

SPEECH

Communication and monetary policy

Speech by Christine Lagarde, President of the ECB, at the Distinguished Speakers Seminar organised by the European Economics & Financial Centre

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We find ourselves in a world marked by substantial volatility. In recent years, a series of unprecedented crises have profoundly affected people and their everyday lives. To steer the economy through these challenging times, policymakers need to manage people's expectations – not only about inflation, but also about climate policies, geopolitical shifts and many other areas.

In this respect, communication plays a vital role in the art of effective policymaking today, and this is especially true for central banks like the ECB. But several changes in the media landscape – from new technologies to the rising tide of fake news – have made it increasingly difficult for policymakers to “cut through” to the wider public.

In other words, just as the need for effective communication has grown, so too has the difficulty for policymakers to make their voices heard. This is a problem that we cannot afford to ignore. As Ludwig Wittgenstein once observed, “the limits of my language mean the limits of my world”.^[1]

So how can policymakers break through those limits when communicating with the wider public? In short: when the world changes, we must change with it. The way we communicate needs to reflect the new environment in which we are operating.

I will discuss the communication challenges we face today, the communication dimension of monetary policy, and propose how we can improve our communication by being more accessible and humbler.

The challenges facing policy communication

Today's communications landscape presents two key challenges for policymakers, including central bankers: the ever-increasing competition for attention and the risks presented by an overarching decline in trust.

In the past, policymakers could rely on a communication channel that was largely a “one-way street”. Key messages were typically relayed to the wider public in a concentrated manner via traditional mass media, such as television, radio and newspapers.

But today the communications landscape has changed dramatically – with the flow of information both accelerating and fragmenting.

The advent of the internet and the 24/7 news cycle has meant that the competition for people's attention has increased markedly. And the rise of social media has seen communication become a “two-way street”: anyone with a smartphone is potentially a journalist, publisher or influencer who can make their views heard.

These changes make it considerably more difficult to communicate policy effectively.

For starters, policymakers can no longer take people's attention for granted in the internet era. One recent study finds that the average duration of attention on a screen has plummeted from around 150 seconds in 2004 to a mere 47 seconds today.^[2]

It has also become increasingly challenging to disseminate factual information. Falsehoods on Twitter, now known as X, are found to spread about 10 to 20 times faster than facts.^[3] And more opinionated tweets are likely to reach more people. For instance, research shows that ECB-related tweets with negative, stronger or more subjective views are more likely to be retweeted, liked or replied to.^[4]

This shifting communications landscape has contributed to the second challenge facing policymakers around the world – the risks presented by declining trust.

One global survey concludes that almost half of respondents believe their government is a source of false or misleading information.^[5] Another international study finds that, on average, only four in ten respondents trust news “most of the time” – with lower levels of trust found in countries with a more polarised political environment.^[6]

And this has naturally affected trust in public institutions, including central banks. For much of the 2010s, net trust in the ECB fell to negative levels.^[7] And while average trust increased after our rapid response to the pandemic, it began to fall again in tandem with the recent rise in inflation.^[8]

But this also underscores another important factor depressing trust: the sheer complexity of the environment we find ourselves in. We have repeatedly faced crises over the last decade which have, to some extent, undermined the public's faith in how the macroeconomic environment is managed and in economists' forecasting ability. This is not a problem we can easily resolve.

On the one hand, many of the policy challenges that central bankers and other policymakers are facing today, like bringing down inflation or tackling climate change, are forward-looking in nature. To successfully tackle them, we need to make projections about the future and introduce policies well in advance.

But on the other hand, in a more volatile world, those projections are more likely to quickly become outdated, and policies based on them might have to be adjusted or reversed. That can affect the credibility of experts. For example, research suggests that households trust central bank forecasts less if their recent performance has been poor.^[9]

The importance of monetary policy communication today

At the ECB, we take this environment of fragmented communication and declining trust extremely seriously.

