



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Trust in central banks

Michael Ehrmann (ECB)

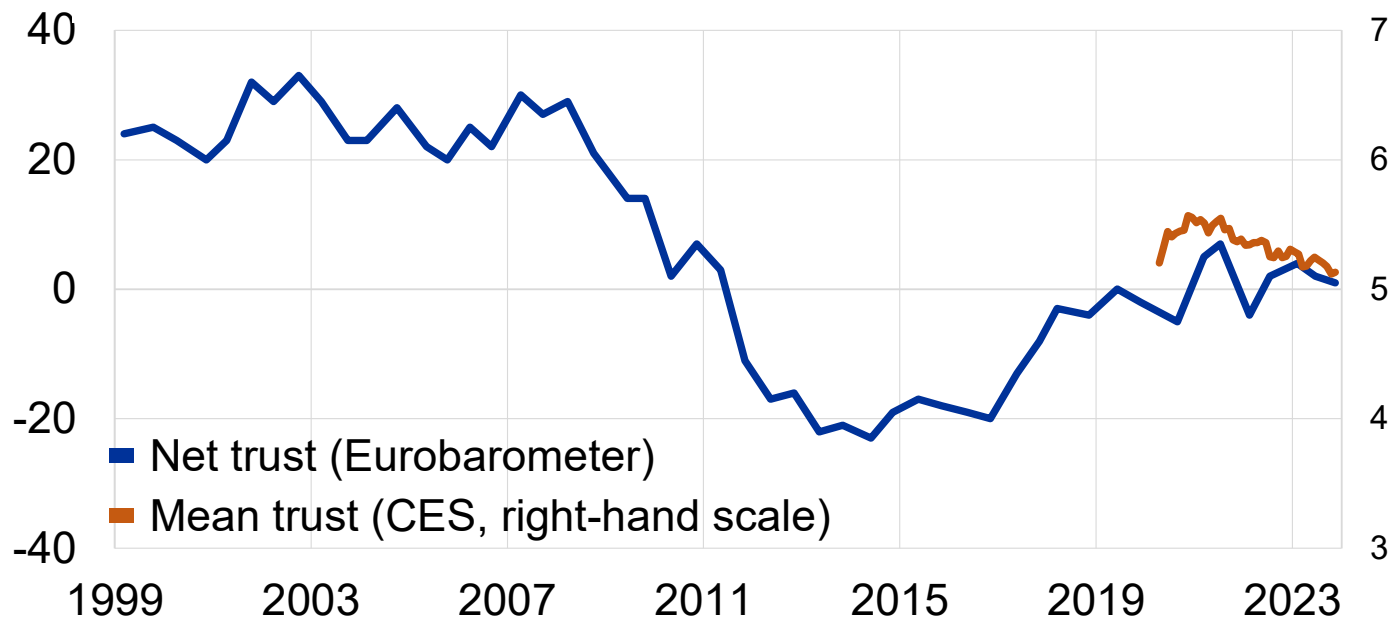
**RBA Annual Conference,  
10/2024**

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



# Motivation

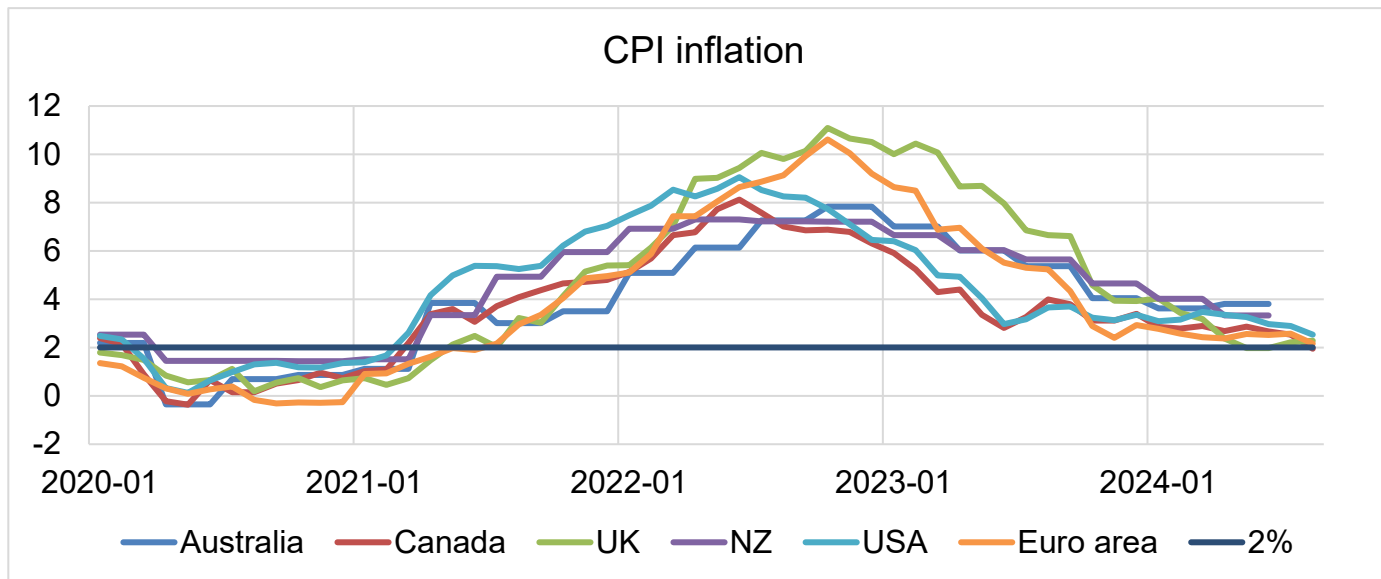
## Trust in the ECB



Sources: Standard Eurobarometer, ECB  
