

## **Discussion by Marianne Sturød of “The Evolution of Monetary Policy Communication”**

Thank you for the opportunity to comment on Michael's paper. Having worked on monetary policy communication at Norges Bank for several years, I found it insightful to hear external perspectives on the evolution of central bank communication. I can relate to much of what was discussed. In my remarks, I will share some reflections on how I, as a central banker, have followed this development and how we have worked on improving the communication of monetary policy at Norges Bank.

### *Good communication improves the effectiveness of monetary policy*

Over the past 25-30 years, there have been significant changes in central bank communication. Previously, central banks were more focused on surprising the market rather than being predictable. The little information that was communicated about monetary policy was often cryptic and vague. This changed with the adoption of inflation targeting, making expectation management crucial. Transparency and predictability help market participants, households, and firms make informed decisions, enhancing monetary policy effectiveness.

Transparency also helps build trust and credibility. To ensure that an independent central bank performs its mission well, there must be transparency about the decisions and assessments made by the central bank.

Norges Bank has long embraced transparency, publishing a broad set of forecasts in our Monetary Policy Reports, including our own forecasts for the policy rate (since 2005). For a long time, our primary focus was on communicating with market participants and macro analysts, often using technical language.

Post-financial crisis, central bank communication shifted towards clarity and accessibility for broader audiences. For some central banks, it was probably about restoring confidence in the financial industry. Research<sup>1</sup> also showed that for monetary policy to be more effective, the information needed to be understood by a larger proportion of the population.

### *We need to adapt our communication to our target audience*

At Norges Bank, we began producing simplified versions of our Monetary Policy Reports (“In short”) and creating more accessible web content. Since then, we have continually worked on enhancing our communication to provide more open, clear, and understandable information.

In the Bank's latest strategy, “Strategy 25”, being “transparent, clear, and accessible” is identified as one of the key preconditions for succeeding in our missions (chart 1). We emphasize tailoring our communication to our target audiences.

All new signals about monetary policy are presented in conjunction with our eight interest rate meetings. The core product for conveying monetary policy is our Monetary Policy Report, and the press conferences. Although we have tried to simplify the language in the Monetary Policy Reports, they are still mainly read by market participants, macro analysts, economic journalists, some academics, and economics students.

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<sup>1</sup> For example [Binder \(2017\)](#), [Haldane and McMahon \(2018\)](#) and [Coibion et al. \(2018\)](#)

## We need to adapt our communication to our target audience

### Norges Bank's «Strategy 25»:

*A transparent, clear and accessible central bank*

- We will adapt our communication to our target audience.
- We will invite dialogue and listen to input.
- We will participate in the public debate in areas important to us by, among other things, explaining our views and responding to questions and criticism.



The Governor and the Deputy Governor also deliver nationwide speeches to diverse audiences, using simpler language to explain economic developments and policy decisions. The aim is to reiterate, explain, and elaborate on the messages from our Monetary Policy Reports.

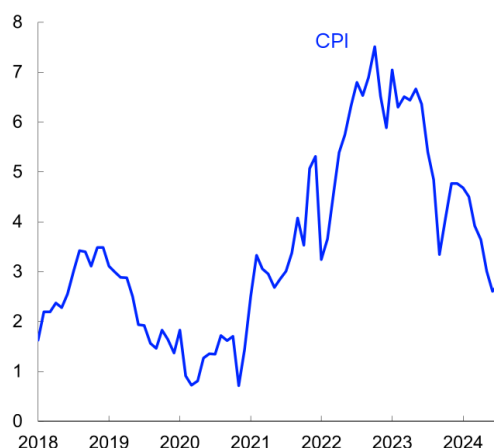
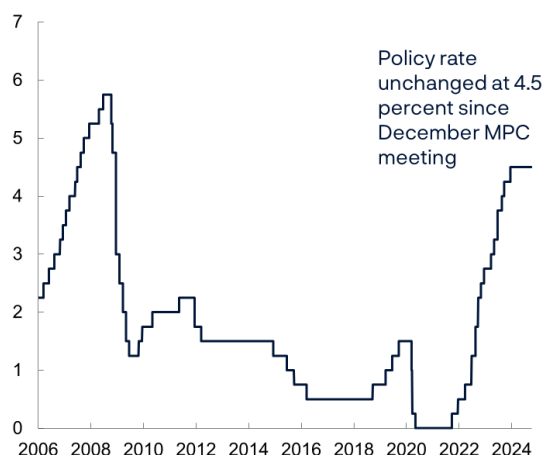
In recent years, there has been significant media pressure, and more criticism of monetary policy than we are used to. This must be seen in conjunction with the fact that inflation in Norway – like in many other countries – surged in the spring of 2022, reaching its highest levels in decades (chart 2).

To curb inflation, the key policy rate was raised from zero during the pandemic to 4.5 percent. In Norway it is common to own one's home, and above 90 percent of mortgages are at floating rates. Changes in the policy rate thus have a significant impact on household cash flows.

