



EUROPEAN CENTRAL BANK

EUROSYSTEM

Recent innovations and lessons with monetary policy communication: What can macroprudential policy take away?

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The views expressed here are my own and do not
necessarily reflect those of the ECB or the Eurosystem



- 2 main arguments for more and better monetary policy communication
 - Monetary policy effectiveness
 - Mostly addressed to experts
 - Comparatively easy, as experts tend to listen intently
 - Democratic accountability
 - Mostly addressed to general public (also via parliament)
 - Comparatively difficult, as general public largely out of reach
 - Better communication with general public can help effectiveness
- Many “not so recent” innovations have already been adopted
 - Macroprudential communication has quickly expanded
 - Annual reports, testimonies, data releases, background analyses, research papers, conferences,...

- Current situation of high uncertainty – reduce uncertainty about own behaviour
 - Stress absence of commitment, data dependence and uncertainty

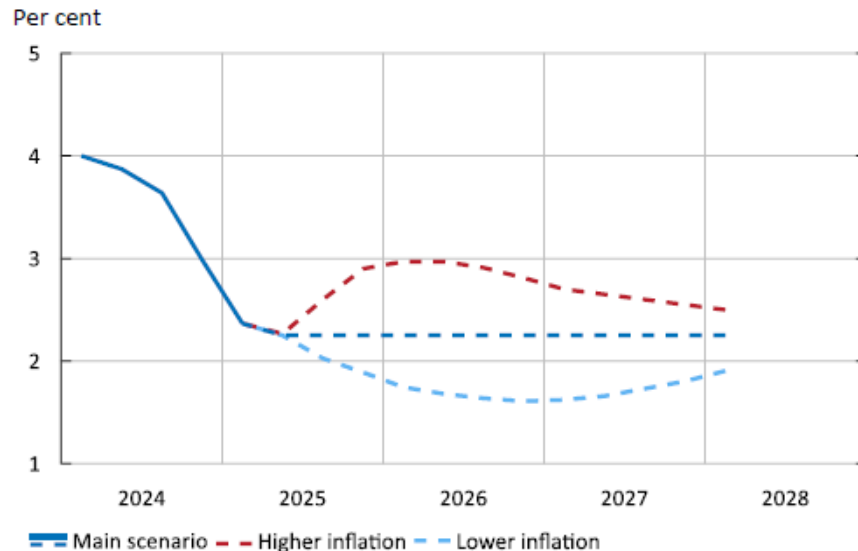
*“Especially in current conditions of exceptional uncertainty, it will follow a data-dependent and **meeting-by-meeting** approach. [...] Governing Council is **not pre-committing** to a particular rate path.”*
 - After years of forward guidance, clarification of reaction function required

*“Governing Council’s interest rate decisions will be based on its assessment of the **inflation outlook** in light of the incoming economic and financial data, the **dynamics of underlying inflation** and the **strength of monetary policy transmission**”*
 - Usage of different tools

“In a volatile macroeconomic environment, central banks need to be more agile, meaning they should draw primarily on instruments that can be reversed quickly and that allow monetary policy to be adjusted swiftly to changing economic conditions” (Isabel Schnabel, 14 November 2024)

- Current situation of high uncertainty – how to communicate about the central bank’s assessment of uncertainty?
 - Emphasise near-term forecasts
 - Riksbank rate path projections with special emphasis on short term; *“The dotted line illustrates the fact that the forecast for the policy rate in the longer run is very uncertain”*
 - Scenario analysis

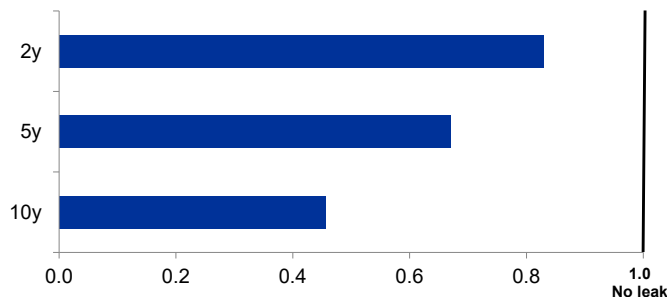
Riksbank forecast and alternative scenarios for the policy rate



Communicating to experts - different views

- Decision by committee, hence different views arise naturally (and get expressed)
- Trade-off between communicating individual views and common message
 - Expressing diversity of views helps i) acknowledging uncertainty, ii) enhancing longer-term predictability and accountability
 - Disagreement tends to weaken the market impact of communication