Consumer Expectations Survey.  
Reproduced from Dreher (2024).

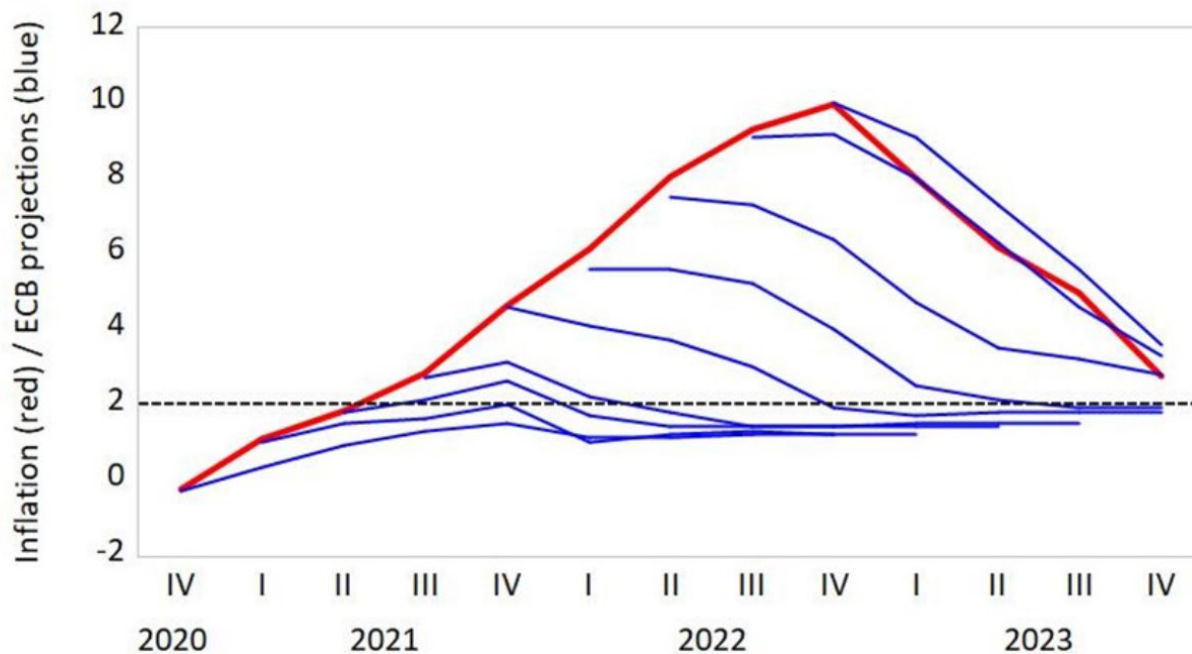
# Motivation

At least three recent challenges to trust: inflation surge



# Motivation

At least three recent challenges to trust: forecast errors



# Motivation

- At least three recent challenges to trust:
  - Inflation surge
  - Forecast errors
  - Exit from forward guidance

