"20 Years of Central Bank Communication – Lessons Learned"

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This paper provides a thoughtful reflection on the evolution of central bank communication to the general public over the past two decades. It highlights eight key lessons, which I will briefly summarise below.

With rising public demand for information (Lesson 5), effective communication has become a crucial pillar underpinning the success of monetary policy. It is increasingly recognised that public confidence and trust in central banks enhance the understanding of policy communications (Lesson 1). Although trust cannot be taken for granted (Lesson 8), central banks can build and maintain trust and credibility by active listening to the public (Lesson 7), and acknowledging uncertainty in their communications (Lesson 3). Additionally, central banks can enhance understanding of their policy message by communicating to the public in a relatable manner (Lesson 6), focusing on clearly communicating achievable mandates (Lesson 2), and ensuring that commutation during economic crises is more direct and responsive (Lesson 4).

From the perspective of the public, central bank communication can be seen as a classic signal extraction problem. Its effectiveness hinges on two key questions: 1) Am I informed by the central bank (is there a signal)? And 2) To what extend do I adjust my views based on the policy message (how do I update my expectations)? The decision to update prior belief upon hearing policy communications depends on understanding the policy message and the broader policymaking process, as well as the level of trust of the central bank. Without understanding the policy message, extracting useful information becomes difficult. Even with understanding, a lack of trust may lead to very little weight will be placed on policy messages when updating one's prior beliefs.

I will discuss the lessons outlined by Jill through the lens of the newly established Business Outlook Scenarios Survey (BOSS). The BOSS survey collects monthly data from 500 Australian businesses on their scenario outlooks regarding key aspects of both the broader macroeconomy and their own operations. From this we can quantify business expectations and their underlying perceptions of uncertainty.

In addition to data on business expectations and uncertainty, the survey also asks businesses whether they had heard any business conditions news in the past month and if so what they had heard. Figure 1 shows that in September 2024, 39 percent of Australian businesses reported hearing news about monetary policy, while about 70 per cent had heard news about the broader macroeconomy. This gap demonstrates the

challenge central banks face in reaching the general public -- a well-recognised global issue, with Australia being no exception.
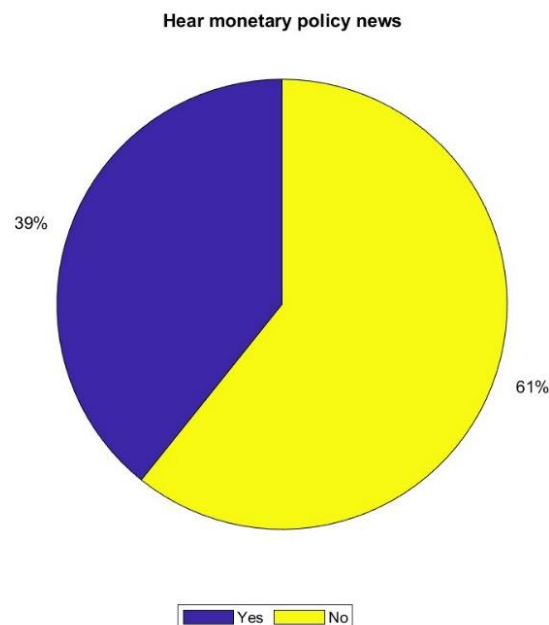
Hear monetary policy news

Figure 1: Proportion of business that heard monetary policy news in the last month

