

# Central bank communication

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## Central banking is all about communication ...

- Markets, firms and consumers
  - Why we are where we are
  - Where do we expect to be soon
  - What steps will be taken to get there (forward guidance)
- Vast research on verbal & non-verbal communication

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## ... or is it?

- Do people pay attention?
- Who do they listen to?
- What happens when they do not listen

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⇒ theoretically founded + with practical relevance

**Central bank communication is 98%  
talk and 2% action [B. Bernanke]**

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## Basic rules of central bank communication

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### Standard tools of communication

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**New tools:** talks & writing in popular context

- Words  $\equiv$  clarity of the message

Flesch-Kincaid index: about 12-17 years of schooling; move the yield curve ahead of decisions

Kuttner, 2001; Gurkaynak et al., 2005; Rozkrut et al., 2007; Blinder et al., 2008; Dincer and Eichengreen 2008, 2014; Coenen et al., 2017

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Gorodnichenko, Pham & Talavera, 2022
- Facial expressions affect prices of assets as well  
similar effect *on top of voice*  
Curti and Kazinnik, 2021; Narhetali, 2023

## Firms & consumers react as well, but less directly

- Anchoring: US median 3Y expectations back to average in Aug 2022  $\equiv$  before inflation peaked  
people respond to targets, especially if supported by policy instruments

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special role for gasoline prices and grocery shopping (personal experience)

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- Firms' expectations respond to policy surprises, but not linearly and they do drive prices  
Enders et al. 2022; Kumar et al. 2022; Coibion et al., 2021

Collorary: results for ZLB/low inflation env. notoriously differ, (in)attention likely endogeneous

## Challenges ahead

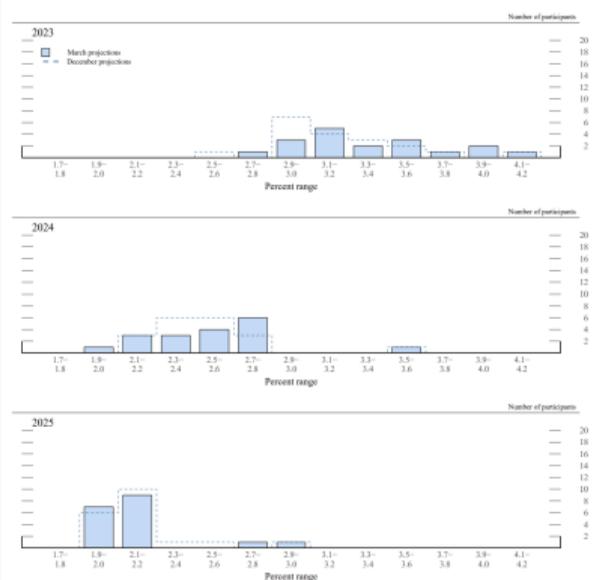
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## What central banks these days are trying to achieve