# This talk / paper

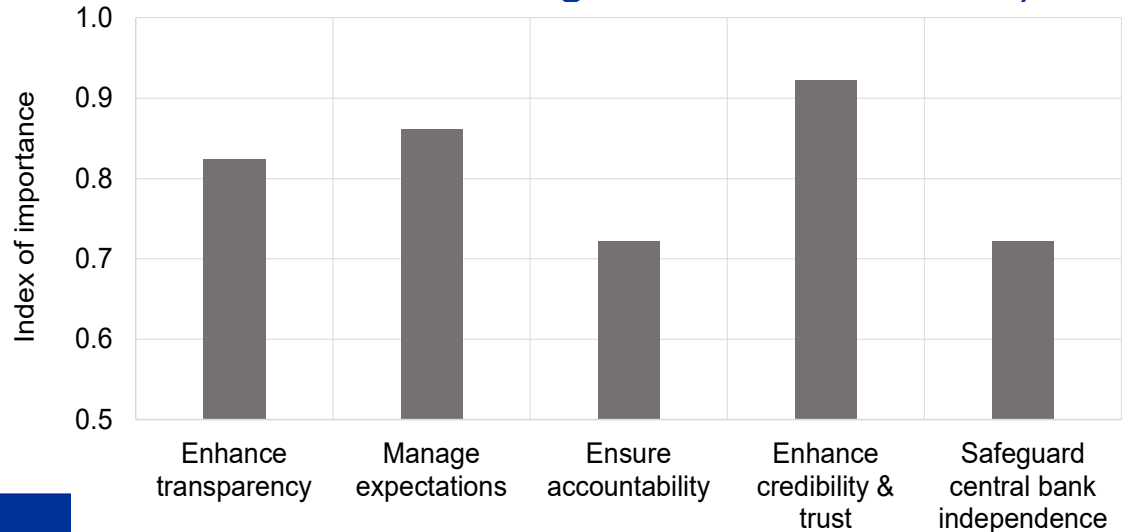
- 10 statements about trust in central bank, based on review of the literature
  - Why trust is important
  - What determines trust
  - How can central banks gain / rebuild trust
  - Measurement of trust
  - Future challenges for maintaining trust
- Trust, reputation, credibility (even satisfaction) at times used interchangeably

# 1: Trust and credibility are central to central banking

- RBA: “to be a world-leading central bank that is ***trusted*** for our analysis, service delivery and policies”
- BoC: “to be a leading central bank – dynamic, engaged, and ***trusted*** – committed to a better Canada”
- BoE: the Bank’s ability to achieve its mission “depends on public ***trust***, and a belief that we will demonstrate the highest standards of public service”
- Eurosystem: “in pursuing our objectives, we attach utmost importance to credibility, ***trust***, transparency and accountability”

# 1: Trust and credibility are central to central banking

- Trust is essential to banknotes, CBDC, financial stability and **monetary policy** (focus here)
- Enhancing credibility and trust main objective of monetary policy communication (survey of former ECB Governing Council members)