For businesses that had heard monetary policy news, Figure 2 reveals that the vast majority received this news through traditional media, with social media playing very little role. This may reflect a preference for traditional media as a source of monetary policy news or may indicate the lack of the Bank's active presence on social media platforms. Engaging audiences on social media may require central banks to be more creative in creating content, as demonstrated by the Bank of Jamaica's innovative use of reggae tracks to explain inflation. While research on central bank communication via social media is still in its infancy, early evidence suggests the public responds to such communications (eg: Ehrmann and Wabitsch, 2022), though engagement tends to be media professionals and economists (eg: Gorodnichenko et al, 2024). The challenge remains in communicating policy messages in a precise, yet simple and relatable way without losing policy nuance.
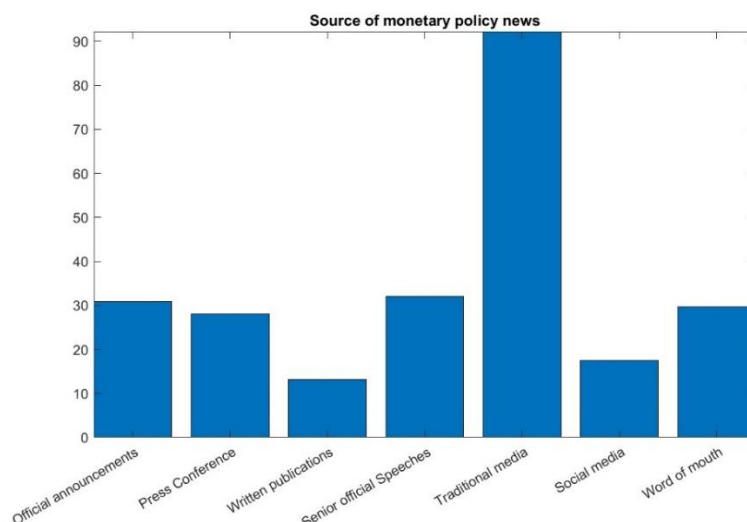
Figure 2: Source of monetary policy news

Would exposure to monetary policy communications makes a difference? Evidence from an emerging academic literature using randomized control trials (RCTs) suggests that information of monetary policy can change public expectations (eg: Coibion et al, 2022), and changes in expectations can lead to change of economic decisions (eg: Coibion et al, 2020). Figure 3 shows that Australian businesses that reported hearing monetary policy news on average tend to have lower inflation and cash rate expectations across forecast horizons compared to those that did not. While establishing causality requires RCTs with information treatments, Figure 3 is consistent with existing literature on central bank communications and public expectations.
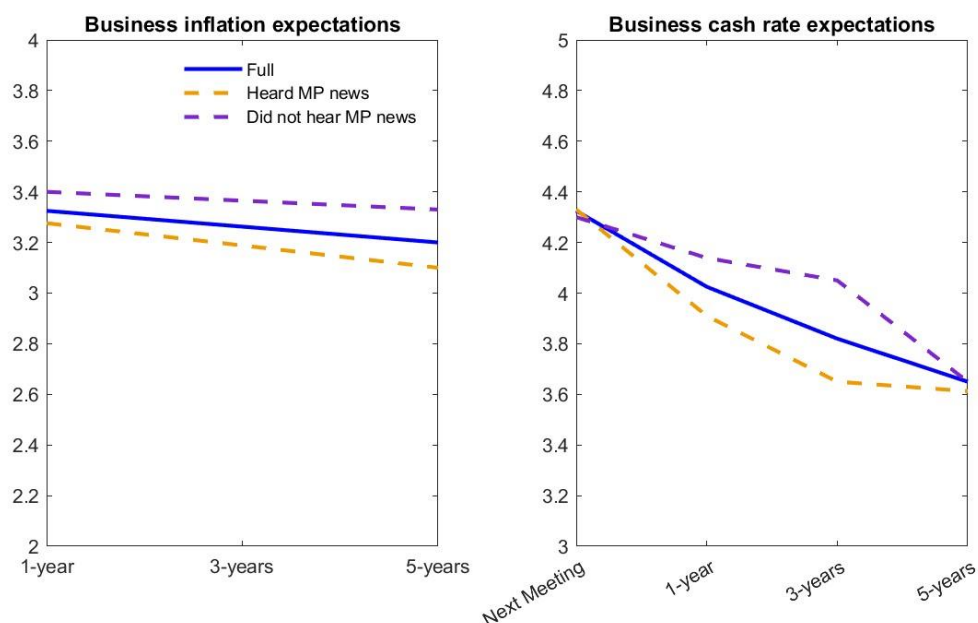