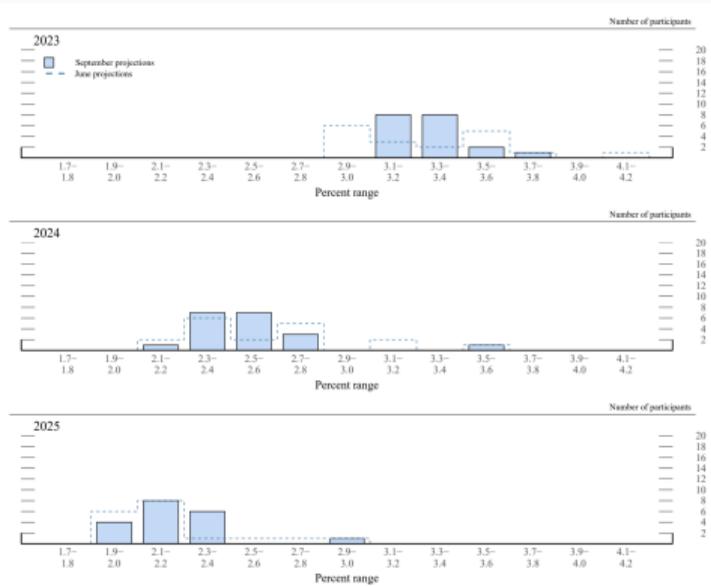
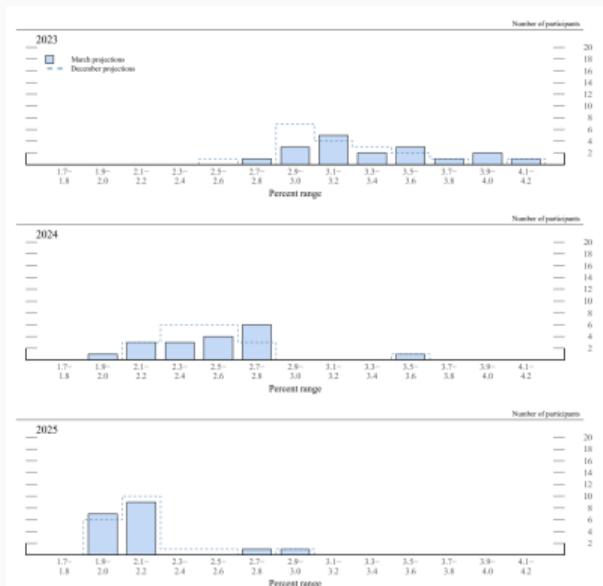
Fed as an example

- Repeat a billion times “2% target”
- Raise interest rates as long as FOMC does not see inflation in target

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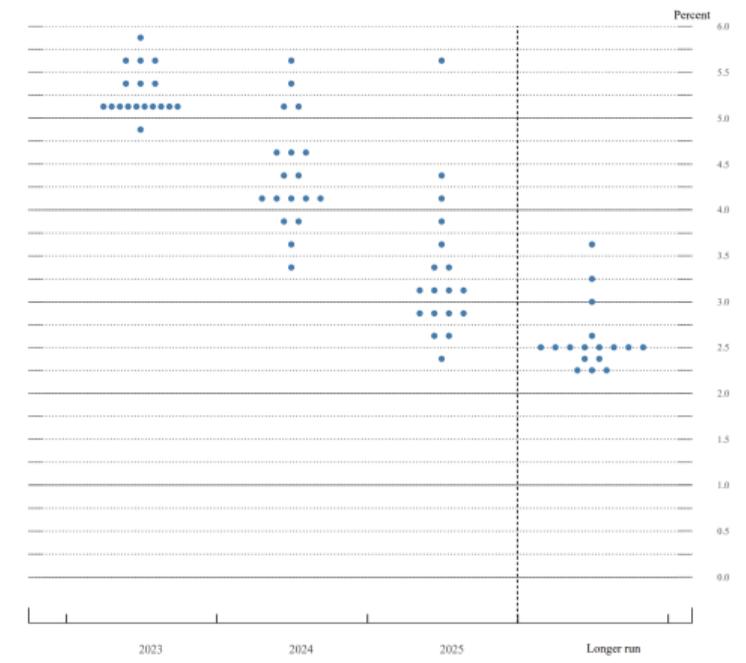