# 1: Trust and credibility are central to central banking

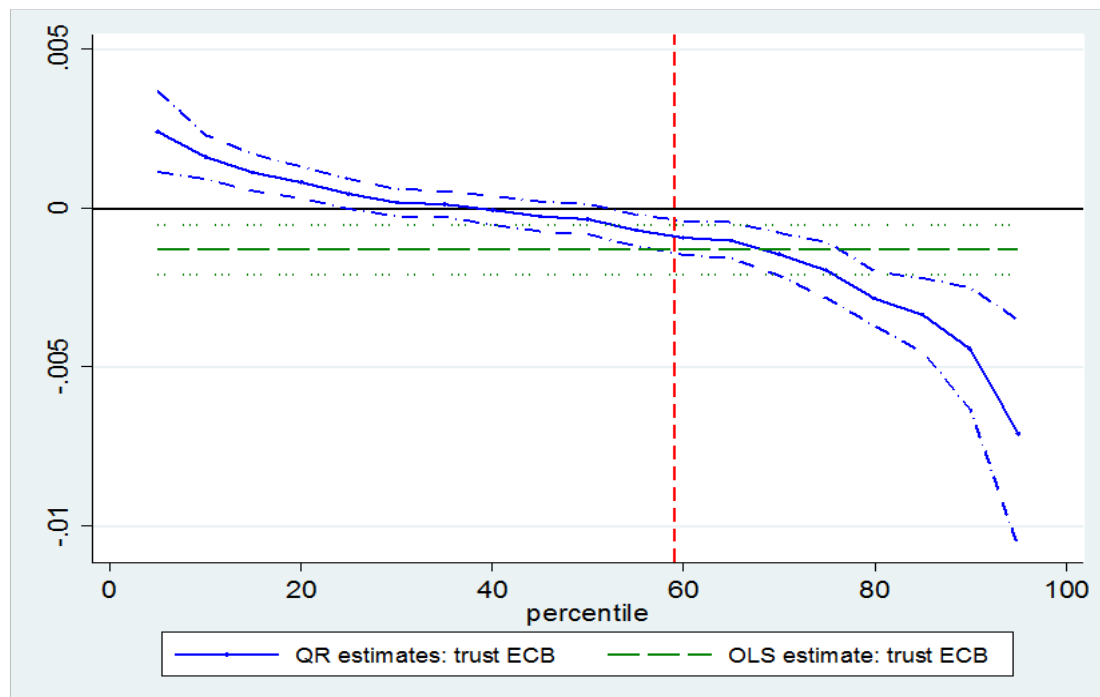
- Trust is essential to banknotes, CBDC, financial stability and ***monetary policy*** (focus here)
- Enhancing credibility and trust main objective of monetary policy communication
- Reasons to strive for credibility (survey among Governors, Blinder 2000)
  - Makes disinflation less costly
  - Helps keep inflation down once it is low
  - Makes defending the currency easier
  - Helps garner support for central bank independence

## 2: Trust, not popularity, matters

- Monetary policy has distributional effects, hence actions are at times unpopular
- Independence from government implies that CBs need to establish their own trust, possibly even in conflict with government
  - Bundesbank's path to independence
- Careful consideration of adopting more tasks, even if popular
  - Powell (2023): “it is essential that we [...] resist the temptation to broaden our scope to address other important social issues of the day. Taking on new goals, however worthy, without a clear statutory mandate would undermine the case for our independence.”
- Warsh (2010): “The only popularity central bankers should seek, if at all, is in the history books.”

### 3: Trust helps anchor inflation expectations and reduce uncertainty about future inflation

- Trust in the ECB raises (lowers) inflation expectations among individuals with low (high) inflation expectations



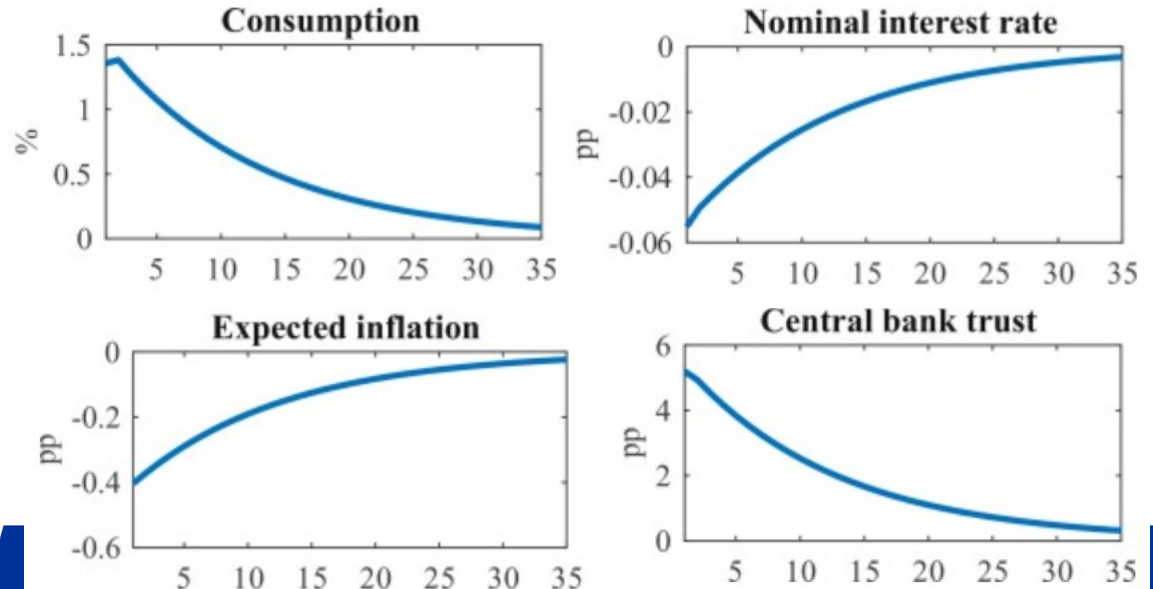
Source: Christelis et al. (2020).

