflation goes hand in hand with strong, sustainable economic growth. One cannot be maintained without the other.

The Bank of Canada's messages have emphasised that low inflation will help restore solid, sustainable economic growth and avoid the distortions that come with high and volatile inflation. This is good for everyone – households, workers, businesses and the economy. Messages have also emphasised the Bank's commitment to returning inflation all the way back to the 2% target. This resolution in pursuit of the target is important: the Bank's resolve – and people's awareness of it – will help Canada's economy to reach the target faster and with less pain than if the Bank is perceived to be acting half-heartedly.

The Bank of Canada's communications efforts over this period of high inflation have succeeded in maintaining relatively stable levels of trust in the Bank, as measured by public opinion surveys. Increased use of social media, educational content and focused speeches and media appearances have highlighted the key messages above and yielded results. Knowledge of the Bank of Canada's role in the economy has increased, as has awareness of the inflation target and the Bank's use of interest rates as a tool for controlling inflation.[1]

Central banks must focus on what they can achieve

One of the many benefits of inflation target mandates is that they focus central bank policy actions on one clear objective that they can ultimately control – inflation. Central banks are equipped with policy tools to influence demand in order to keep inflation on target over time.

Three decades of success in inflation targeting have delivered positive macroeconomic outcomes with relative stability, economic growth and low inflation. As central banks' policy success grew, expectations of what central banks could do grew as well. During the GFC, central bank efforts to restore financial stability were largely regarded as successful. In the aftermath, flaws and weaknesses in financial markets and banking systems were, in many cases, handed over to central banks to fix and oversee.

More recently, some have called for central banks to take on additional mandates, such as helping to address climate change or inequality.[2] Others argue that adding new mandates could dilute central banks' focus and make it more difficult for them to achieve their primary goals. When inflation dramatically increased in the aftermath of the pandemic, those criticisms sharpened.

Central banks, with their narrow policy toolkits, are not equipped to address many societal issues. Climate change, for example, requires a coordinated effort across various government agencies, industries and international organisations. Still, central banks do have a role to play. Some central banks, such as the Bank of England, have been given a secondary climate change mandate, while many others, like the Bank of Canada and the US Federal Reserve, see climate change through the prism of their existing mandates. Central banks' early focus has been largely on the financial stability risks posed by climate change, including assessing risks posed to the financial system by climate events and helping the financial system prepare for the climate transition. Some central banks, like the Central Bank of Brazil, use sustainability criteria in reserve management to manage climate risk and catalyse the transition (BIS (2022)). Others, like the Bank of Japan, have directly supported the financing of sustainable investments. More recently, many central banks, including the Bank of Canada, are beginning to increase their focus on the implications of more frequent weather events and associated supply shocks, as well as on the uncertainties associated with the climate transition for their primary price stability mandates. Communicating how the central bank's role in climate change is anchored in its mandate and how climate change interacts with its primary objective will be an evolving challenge.

[1] See Bank of Canada, "Public awareness surveys", www.bankofcanada.ca/about/governance-documents/public-awareness-surveys/#results.

[2] See, for instance, Bartholomew and Diggle (2021) and Chang (2022).

Maintaining credibility requires acknowledging uncertainty

Given the forces buffeting global economies over the past 20 years, central bank communicators have had to become experts in explaining uncertainty. We have all walked the fine line between being straightforward about what we do not know (and what we cannot possibly know) and maintaining the air of assurance and credibility that central banks need in order to do their jobs effectively. Finding this balance has led to considerable focus in recent years on how central banks incorporate and communicate uncertainty in their monetary policy frameworks.

A risk management approach to monetary policy acknowledges and accepts the uncertainties inherent in policymaking and identifies the most important risks around the outlook. Policymakers examine the probabilities that these risks will be realised, consider alternative futures and think about the potential consequences of making a policy error. They then choose a policy course that accounts for these risks, staying mindful of the possible policy errors.