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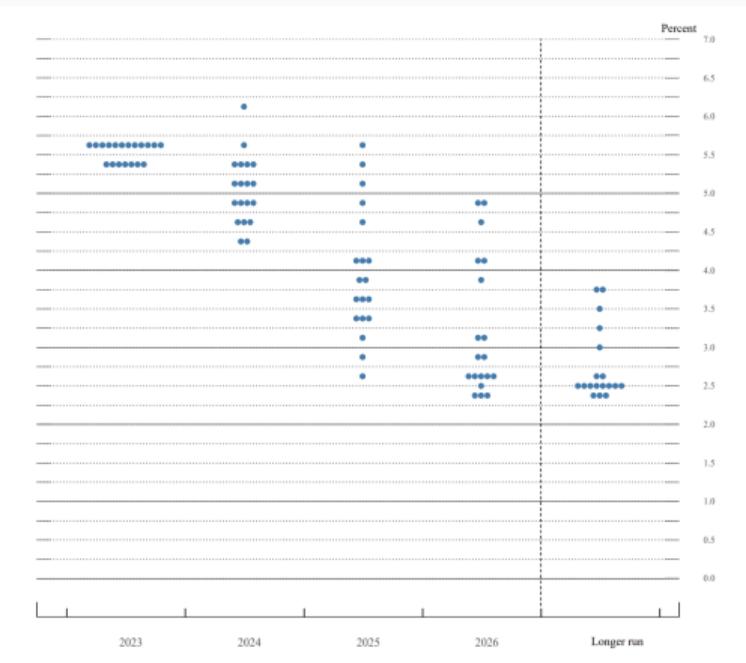
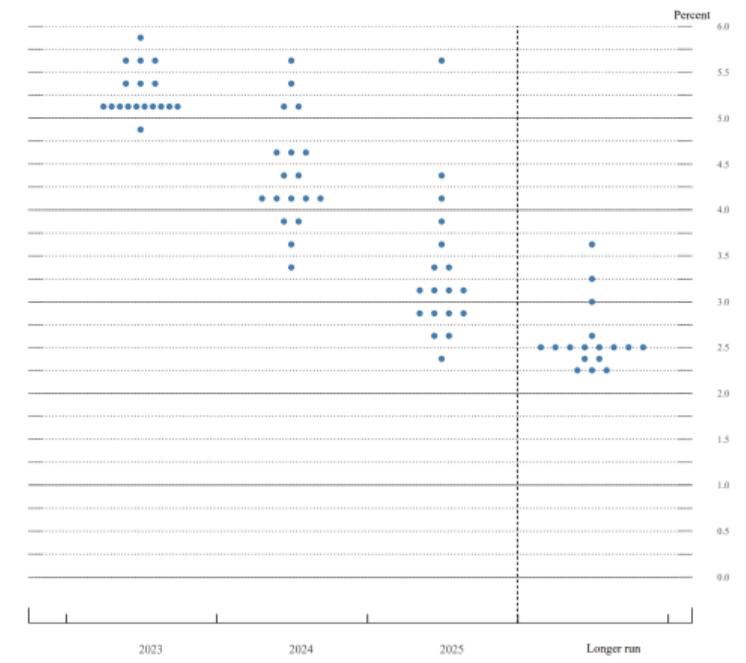
Fed as an example

- Repeat a billion times “2% target”
- Raise interest rates as long as FOMC does not see inflation in target
- Provide very indicative forward guidance on future rates