## 4: Trust helps contain political pressure on the central bank

- Political pressure is frequent, mostly towards easing monetary policy (Binder 2021a)
- It affects financial markets and even consumers' long-term inflation expectations (Binder 2021b)
- Lower trust makes it more likely that political pressure on ECB is based on national growth performance (Ehrmann and Fratzscher 2011)
- “We are not able to make use of any public conflict with the Bundesbank: public opinion would not stand on our side.” Helmut Schmidt, May 1974

## 5: Trust facilitates the achievement of the central bank objective

- Lower trust amplifies business cycle fluctuations
  - Agents trust (or not) CB's anti-inflationary policy stance based on past policy outcomes
  - Lower trust increases risk aversion of private agents and weakens monetary transmission



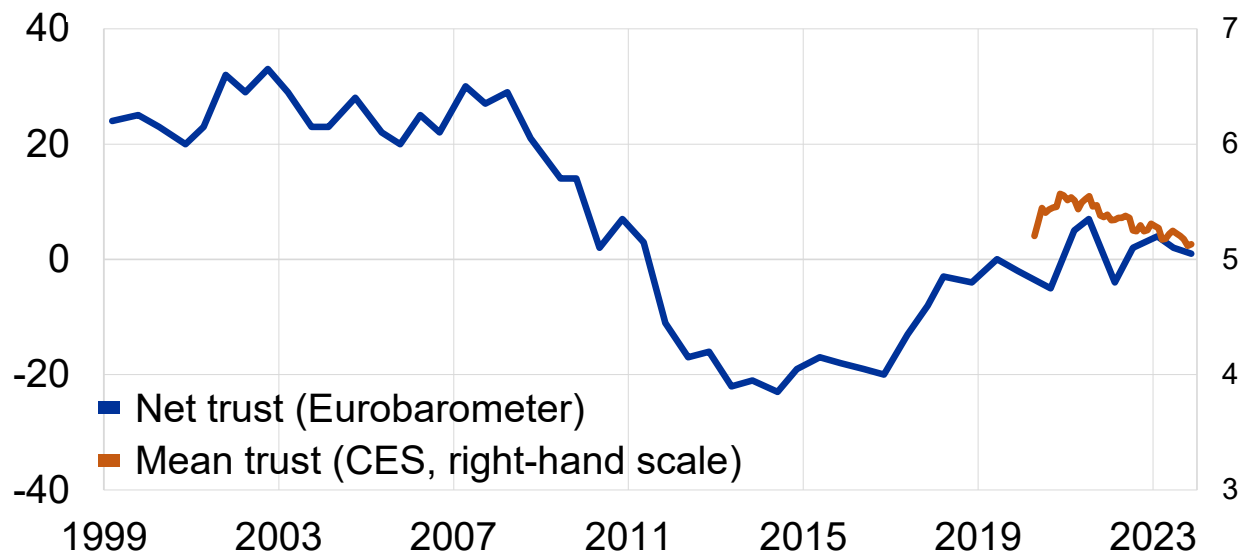
Source: Bursian and Faia (2018), impulse responses to a positive trust shock.