During periods of Knightian uncertainty[3] such as the Covid-19 pandemic, a risk management approach is not sufficient because the range of possible outcomes becomes too wide and there is little basis on which to assess probabilities. For example, at the outset of the pandemic, it was impossible to anticipate the course of the pandemic or the timeline for development of treatments, cures or vaccines for the virus. Instead of forecasts with confidence bands, policymakers began using scenarios with widely varying assumptions about the severity of public health outcomes and the restrictiveness of containment measures.

The historic global policy response to Covid-19 was echoed in Canada, with unprecedented government spending to support individuals and businesses and bridge the economy through a series of lockdowns. The Bank of Canada moved quickly and decisively to support the economy and keep credit flowing. The policy interest rate was slashed to the effective lower bound of 0.25%, and a range of facilities and programmes were introduced to restore market functioning and keep credit available. The Bank of Canada engaged in quantitative easing for the first time, buying billions of dollars of Government of Canada bonds. The scope of market operations expanded the Bank of Canada's balance sheet from about CAD 125 billion (USD 93 billion) to more than CAD 500 billion (USD 370 billion) over the course of a few months.

Covid-19 changed how central banks communicated their economic projections, as point forecasts were temporarily abandoned. In April 2020, at the height of the pandemic's first wave in Canada, the Bank of Canada's normal quarterly projection was replaced by "illustrative scenarios" covering a range of possible outcomes. In July, the Bank of Canada published a more precise "central scenario" that was conditional on assumptions about the course of the pandemic and still featured a wide band of possible outcomes. To avoid providing false precision, details on the composition of GDP were not included. By October 2020, the Bank had reverted to providing a projection, including details of the contributions of different GDP components to growth.

[3] American economist Frank Knight used the term "risk" to describe situations in which one cannot know the outcome of a given situation but can accurately measure the odds of each possible outcome. He used "uncertainty" to describe situations where so little information is known that it is impossible to calculate odds. See Knight (1921).

With so much uncertainty, extraordinary monetary policy tools were used to shift some of the burden of uncertainty away from markets. For the second time in its history, Canada's central bank began to use exceptional forward guidance on the path of interest rates. The guidance was outcomes-based, promising that "the Governing Council will hold the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2% inflation target is sustainably achieved". The Bank also began providing an estimate of when slack would be absorbed – an estimate that shifted forward as demand recovered and supply chain disruptions curbed the economy's productive capacity. This separation of the commitment (which was outcomes-based) from the estimate of when the condition would be met (which was evolving) allowed the projection to be revised while keeping the commitment intact. However, maintaining a clear distinction in the minds of the public between policy rate commitment and policy path conditional on the forecast proved difficult.

The last three years have taught central banks a great deal about communicating amid uncertainty. These skills will be needed as we move to a future where change is accelerating and uncertainty abounds.

Crises require a different style of communication

Central banks began to focus more on plain language communication to the public prior to the pandemic, but the outbreak accelerated this trend. Just as British Prime Minister Winston Churchill spoke directly and plainly to the citizens of Great Britain during the Blitz of the Second World War, central banks stepped up their use of plain language and reassuring messages during the pandemic. Public communication became more focused, with an emphasis on reminding the public that the central bank would do whatever necessary to support the economy through the long and fitful recovery. Explainers on central bank websites used plain language to talk about the extraordinary operations carried out during the pandemic and their intended effects. Sites such as that of the Bank of England offered readers a message of reassurance up front: "Whatever the future brings we will do all we can to support UK businesses and households at this difficult time."[4]

During the pandemic, central bank governors became prominent explainers of the impact of the pandemic on their economies and how monetary policy was responding. The US Federal Reserve, for example, showed a marked increase in its communications targeted at the public. Between the beginning of April 2020 and December 2021, Fed Chair Jerome Powell delivered 13 public speeches about Covid-19 and the economy targeted at broad public audiences, including speaking at several "Fed Listens" events on how the pandemic was affecting communities. In October 2021, Bank of Canada Governor Macklem (a co-author of this chapter) reaffirmed the central bank's commitment to controlling inflation in the plainest terms: "It is our job to bring inflation back to target, and I can assure you we will do that."

