

Monetary Policy in Times of Crisis – A Tale of Two Decades of the European Central Bank

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Discussion by
Sarah Holton

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- Essential reading for experts and non-experts alike
- Excellent overview of a turbulent and challenging time

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“To study history means submitting yourself to chaos, but nevertheless retaining your faith in order and meaning”

~Herman Hesse

"Clear, consistent and engaging: ECB monetary policy communication in a changing world"

Occasional Paper Series 274, European Central Bank

- Monetary policy communication has two broad aims:
 - To enhance transparency, credibility and trust
 - To boost the **effectiveness of monetary policy** by influencing the expectations of financial markets, firms and households

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- Analysis shows that **forward guidance** was successful in the coordinating **investor expectations** in the market
- There is little mention of **communicating with households, firms and the broader public**

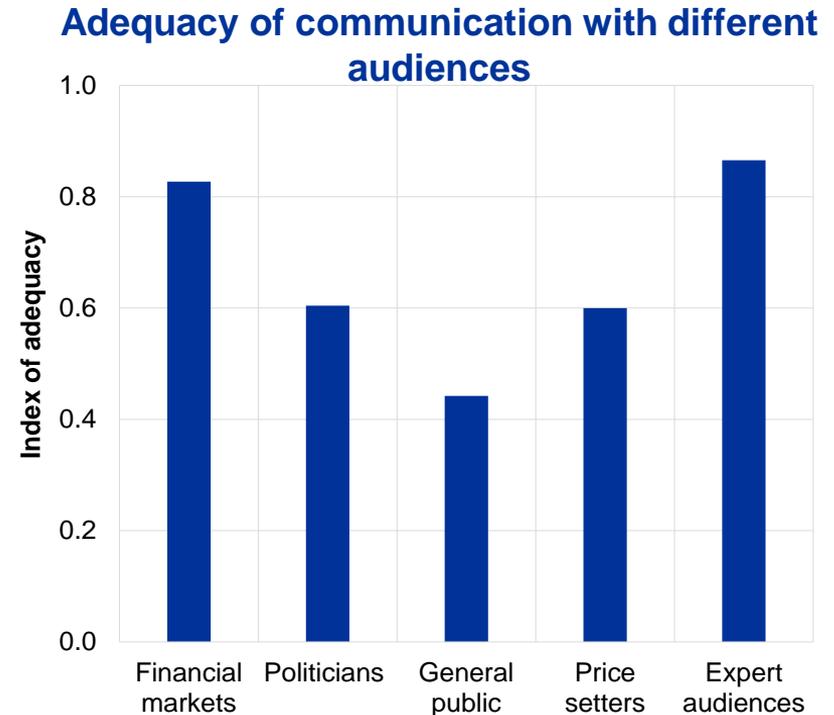
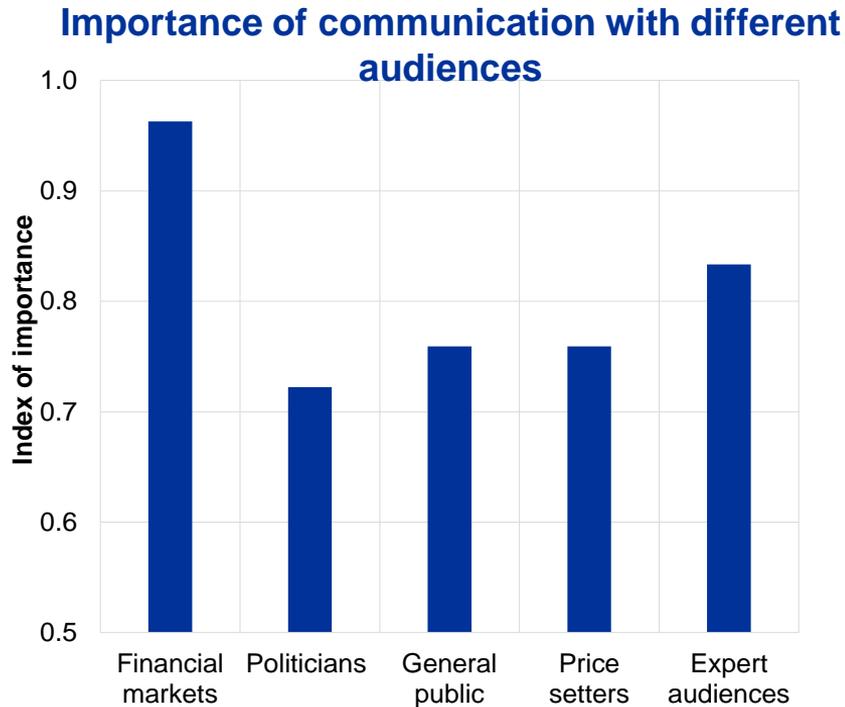
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*“Eurosystem’s communication policies and tools have focused on expert audiences, but there is **sizeable scope to improve communication with the wider public**”*

~ECB Occasional paper on monetary policy communication

Communication and monetary policy: survey of former policy makers



Source: “Monetary Policy Communication: Perspectives from Former Policy Makers at the ECB”, Ehrmann, Holton, Kedan and Phelan, Forthcoming ECB working paper.

Notes: Survey of all 46 remaining former Governing Council members with 59% response rate.

Left chart shows responses to: “With regard to the effectiveness of monetary policy, how important is it to communicate with different audience groups?”. Index is the percentage of respondents reporting on the importance of objectives weighted by the level of importance attached to each. If all respondents answered ‘extremely important’ the index would be 1; ‘very important’ the index would be 0.75; ‘important’ the index would be 0.5; ‘somewhat important’ the index would be 0.25; and if all respondents reported ‘not important at all’ the index would be 0.

Right chart shows responses to: “In terms of increasing understanding of monetary policy, how would you rate current communication with each audience in the euro area?”. Index is the weighted percentage of respondents reporting on the adequacy of communication with each audience. If all respondents answered ‘currently adequate’ the index would be 1; ‘some room for improvement’ the index would be 0.5; and if all respondents reported ‘a lot of room for improvement’ the index would be 0.

- How important is it to communicate with beyond financial markets and experts for the effectiveness of policy?
 - Households and firms tend to show rational inattention and can have disperse or inaccurate inflation expectations
 - Some assert that households and firms expectations matter little [Rudd \(2021\)](#)
 - On the other hand, other literature shows that expectations about the broad inflation regime and economy are important [Andrade et al \(2020\)](#)
- How can communication with the public be improved upon?
 - Agents can react in unexpected ways to news about inflation and so, to influence economic behaviour in the desired manner, central bank communication should also focus on the desired broad economic and labour market outcomes [Candia et al. \(2020\)](#)
 - People can incorporate information about employment and broad economic developments into decision-making more easily than information about instruments [Angeletos and Sastry \(2021\)](#)

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Particular challenges for the euro area?...

Thank you