## 6: Trust is determined by many factors, some of which lie outside the central bank's control

- Socio-demographics matter (age, education, gender, employment status, political orientation,...)
- Several macro developments matter more than inflation (e.g. Bursian and Fürth (2015): GDP growth, unemployment, government debt, bond spreads)
- Important role for crises
  - GFC: severity of banking sector's problems explains national variation in loss of trust in ECB (Ehrmann, Soudan and Stracca 2013)
  - Covid: Trust in ECB lower for respondents who reduced their working hours (van der Cruijssen and Samarina 2023)

## 7: Trust is more easily lost than gained

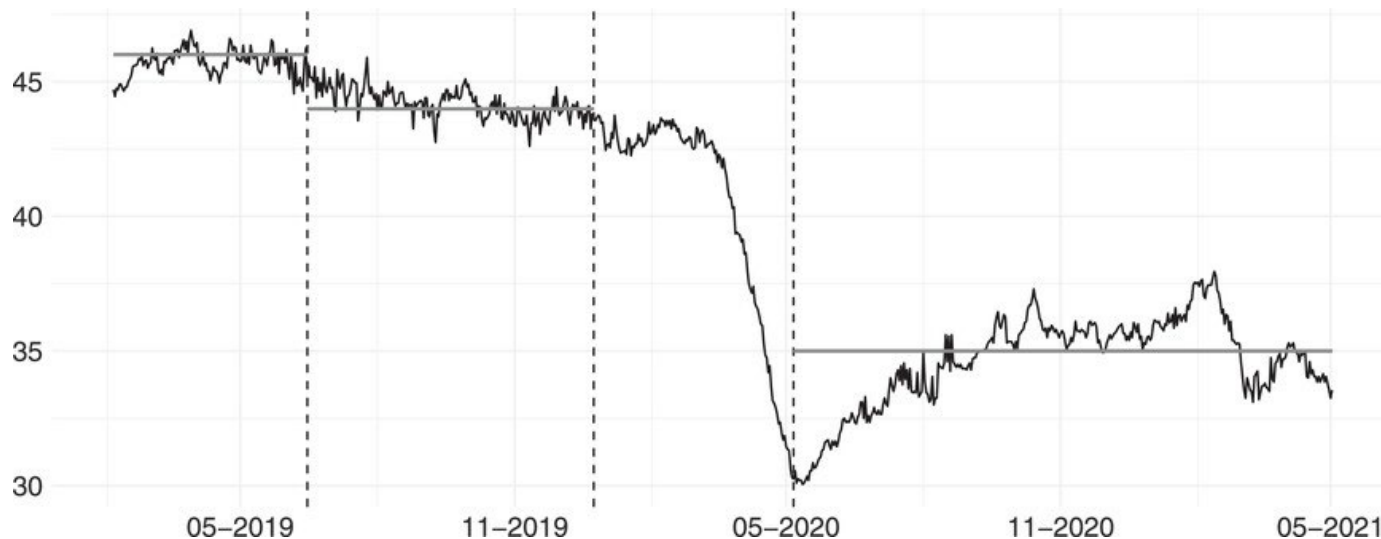
- Shocks to uncertainty can induce sharp deterioration in trust; recovery slower than growth recovery (Istrefi and PiloIU 2020)
- Trust in the ECB
  - Eurobarometer, CES



Sources: Standard Eurobarometer, ECB Consumer Expectations Survey. Reproduced from Dreher (2024).

# 7: Trust is more easily lost than gained

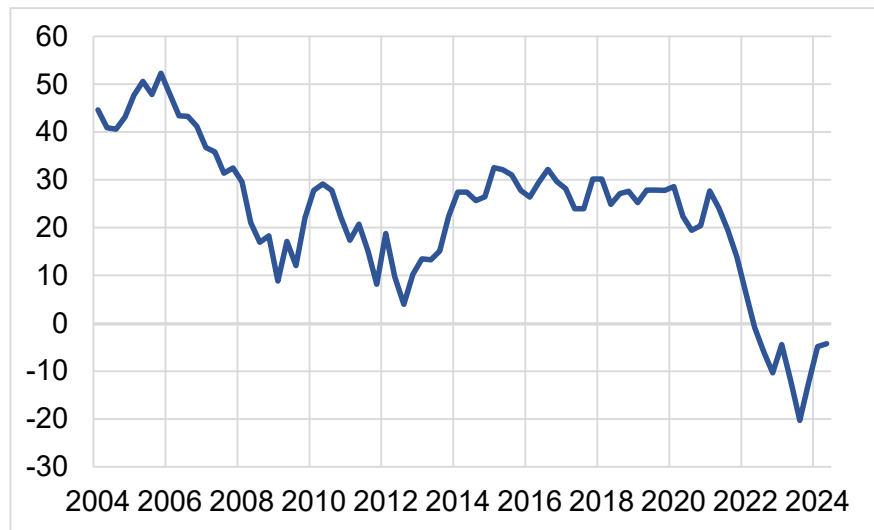
- Trust in the ECB
  - Consumer inflation expectations