Clear and focused communications also serve to link monetary policy actions to monetary policy objectives at a time when that link is less clear. The pandemic prompted governments to spend massively (and issue debt in order to do so) while, at the same time, central banks were buying unprecedented amounts of debt as part of their QE programmes. This opened central banks up to the accusation that they were funding government spending and putting aside their mandated objectives.

[4] Bank of England, "Our response to coronavirus (Covid)", www.bankofengland.co.uk/coronavirus.

Thus, clearly explaining how monetary policy actions contribute to the achievement of central bank mandates became even more important.

Finally, it is important to have a clear exit strategy during crisis times. This includes explaining the motivation behind extraordinary measures taken and the circumstances under which these measures will wind down. For example, in January 2022, the Bank of Canada gave notice that it would remove its extraordinary forward guidance on the policy rate: "While Covid-19 continues to affect economic activity unevenly across sectors, the Governing Council judges that overall slack in the economy is absorbed, thus satisfying the condition outlined in the Bank's forward guidance on its policy interest rate. The Governing Council therefore decided to end its extraordinary commitment to hold its policy rate at the effective lower bound. Looking ahead, the Governing Council expects interest rates will need to increase, with the timing and pace of those increases guided by the Bank's commitment to achieving the 2% inflation target."

The public has higher expectations and wants more information

As described above, public expectations of institutions have increased. Long gone are the days when central banks and other public institutions worked in relative obscurity. Over the past 20 years, there has been a convergence of central bank communication initiatives. Virtually all central banks now make clear their monetary policy framework and objectives and provide explanations of their policy decisions. Most also regularly publish their analysis and projections of economic conditions, including the outlook for output and inflation as well as the risks to that outlook. The main differences in communication strategy concern how much information is revealed about differences of opinion among decision makers on monetary policy councils and how much explicit or implicit guidance is given on the future stance of policy.

The challenge for central banks lies in crafting messages that communicate as clearly as possible to a variety of audiences. Members of the public, understandably, pay attention to broad issues that affect their day-to-day decision-making, eg inflation, the cost of borrowing, the external value of the currency and the cost of their mortgage. Financial markets, on the other hand, are highly sensitive to the nuances of central banks' words and actions. Markets constantly dissect central bank talk for clues and shades of meaning about where monetary policy may be heading.

Traditional news media serve as both an audience and a communication channel that is declining in direct reach but is still important in determining the success of central bank communications. Most central banks still rely on traditional media to get their key messages out to the public, even as direct communication through social media channels becomes more prevalent. The media also act as a filter, deciding which central bank statements they will feature. Part of their job, too, is to interpret policy.

In speaking to the public, central banks have focused on simplifying their messages. To achieve this, many central banks, including the Bank of Canada, use tools to measure the use of plain language and eliminate economic jargon from public-facing communications products. Layered communications – adding plain-language synopses of inflation reports and speeches – are also helpful.

Part of enhancing a central bank's credibility is making the institution not just understandable, but also relatable to the people it serves. Central banks do this by talking about what concerns citizens most – the high cost of living, the cost of rent and groceries, and the interest rate on their mortgage. In 2022, the Bank of Canada publicly estimated that a rate of inflation three percentage points above the target costs the average Canadian an additional CAD 2,000 a year. Public speeches by the Governor and other members of the Bank's monetary policy-setting council regularly include messages of empathy to show Canadians that the Bank's leaders understand the impact of inflation and higher interest rates on their daily lives.

Increasing the central bank's public profile adds another important job requirement for its Governor. The emphasis on the role of chief spokesperson and public face of the Bank means that the Governor must be a skilled communicator and open and responsive to public scrutiny.

The International Monetary Fund (IMF) has initiated a new programme to conduct reviews of central bank transparency using its Central Bank Transparency Code, in which the central banks of Chile, Uruguay and Canada have participated. In its review of the Bank of Canada, the IMF concluded that the Bank "…sets a high benchmark for transparency" and recommended that the Bank could further improve its transparency by providing more information on its monetary policy deliberations. In response to the IMF review and internal discussions, the Bank of Canada publicly committed to providing a summary of its policy deliberations beginning in January 2023. These summaries of deliberations are published two weeks after each policy interest rate decision and supplement the information provided in the policy decision press release and other monetary policy communication materials.

