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PRESS RELEASE

Monetary policy communication in the wake of the great recession

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Transparency and openness of central banks have been given fresh impetus in the wake of the great recession. The clarity of the ECB's monetary policy communication does not seem to have been impaired by the complexity of the economic environment and policy decisions, but there is still considerable scope for progress.

"Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough." These few words spoken by Mario Draghi, the President of the ECB, in London on 26 July 2012 marked a turning point for the sovereign debt crisis confronting the euro area since the beginning of 2010. The ebbing of financial tensions that ensued is an excellent illustration of the importance of words in the current conduct of monetary policy.

Nowadays, central bankers more or less throughout the world make a specific point of explaining themselves and ensuring that they are clearly understood. Communication has been elevated to the position of a monetary policy instrument and is a major factor in the effectiveness of that policy. In addition, it is seen as a democratic responsibility of the central bank, which has been given a specific mandate and enjoys great independence in fulfilling it.

The transparency and openness of central banks regarding monetary policy is nothing new, but it has been given a boost in recent years in the wake of the great recession. In that context, this article aims to summarise the latest initiatives concerning communication by the Federal Reserve, the Bank of Japan, the Bank of England, and more particularly the Eurosystem. It also focuses on an aspect of central bank communication which is sometimes hidden but is no less important, namely its readability.

It is evident that the economic and financial crisis which erupted in 2008 prompted not only increased use of the existing tools but also the development of new means of communication. In addition, the crisis triggered a veritable revolution in the use of communication as a monetary policy instrument. Finally, it undeniably led to closer convergence in the way central banks conduct monetary policy and hence in their communication on the subject. Key events include in particular the announcement of a 2 % inflation target by the Federal Reserve and the Bank of Japan, and the ECB Governing Council's decision to publish accounts of its monetary policy meetings from January 2015.

Except in the case of the Federal Reserve, it seems that the readability of monetary policy committee statements was not impaired by the complexity of the economic environment and monetary policy decisions over the recent period. Communication by both the Bank of Japan and the Eurosystem would actually appear to have become a little clearer in recent years. These developments are reassuring since a proper understanding and correct anticipation form the foundation of a responsible and effective policy.

However, monetary policy statements are still not accessible to everyone, and there appears to be considerable scope for improving their readability. Indeed, in the case of the ECB Governing Council the Flesch-Kincaid index shows that the average number of years' education necessary for understanding the introductory statements with ease has stood at 14 since 2012. Although that is two years less than in 2006-2007, it is still well above the population's average number of years' education, which was 11.2 in the euro area in 2012. By way of comparison, it is worth noting that the latest State of the Union address by the US President Barack Obama in January 2015 scored 9.3 on the Flesch-Kincaid index.