Conveying our policy messages to the wider public is critical for the legitimacy of independent central banks in democratic societies and for the effectiveness of monetary policy.^[10] Communication plays a crucial role in influencing people's inflation expectations.^[11]

This task is an urgent one. Today's environment presents us with two key reasons why we must seize the moment in communicating more effectively: high inflation and high levels of attention on inflation.

In the first two decades of the ECB's existence, average inflation in the euro area was 1.7%.^[12] And even though there were times when inflation was either too high or too low during that period, the high inflation we have faced in the past two years is unique. Last October, headline inflation peaked at a record 10.6%.

In this setting, it is paramount not only to take decisive action to bring inflation down, but also to communicate effectively to ensure that medium-term inflation expectations remain anchored during the process. More than ever, credibly conveying that inflation will return to our 2% target over the medium term has been vital to help prevent self-fulfilling inflationary dynamics from taking hold.

This is in part because consumers are highly sensitive to some of the main drivers of the inflation we have recently seen. For instance, survey-based evidence suggests that price perceptions of food and other frequently purchased goods such as fuel have a very important influence on inflation expectations for the average euro area consumer.^[13]

While inflation is now falling, effective communication is likely to remain of paramount importance even after the current inflation spike is over. As I discussed recently at Jackson Hole^[14], we are entering a world of major transitions in labour markets, energy markets and geopolitics, all of which can lead to larger and more frequent relative price shocks. And in this world, it will be critical for central banks to keep inflation expectations firmly anchored while these relative price changes play out.

The second key reason – high levels of attention on inflation – underlines the importance of central banks conveying their commitment to price stability to the wider public more effectively sooner rather than later.

When inflation was low, one of the communication challenges faced by central banks was that there was little need to be informed about issues related to monetary policy.^[15] This “rational inattention” of citizens was in part due to the success of monetary policy,^[16] because when prices are stable, people do not need to spend time and effort to track inflation and worry about it. For instance, in May 2021 – a month when year-on-year inflation stood at 2%^[17] – a survey found that 55% of euro area citizens were not interested in the ECB and its policies, almost half of whom said they were not interested at all.^[18]

But now that inflation is high, households are becoming more attentive. Inflation has become one of the most pressing concerns for Europeans.^[19] In the ECB's Consumer Expectations Survey, over 60% of households reported at the start of the year that they were paying more attention to inflation than they had done in the past. Recent research also finds that these same households have expectations of inflation that are much closer to actual levels of inflation.^[20]

The current environment presents central banks with both a risk and an opportunity: people are now paying more attention to inflation, which may increase the risk of a de-anchoring of inflation expectations; but because of that higher attention, they may be more willing to listen to us, which gives us a valuable window of time to deliver our key messages.

So how should we move forward?

Improving monetary policy communication

First, actions speak louder than words. Research suggests that the strongest factor in building trust in central banks is being perceived as able to deliver on our mandate.^[21] And to deliver on that mandate, we have increased our policy rates by a cumulative total of 425 basis points in the space of 12 months – a record pace in record time. And we will achieve a timely return of inflation to our 2% medium-term target.

But action must be supported by communication. There are two ways in which improving our communication can support our policy moves: more accessibility and more humility.

Historically, central banks have tended to communicate mainly with financial market participants and other experts – audiences that typically listen closely and have more expertise in the issues that central banks talk about.^[22] This “comfort zone” led central banks to use rather complex language. But complexity limits the reach of the ECB’s monetary policy communication, particularly with non-expert audiences.^[23]

A series of crises have not helped the situation. Central banks’ toolkits have expanded dramatically since the global financial crisis – and so too has the length of monetary policy communications. Between 2007 and 2020, the year the pandemic arrived, the average length of the press release announcing the ECB’s monetary policy decisions increased more than sevenfold.

So, given the scarcity of attention in today’s media landscape, we need to be more accessible in how we communicate.