Central banks need to reach audiences where they want to receive information

In the last two decades, two important things have changed for central bank communications teams – their understanding of their diverse and distinct audiences, and the tools at their disposal to reach those audiences.

According to Andy Haldane, a former Chief Economist at the Bank of England, central banks for too long focused on audiences that were almost exclusively "M.E.N." – markets, economists and news organisations (Haldane (2017)). Central bank audiences range from highly sophisticated bank watchers and market participants to those with little to no interest in economic matters. Among the public, there are distinct audience segments whose interests, engagement and means of obtaining information can vary greatly. The Bank of Canada, like other central banks, has devoted considerable effort to understanding its different audiences and the best way to reach them.

In 2018, the Bank of Canada's Communications Department introduced an annual public opinion and audience research programme. This aimed to assess the public's awareness and knowledge of the Bank, attitudes toward the Bank and views on the economy. Among the insights gained was the finding that knowledge of the Bank, and economic literacy more broadly, play a key role in influencing opinions about the Bank itself. Results indicated that the higher an individual's economic literacy, the more likely that person is to have greater awareness of and trust in the

Bank of Canada. This public opinion research is supplemented by work to segment and target different audiences.

Central banks have typically engaged with the media, maintained their own detailed websites and used social media platforms to communicate their messages to the public. However, reliance on traditional channels to reach audiences is no longer sufficient. Central banks need to customise messages to the social media channels where different segments of their target audiences get their news. At the Bank of Canada, a new social media strategy will see the Bank expand beyond its traditional use of Twitter and LinkedIn and create more bespoke content for these and other social media channels. While this content is customised to the channel for which it is produced, it is all based on a core set of key messages about the Bank and its policies.

Central banks are increasingly following the advice of research showing that more visual communication can boost people's comprehension of central banks' messages. Animated explainers and short videos deployed across social media channels are increasingly effective tools for conveying central bank messages. These tools, which have been used for years by central banks to promote banknotes and financial literacy initiatives, are increasingly being deployed to communicate monetary policy and economic analysis and to support economic education objectives.

While the Governor remains the principal spokesperson for the central bank, new social media channels allow for more opportunity to use different spokespeople. The European Central Bank frequently showcases its young economists on its Instagram channel. The banks of the Federal Reserve System in the United States use similar techniques and different voices on their social media channels. All these initiatives recognise the fact that citizens relate to individuals, not to institutions.

Central Banks need to be better listeners

Over the past two decades, central banks have become more alive to the reality that economic shocks affect different groups of society differently. A key to enhancing trust during periods of uncertainty is listening – engaging the public in conversations. This is particularly key when monetary policies are directly affecting people's lives, such as when inflation is above target and interest rates are rising.

Central banks have been moving toward more direct, two-way public engagement. The "Fed Listens" [5] programme, as well as the Bank of England's citizens' panels and community forums, [6] are inspiring examples of such engagement. Around the world, central banks are using museums, social media, podcasts and even reggae songs[7] to tell their stories to their citizens and to invite conversations with the people they serve.

[5] See Board of Governors of the Federal Reserve System, "Fed Listens", www.federalreserve.gov/fedlistens.htm.

[6] See Bank of England, "Citizens' Forum", www.bankofengland.co.uk/about/get-involved/citizens-panels.

[7] See Bank of Jamaica, "Inflation targeting communication campaign", https://boj.org.jm/core-functions/monetary-policy/what-is-inflation/inflation-targeting-campaign/.

The pandemic precluded public forums, bank museum visits, in-person speeches and other events where these conversations can happen. The Bank of Canada, like others, had to be nimble with technology in order to engage stakeholders and the public. It held an online public consultation called "Let's Talk Inflation" before the Bank renewed its agreement with the Canadian government on the monetary policy framework in 2021.