Figure 3: Monetary policy news exposure and term-structure of expectations

As part of assessing economic and financial literacy, we ask respondents to identify the primary target the RBA uses to achieve its mandates. If they select inflation, we interpret this as a broad understanding of monetary policy. Although empirical evidence shows knowledge of central bank around the global is generally limited (eg: Binder, 2017), most Australian businesses correctly identify the RBA as an inflation-targeting central bank. Figure 4 shows that respondents who lack this understanding of monetary policy are associated with higher inflation and cash rate expectations, although the difference is modest. This is consistent with Haldane and McMahon (2018), who shows knowledge of monetary policy is associated with lower inflation expectations. Their work also found that a 'layered' communication approach by central banks can enhance understanding of the policy message, with effects larger than having studied economics at university. Haldane et al (2021) propose the 'Three Es' framework to central bank communications: Explanations, Engagement and Education—as a way for central banks to improve public knowledge and trust.
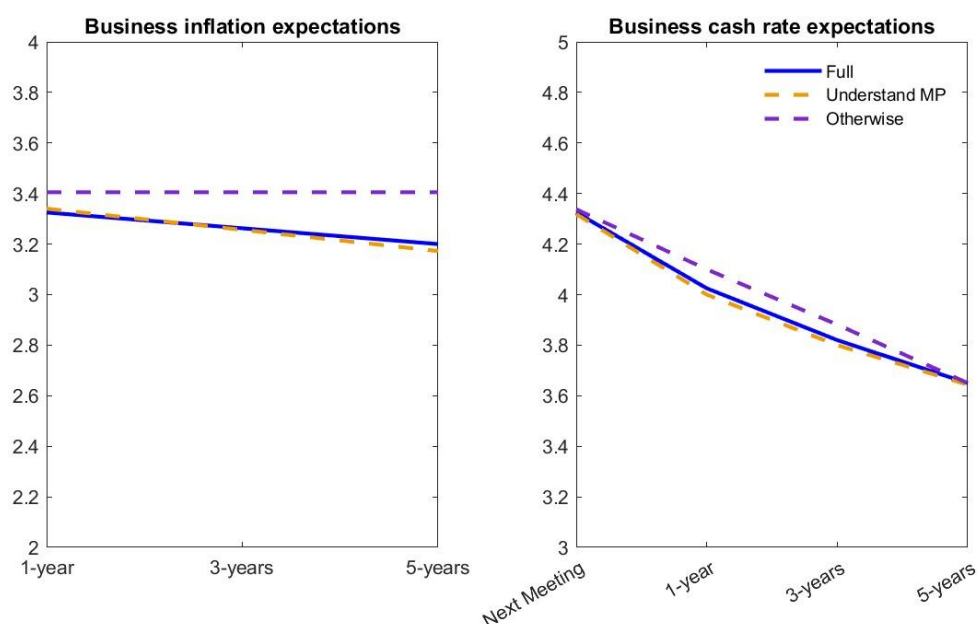

Figure 4: Knowledge of monetary policy and term-structure of expectations

Trust in the central bank may encompass many dimensions, and early evidence suggests that individuals who trust the central bank reports inflation expectation closer to the central bank's target (eg: Christelis et al, 2020). In our survey, we ask how certain the respondent is that the RBA will meet its 2-3% CPI inflation target over the next five years. Respondents can choose options ranging from very certain, rather certain, neither certain nor uncertain, to rather uncertain and very uncertain. If we broadly interpret those who are very certain or rather certain as having 'trust' in the central bank's ability to meet its medium-run inflation target, Figure 5 shows that these respondents tend to have significantly lower inflation and cash rate expectations,