The outcome of our strategy review has helped in this regard. Our inflation target of 2% – which came into effect in 2021 – is simpler, clearer and easier to communicate than our prior inflation aim of “below, but close to, 2%”, which was in force before the strategy review.^[24]

Accessible language also increases the benefits of a clear inflation target. The effects of telling people about our target tend to last longer if the information is accompanied by explanations about the rationale for that target and its implications for how monetary policy can stabilise the economy.

Providing these explanations increases one measure of ECB credibility by around 10%.^[25]

Research also shows that clearer ECB communication leads to more engagement in traditional and social media.^[26] One study finds that making monetary policy communication simpler and more relatable to people’s lives boosts their understanding of key messages by 40%.^[27]

With all this in mind, our strategy review also led us to revamp how we communicate our monetary policy decisions – specifically, the Governing Council’s communication at the press conference – while complementing it with a new, layered version that is tailored to non-expert audiences.

The monetary policy statement uses language that is demonstrably less complex than its predecessor, the introductory statement.^[28] And it is accompanied on the same day by its visual counterpart, the

“monetary policy statement at a glance”, which uses simpler language and visuals that people can relate to, and is available in all EU languages.^[29]

These efforts can play into the second element I mentioned earlier: humility.

An increasingly uncertain world makes the task of public institutions harder, especially when it comes to forecasting. And we need to explain this better to the wider public – what we can and cannot know, and what it will take to continue delivering on our mandates in this environment.

Humility in how we communicate is key to fostering trust. To rebuild confidence in expert institutions, we need to do a better job of conveying the uncertainty we face and the inherent challenge in conducting forward-looking policymaking in this environment. That means being open about the limits of what we know, the areas where we have missed the mark, and what we are doing about it.

Right now, it is important for us to acknowledge that, like other central banks, we underestimated both the dynamics of inflation and its persistence. But we have been making changes to our forecasting process to address these issues. For example, we have published sensitivity analyses of key variables like energy prices and wages, and we used scenario analysis during the pandemic and after the Russian invasion of Ukraine.

We are also aiming to be more transparent in accounting for our forecast errors. Even if these errors were to deplete trust, we can mitigate this if we talk about forecasts in a way that is both more contingent and more accessible, and if we provide better explanations for those errors. For this reason, ECB staff have started publishing the main factors behind our inflation forecast errors, and we intend to continue doing so.^[30]

Conclusion

Let me conclude.

The effective communication of policy will always be a challenging endeavour.

Ben Bernanke, the former Chair of the Federal Reserve, once observed that “monetary policy is 98% talk and only 2% action”.^[31] Of course, we can debate these percentages – especially after the last 12 months of central banks across advanced economies tightening their monetary policy. But there should be no doubt: it is not only about getting policy right – we also have to talk about it in the right way.

In an environment of too-high inflation, the current high level of attention to prices presents both a challenge and an opportunity for central banks.

On the one hand, increased attention to inflation developments may contribute towards a de-anchoring of inflation expectations. But on the other hand, it is exactly when people are paying most attention that central banks should deliver their key communication to ensure that those expectations remain firmly anchored.

So let us seize the moment. And I have no doubt we can do so effectively by embracing accessibility and humility in how we pursue and communicate our monetary policy to the citizens of the euro area.

Because we must never forget that they are the people who we ultimately serve.

Thank you.

1.

Wittgenstein, L. (1922), *Tractatus Logico-Philosophicus*.

2.

See Chapter Four in Mark, G. (2023), *Attention span: A Groundbreaking Way to Restore Balance, Happiness and Productivity*, Hanover Square Press.

3.

Dizikes, P. (2018), "[Study: On Twitter, false news travels faster than true stories](#)", *MIT News*, 8 March.

4.

Ehrmann, M. and Wabitsch, A. (2022), "Central bank communication with non-experts – A road to nowhere?", *Journal of Monetary Economics*, Vol. 127, pp. 69-85.

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Edelmann (2023), "[Edelmann Trust Barometer Global Report](#)".