## Recent events have highlighted the need for effective communication

Sources: Statistics Norway and Norges Bank

Norges Bank's policy rate and the Consumer Price Index in Norway (y/y). Percent



Criticism emerged from politicians, economists, and the public, with many arguing that the interest rate was raised too quickly and by too much. Some argued that inflation would subside on its own. However, I would like to mention that there has also been considerable support for the policy. For Norges Bank, it has been crucial to become more accessible to the public in order to explain and justify the monetary policy decisions. In the autumn of 2022, we began holding press conferences for all monetary policy meetings, not just those where the Monetary Policy Report was published. The Governor's introductions at the press conferences were written in clear and simple language to make the message more accessible to the public. We emphasized that the policy rate was raised to bring down inflation and explained that high and variable inflation has significant costs for society, particularly affecting those with low incomes. It was important to acknowledge that the steep series of interest rate increases has a cost while – at the same time – conveying that the alternative would be worse. During this period, the Governor has also given more 1-on-1 interviews with the media.

*To what extent have we succeeded with our communication?*

We have an ongoing discussion about our target groups. Who should we aim to reach, and how can we effectively reach them? Our experience is that our message is well understood by market participants, and we generally receive good media coverage. However, it has become more challenging to navigate the information flow. In the past, a few leading newspapers and news channels dominated news dissemination, but now information is spread across many different platforms.

Measuring the effectiveness of our communication is not straightforward. Therefore, since 2022, we have conducted a small annual survey to assess the public's understanding of the economy and monetary policy, as well as their trust in Norges Bank and its decisions.<sup>2</sup>

The survey shows us that a large share of the population understands that maintaining low and stable inflation is the primary objective of our monetary policy.

Many people also recognize that we have raised the interest rate to combat inflation. However, the follow-up question revealed that only half of the respondents believe higher interest rates will actually help reduce inflation. A significant share of the population even thinks that inflation will continue to rise.

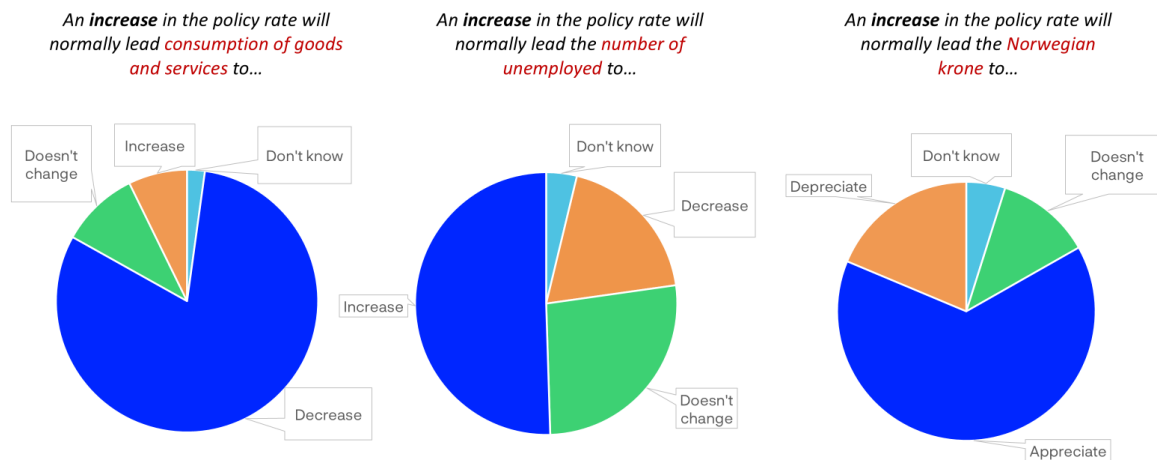
Initially, this was quite surprising, but there are possible explanations. Firstly, people have observed simultaneous increases in inflation and interest rates, and many may not be aware that interest rates operate with a time lag. Secondly, a debate exists where some people—including some economists—argue that higher interest rates can drive up inflation, citing increased rents or higher costs for businesses as examples.

We also asked respondents how they thought higher interest rates would affect other economic variables. Many demonstrated fairly accurate knowledge in this area. Most expect that higher interest rates will curb consumption, increase unemployment, and strengthen the krone exchange rate (chart 3).

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<sup>2</sup> Annual survey included as special theme in Norges Bank's quarterly Expectations Survey, first time in Q3 2022.

## Effect on economic variables from an increase in the policy rate



As regards our communication, most respondents had, over the past year, read, seen, or heard a news story about Norges Bank's decision on the policy rate. Most believed that the information came from someone working in the Bank, likely the Governor. The good news is that a large share of respondents thought that interest rate changes are explained in an understandable way.

If people find it difficult to understand our message, it is even more crucial that they trust the institution. Over time, various reputation surveys have shown that people have a high level of trust in Norges Bank. This means that people can have confidence that we make good decisions, even if they do not understand the rationale behind them.

The survey results indicate that while confidence in Norges Bank as an institution has slightly decreased in recent years, it remains high. Over 80% of respondents report having a high or fairly high level of trust in Norges Bank. An equally high proportion says they have confidence that the Bank will make policy rate decisions that are in the best interests of society and the Norwegian economy.

To conclude, people in Norway seem to have a substantial understanding of the objectives of Norges Bank, monetary policy, and how the economy works. Although trust in Norges Bank remains high, it has slightly declined. It is perhaps not surprising that confidence is falling somewhat during a period of sharp interest rate increases. But these findings underscore the need of continuing to improve our communication. We can never take trust for granted.

Thank you!