

General Discussion of 'Lessons for Monetary Policy Communication: Communication, Getting Through and Expectation Formation'

The discussion centred on the challenges associated with central bank communication, with particular emphasis on conveying reaction functions and assessments of the state of the economy. A participant noted that while modelling reaction functions may appear straightforward in theory, in practice, central banks must navigate various trade-offs, particularly when policy rates approach the zero lower bound. Another participant observed that market participants tend to grasp the central bank's reaction function only once action, such as interest rate changes, is implemented.

On forward guidance, a participant noted that it may pose challenges if not communicated with sufficient clarity. There was consensus that central banks should clearly communicate their economic assessments, emphasising the associated uncertainties and trade-offs. However, participants cautioned against projecting undue certainty, as this could undermine credibility.

There was also discussion on the relative importance of central bank communication targeting expert versus non-expert audiences. Participants agreed that while experts are harder to influence, their understanding is crucial to the transmission of monetary policy, and their communication can significantly impact public perception. Conversely, non-experts' views are typically less fixed and therefore central bank communication can have a bigger impact, however reaching non-experts can be challenging and resource intensive. A two-stage transmission mechanism was identified in most countries, where central banks communicate primarily with experts, who then convey the messages to the broader public. Participants agreed that the relative importance of targeting experts versus non-experts will depend on the efficiency of this two-stage mechanism.

The discussion also addressed whether central bank communication and policy rates are complements or substitutes, with the consensus being that the relationship depends on the situation. In some cases, clear communication can substitute for rate changes, as demonstrated during the Greenspan era when the Federal Reserve used communication to manage expectations without altering rates significantly.