6.

Reuters Institute for the Study of Journalism (2023), "[Digital News Report 2023](#)", p. 10 and p. 24.

7.

Net trust calculated from Eurobarometer surveys (net trust in the ECB is calculated as the percentage of respondents that "tend to trust the ECB" minus the percentage of respondents that "tend not to trust"). See Figure 1 in Bergbauer, S. et al. (2020), "[The reputation of the euro and the European Central Bank: Interlinked or disconnected?](#)", *The LSE Blog*, 10 March. See also Bergbauer, S. et al. (2020), "The reputation of the euro and the European Central Bank: interlinked or disconnected?", *Journal of European Public Policy*, Vol. 27, No 8.

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McMahon, M. and Rholes, R. (2023), "[Building Central Bank Credibility: The Role of Forecast Performance](#)", *SUERF Policy Brief*, No 655, August.

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As discussed in detail in Schnabel, I. (2020), "[The importance of trust for the ECB's monetary policy](#)", speech as part of the seminar series "Havarie Europa. Zur Pathogenese europäischer Gegenwart" at the Hamburg Institute for Social Research (Hamburger Institut für Sozialforschung), 16 December.

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Hartmann, P. and Smets, F. (2018), "[The first twenty years of the European Central Bank: monetary policy](#)", *Working Paper Series*, No 2219, ECB, December.

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Di Nino, V. et al. (2022), "[What drives inflation expectations of women and men?](#)", *The ECB Blog*, 14 September.

14.

Lagarde, C. (2023), "[Policymaking in an age of shifts and breaks](#)", speech at the annual Economic Policy Symposium "Structural Shifts in the Global Economy" organised by Federal Reserve Bank of Kansas City in Jackson Hole, 25 August.

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Coibion, O. et al. (2020), "[Inflation expectations as a policy tool?](#)", *Journal of International Economics*, Vol. 124, May.

16.

On rational inattention, see for example Sims, C. A. (2010), "[Rational Inattention and Monetary Economics](#)", *Handbook of Monetary Economics*, pp. 155-181.

17.

See the chart entitled "HICP inflation rate – Overall index" in the inflation dashboard on the ECB's [website](#).

18.

The survey in question is the ECB Knowledge & Attitudes Survey. See Gardt, M. et al. (2021), "[ECB communication with the wider public](#)", *Economic Bulletin*, Issue 8, ECB.

19.

27% of Europeans – the highest percentage – believe that "rising prices/inflation/cost of living" is one of the two most important issues facing the EU. See Eurobarometer (2023), "[Europeans show strong support for the EU energy policy and for EU's response to Russia's invasion of Ukraine and more optimism regarding economy](#)", 10 July.

20.

Weber, M. et al. (2023), "[Tell Me Something I Don't Already Know: Learning in Low and High-inflation Settings](#)", *CEPR Discussion Paper*, No 18299, 15 July.

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See Chart 8 in Gardt, M. et al. (2021), "[ECB communication with the wider public](#)", *Economic Bulletin*, Issue 8, ECB.

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Haldane, A. (2017), "[A Little More Conversation A Little Less Action](#)", speech at Federal Reserve Bank of San Francisco Macroeconomics and Monetary Policy Conference, 31 March.

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A 2020 survey of former members of the ECB's Governing Council found that nearly 75% of respondents rated the ECB's communication with expert audiences as excellent, while only 22% thought that communication with the public was adequate. See Ehrmann, M. et al. (2023), "[Monetary Policy Communication: Perspectives from Former Policymakers at the ECB](#)", *Journal of Money, Credit and Banking*, April.

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For more details, see ECB (2021), "[An overview of the ECB's monetary policy strategy](#)", 8 July.

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Ehrmann, M., Georgarakos, D. and Kenny, G. (2023), "[Credibility gains from communicating with the public: evidence from the ECB's new monetary policy strategy](#)", *Working Paper Series*, No 2785, ECB, February.

26.

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