Muted market impact of the press conference in the presence of same-day leaks

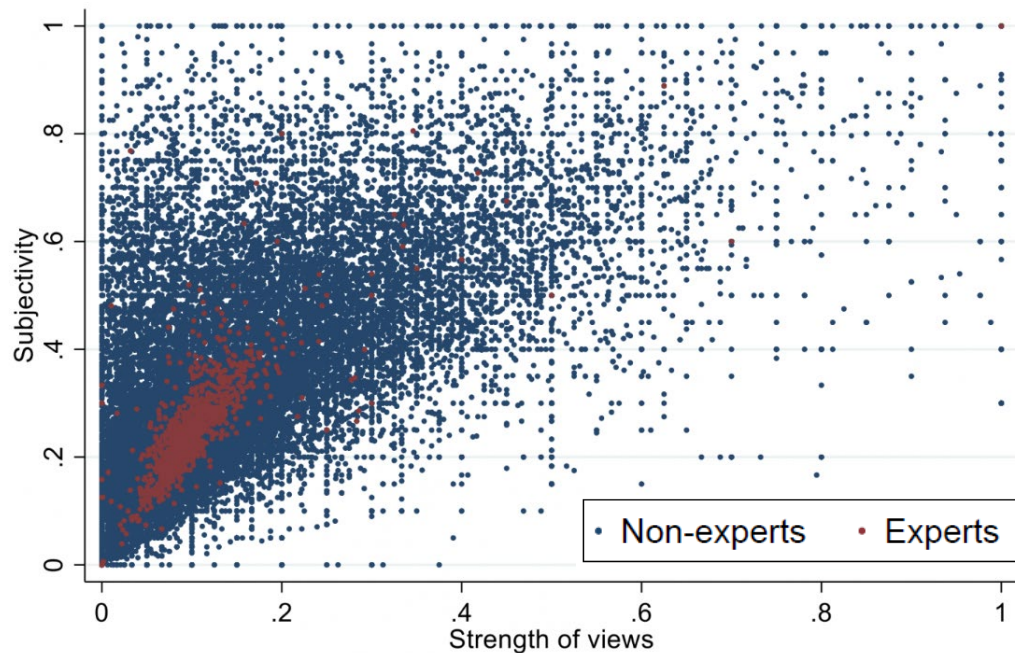


Source: Ehrmann, Gnan and Rieder (2023). The chart shows the daily market response to the monetary policy news conveyed during the press conference, as measured by the 2-year OIS rate, in the presence of same-day leaks relative to days without a leak. All coefficients are statistically significantly different from one

Communicating with the general public – the challenge

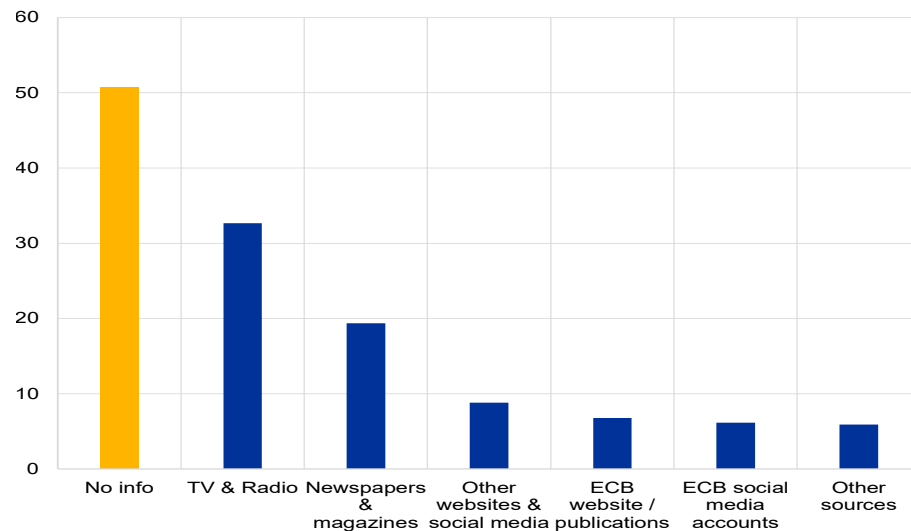
- Communicating with the general public is difficult
 - More heterogeneous views
 - Largely unaware of central banking issues
 - Difficult to reach
 - Finds it difficult to understand even when reached
 - Sometimes “gets the sign wrong”

Sentiment expressed in ECB-related tweets by experts vs non-experts



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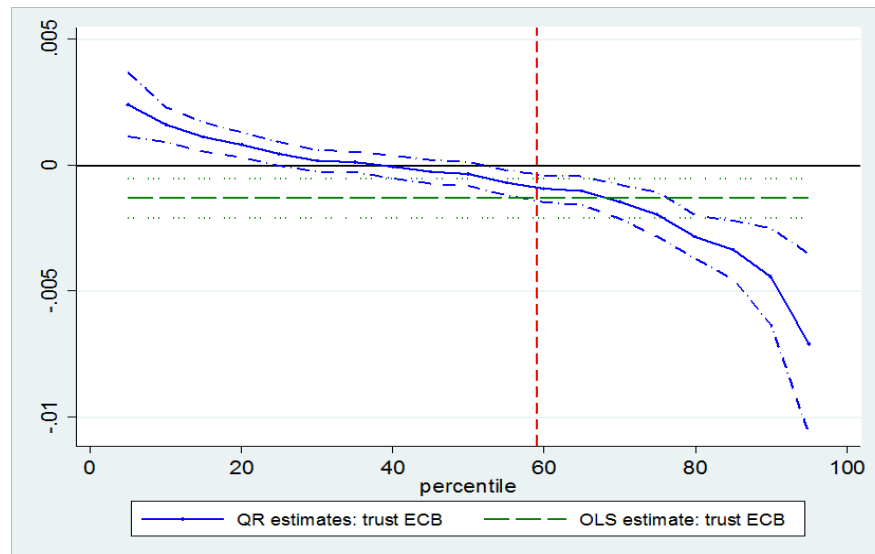
Information about the ECB: channels
(% of all respondents, by information source)