Recently, the Bank of Canada has expanded its stakeholder engagement programme, reaching out to groups of society that have not traditionally been targets for outreach. This includes Indigenous peoples. The Bank of Canada, along with the Reserve Bank of New Zealand, the Reserve Bank of Australia and some of the US Federal Reserve banks, has founded a Central Bank Network for Indigenous Inclusion to advance efforts to promote economic reconciliation with indigenous peoples in their respective countries.[8] The Bank of Canada has also increased its outreach to civil society organisations, labour and charitable groups, climate change stakeholders, and financial technology and other innovation communities.

Central banks continue to seek out ways to better understand what is preoccupying the public, including the perspectives of communities and groups they have not traditionally been very good at reaching. Addressing the preoccupations of those communities and groups is important. As we face new policy challenges such as climate change, central bank digital currencies and new supervisory responsibilities, central banks will increasingly need to deepen their stakeholder engagement activities.

This will require a better ability to measure the impact of central bank communications and engagement. This is difficult for several reasons:

- The public is a vastly broad audience with varying degrees of knowledge of, interest in and engagement with economics and central banking.
- Some communications goals – such as building trust – take a significant amount of time.
- Results from communications efforts are often intangible and difficult to measure.
- Many communications outcomes are influenced by broader social factors that are beyond a central bank's control.

The Bank of Canada's Communications Department has developed a sophisticated framework for quantifying and qualifying the Bank's communications efforts and their results. Using data-based measurement and evaluation, the department assesses the impact and effectiveness of the Bank's communications activities and gauges their contribution to the Bank's overall goals.

8 See Bank of Canada, Central Bank Network for Indigenous Inclusion memorandum of understanding, www.bankofcanada.ca/wp-content/uploads/2021/04/memorandum-understanding.pdf and Reserve Bank of New Zealand, "Central Bank Network for Indigenous Inclusion", www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/our-relationship-with-other-financial-regulators/central-bank-network-for-indigenous-inclusion.

Conclusion: Using all we have learned

Central banks have learned a great deal about transparency and communication over the past 20 years. During that time, central banks' relationships with the public have changed. Central banks have moved beyond just being transparent with markets to more active, relatable engagement with the people they serve.

This matters for several reasons. First, the public has a right to understand what their central banks are doing. Indeed, as central bankers we need to be accountable for our actions. Second, monetary policy works better when people understand it. Third, it is more essential than ever that household inflation expectations remain anchored to our inflation targets, so that low and sustainable inflation can be restored. A final, more existential reason is that without public understanding and support for independent central banks, we risk losing the public trust that is so core to our mission.

Finding the appropriate balance between relatability and the traditional gravitas of central banks is both difficult and important to maintaining public trust. Too complex a message could be missed or ignored by the public; too simple a message could undermine credibility with markets and bank watchers and, ultimately, the general public. There will always be a trade-off between telling a simple but incomplete story and overwhelming the narrative with nuance and precision. As new social media channels rise and older communications media decline, central banks must be nimble in their efforts to reach and engage audiences.

Good communication improves central banks' capacity to make better policy decisions and enhances their legitimacy as public institutions. This will become even more critical in the future as we tackle the global forces ahead. The failure to adequately share the benefits of economic growth is fuelling populism and prompting countries to turn inward, unwinding the benefits of decades of open markets and increased trade. Rising geopolitical tensions have underscored the fragility of some relationships, among both businesses and nations. Global supply chains are becoming more resilient but less efficient, increasing the cost of production. As globalisation retreats and workforces age, wage growth is rising and productivity growth is trending down. All of this suggests that, over the long term, the disinflationary forces of the last three decades may diminish. All of these factors are likely to make the conduct of monetary policy more challenging in the years ahead.

Central bank performance will always be judged by results and economic outcomes. But we improve the likelihood of better outcomes by clearly communicating our monetary policy, helping our citizens understand the broader forces at work in our economy, and listening and understanding how our policies affect everyone. These efforts will help us make better policy decisions, reinforce our legitimacy and cement trust with our citizens. At the end of the day, that is what central banking is all about – trust in the value of money, trust in our financial institutions and trust in our economic system.

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