## 7: Trust is more easily lost than gained

- Satisfaction with the Bank of England

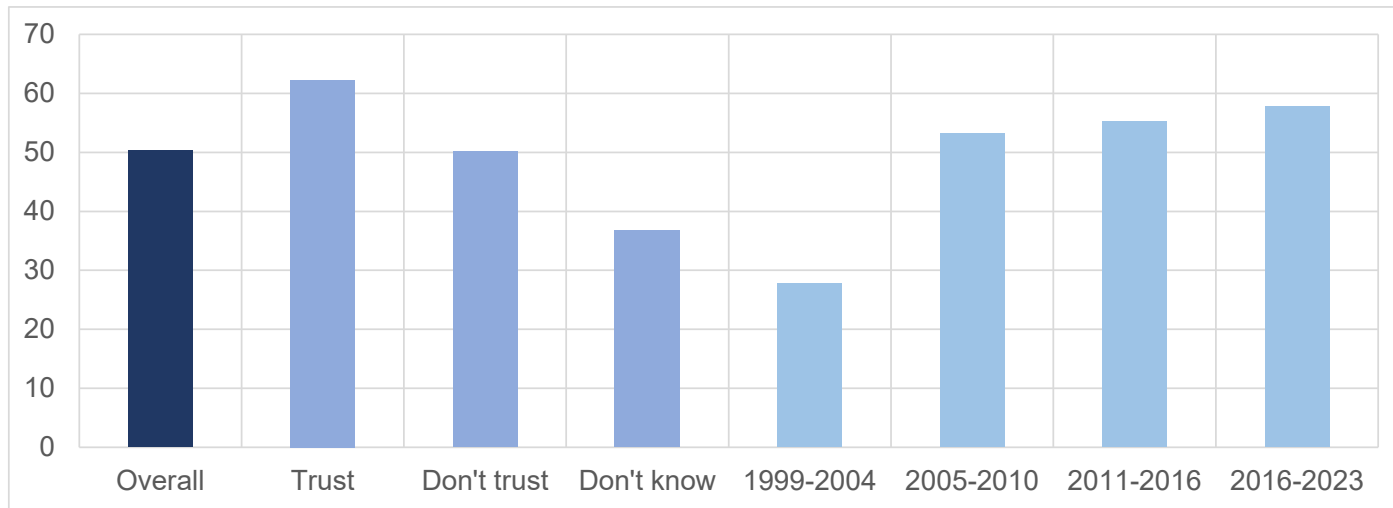


## 8: To monitor trust, it needs to be measured; this is not straightforward

- Via inflation expectations or direct questions to professionals, firms, HHs
- Different measurement / aspects
  - “Do you tend to trust or not to trust the ECB?” (Eurobarometer); “How much do you trust the ECB?” (CES)
  - “How likely do you think it is that the ECB will maintain price stability in the euro area economy over the next 3 years?” (Ehrmann, Georgarakos and Kenny 2024)
- Order of questions matters; trust is lower once respondents reflect on the institution (Angino and Secola 2022)
  - Net trust at different stages of the interview: 60% - 58% - 57%
  - Result driven by respondents with little perceived knowledge

## 8: To monitor trust, it needs to be measured; this is not straightforward

- Questions about other institutions – excess correlations?
  - CES: EU factor and central bank factor (Dreher 2024)
  - Share of Eurobarometer respondents with identical answers for trust in 4 EU institutions