especially over the 5-years horizon which falls within the RBA's medium-run inflation target.
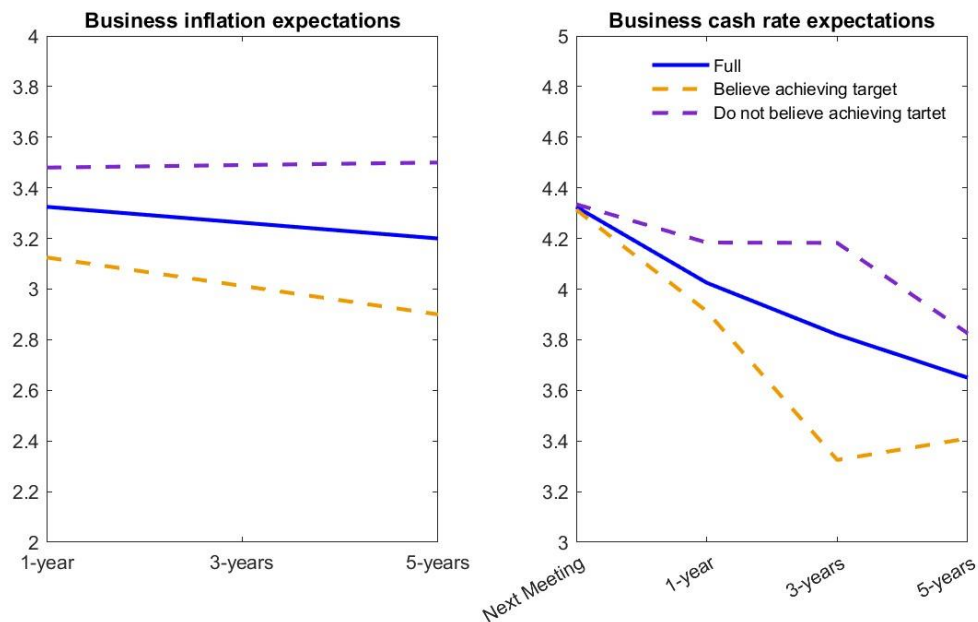

Figure 5: Confidence in achieving medium-run inflation target and term-structure of expectations

Jill's paper highlights ways in which central banks can foster public trust through active engagement, but trust must be reinforced by aligning words with actions. Figure 6 shows the percentage of respondents who 'trust' the central bank to achieve the medium-run inflation target, plotted against the monthly headline CPI inflation rate. As inflation has declined over the past four months, the proportion of respondents expressing trust in the RBA has increased, suggesting that in this case, actions may speak as loudly as words.
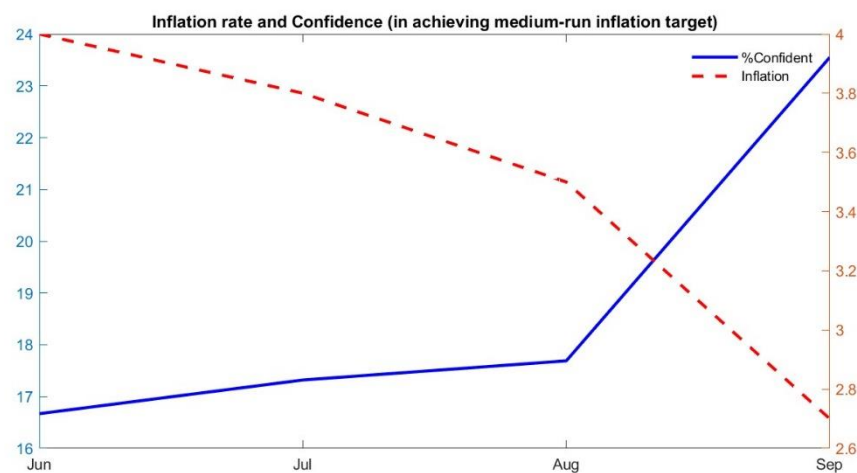

Figure 6: Headline inflation rate and percentage of business trust in RBA achieving medium-run inflation target

In conclusion, evidence from Australian businesses aligns with the lessons discussed in Jill's paper and the broader academic literature. Communication effectively with the general public remains a complex task for central banks. While significant progress has been made over the past 20 years, drawing from both a growing body of literature and practical experience, however, as Jill notes, "we haven't reached the end of the history yet."

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