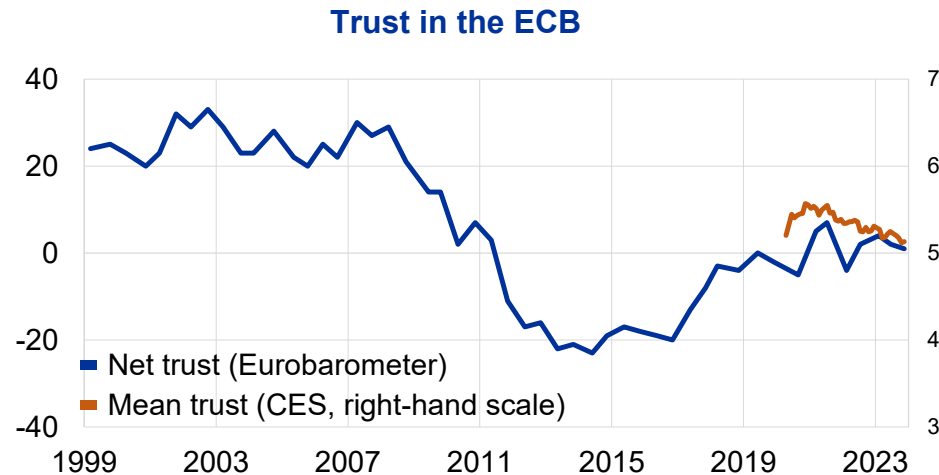
Source: Ehrmann, Georgarakos and Kenny (2025); ECB Consumer Expectations Survey (CES) – September 2021. Note: “In the past two months, have you seen or heard information about the European Central Bank (ECB) from any of the following sources?” Apart from “No info”, all other options are not mutually exclusive, leading to a total sum higher than 100% of the respondents. Weighted estimates.

- Trust facilitates the achievement of the central bank objective
 - Anchors inflation expectations and reduces inflation uncertainty
 - More effective monetary transmission mechanism in a more stable economic environment
 - Helps contain political pressure on the central bank

Effect of trust on inflation expectations



- Trust is quickly lost, and hard to reestablish
 - Crises
 - Exit from forward guidance
 - Inflation surge and forecast errors
- Challenges ahead
 - Large and persistent supply shocks
 - Rise in polarisation and populism
 - Increasing relevance of social media
 - Increasing threats of mis- / disinformation
 - Broader central bank mandates



- Separation of respective communications
 - *“We will continue to carefully monitor – as we always have done – the possible side effects of accommodative monetary conditions. It is crucial to remain vigilant and to use the available micro- and macroprudential policy tools as necessary. **I will say more on this during the hearing in my capacity as Chair of the European Systemic Risk Board.**”*

Mario Draghi, Hearing at the Committee on Economic and Monetary Affairs of the European Parliament, 23 September 2019

What about macroprudential communication?

- Applicability to macroprudential communication? Many commonalities, important differences
 - Likely, more confidential communication required
 - Complex objective
 - Complex governance
 - Complex set of tools
- Monetary policy communication is hard - macroprudential communication is likely even harder

- Clarity about reaction function
 - Reduce uncertainty about own behaviour
- Cacophony weakens policy impact
 - Communicate diversity of views, but in a structured manner
- Communicating uncertainty at the core of macroprudential communication
 - Recent innovations and lessons with macroprudential policy communication: What can monetary policy take away?

What about macroprudential communication? Communicating with the general public

- The general public has little interest and little knowledge, is hard to reach, and holds mistaken expectations
- Trust is important, but easily lost and hard to regain, and will be harder to maintain
 - Strengthen financial literacy
 - Be humble – don't turn citizenry into experts, just try to get the basics across
 - Use simple and relatable language, without oversimplifying
 - More research using RCTs or hypothetical scenarios

- *“The potential benefits from more and better central bank communication with the general public—including greater accountability, more trust, and more steadfast political support—are important enough that central bankers should strive to achieve them. Doing so won’t be as easy as educating the markets, and there will be many failures along the way. **But the journey is worth the effort.**”*

Blinder et al. 2024

Thank you!