## 9: There are ways to enhance trust

- Deliver on the mandate
- Focus of communication usually on competence; expand focus on values (integrity, honesty, caring; Eickmeier and Petersen 2024)
  - ECB’s “mea culpa” on inflation projections
  - RBA review of forward guidance
- Enhance financial literacy and central bank knowledge
  - Relatable messages (Bholat, Broughton, Ter Meer, and Walczak (2019))
  - Conceptual, not semantic simplicity (McMahon and Naylor 2023)
  - Provide explanations (Ehrmann, Georgarakos and Kenny 2024)

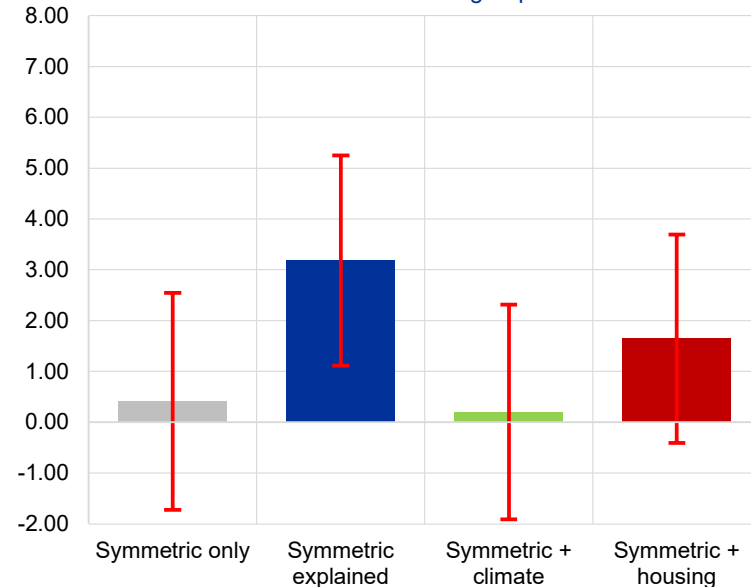
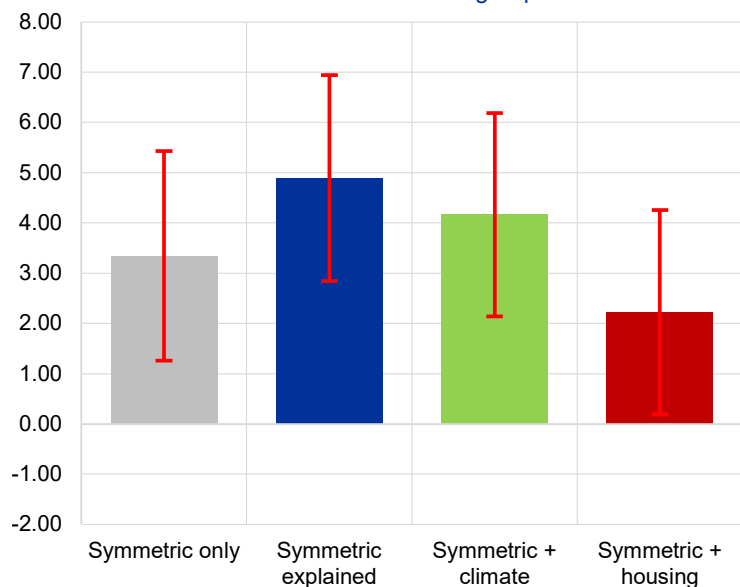
# 9: There are ways to enhance trust

## High financial literacy

## Low financial literacy

Effects on the likelihood that the ECB delivers price stability (in p.p.) relative to control group

Effects on the likelihood that the ECB delivers price stability (in p.p.) relative to control group



## 10: Several developments will make it more challenging to maintain trust going forward

- Large and persistent supply shocks might become more frequent
- Rise in polarisation and populism
- Increasing relevance of social media
- Increasing threats of mis- / disinformation
- Broader central bank mandates

# Conclusions

- Trust is central to the conduct of monetary policy
- Trust has declined in recent years
- Trust can fall precipitously, but is much harder to rebuild
- Maintaining or rebuilding trust might become more challenging
- Central banks should
  - Enhance measurement and monitoring of trust
  - Strengthen (and improve!) communication with the general public

Thank you!

---