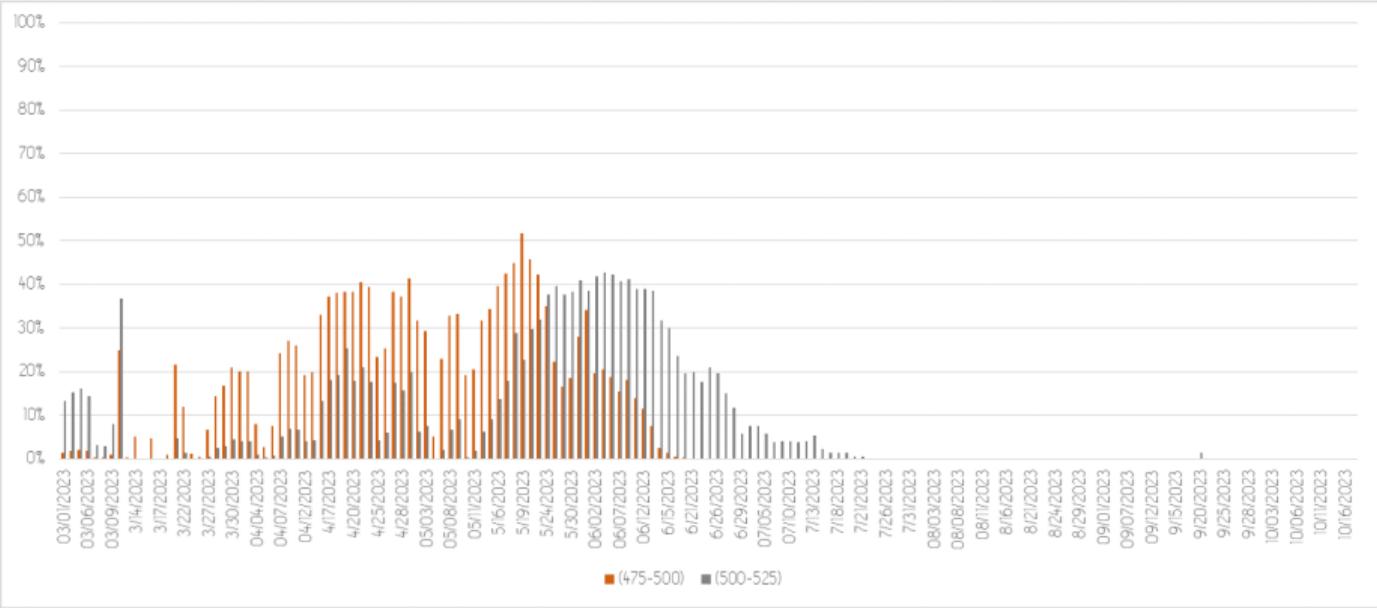
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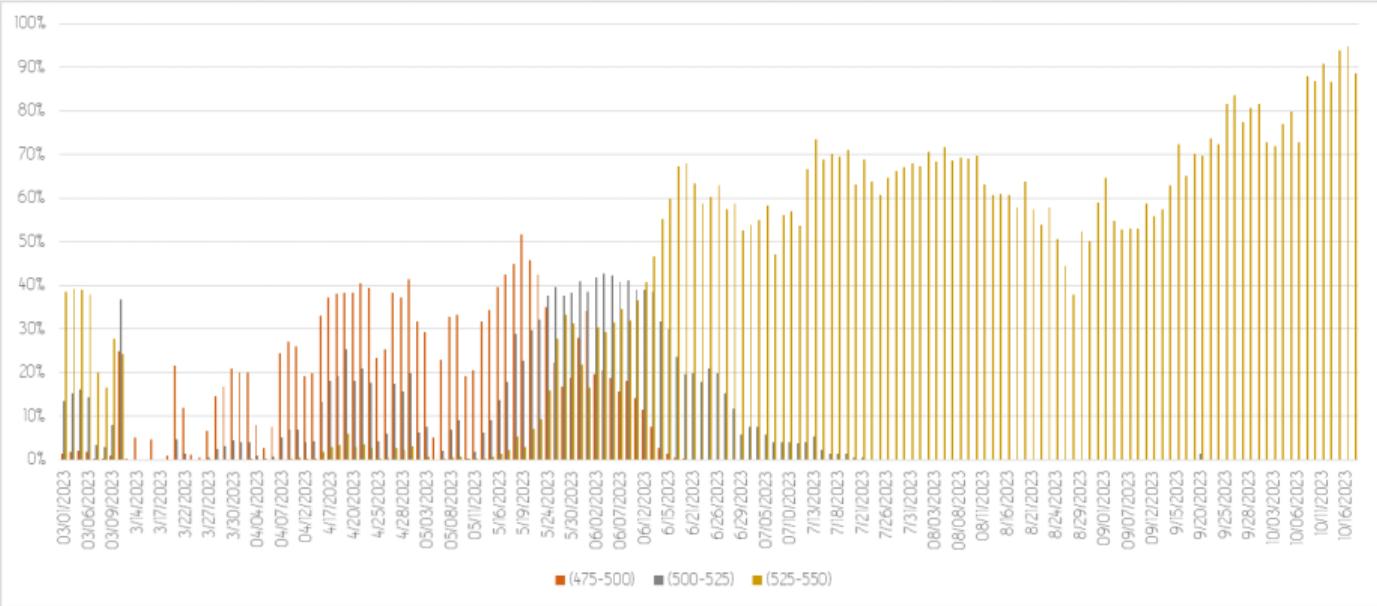
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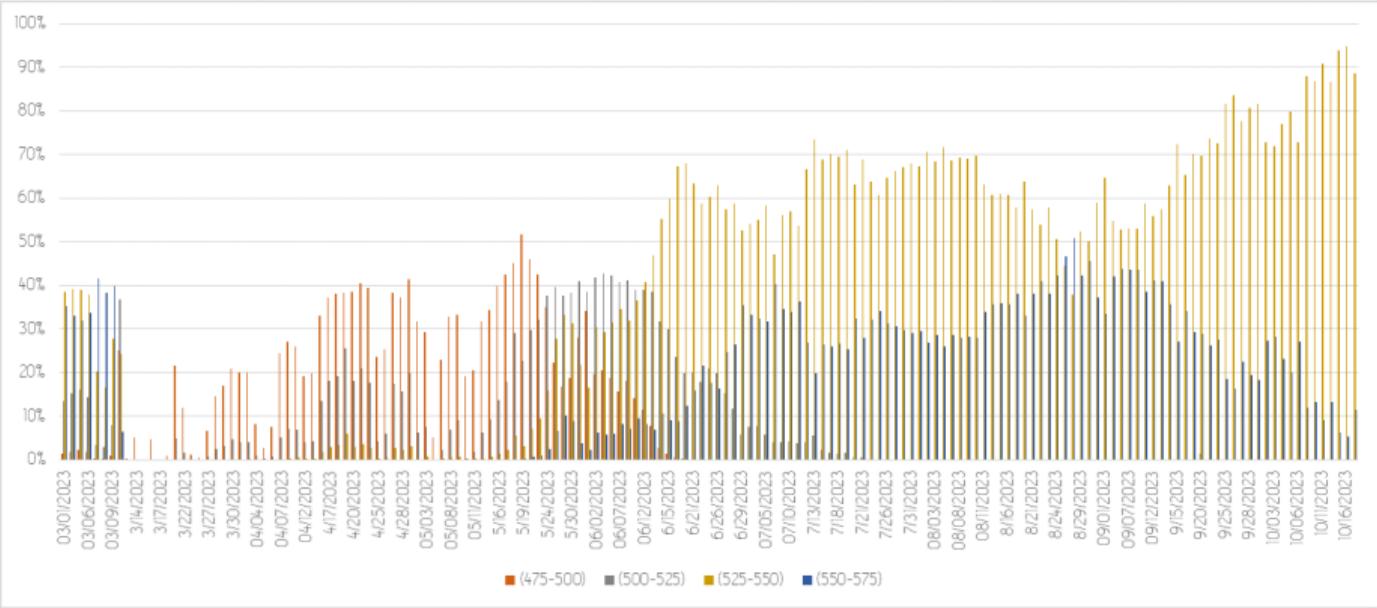
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## Hypothesizing?

- ECB & BoE face the same difficulties
- Too much faith in central bank?
- Even if we believe it very much, better not to try walking on water

**To conclude... the words of wisdom**

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*Greater openness might actually improve the efficiency of monetary policy [because] expectations about future central bank behavior provide the essential link between short rates and long rates. A more open central bank... naturally conditions expectations by providing the markets with more information about its own view of the fundamental factors guiding monetary policy [...], thereby creating a virtuous circle.*

**By making itself more predictable to the markets, the central bank makes market reactions to monetary policy more predictable to itself. And that makes it possible to do a better job of managing the economy.**



**Thank you for your attention!**

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