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25/09/2023 11

Comments on: A KISS for central bank communication in times of high inflation

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Highly relevant paper (1)

- Inflation is much above target. Key question is whether communication can help steering inflation expectations.
- Evidence suggests that providing information on central bank objectives may influence inflation expectations (Binder and Rodrigue, 2018; Coibion et al., 2022).
- An open issue is whether communication about policy instruments also affects inflation expectations. So far, only a few studies have examined the relationship between central bank communication and inflation expectations. Some discussed, others not.



Highly relevant paper (2)

- Brouwer and de Haan (2022a): embed a vignette experiment into a survey to identify the impact of providing information about a particular instrument of the ECB. Before and after receiving this treatment, the respondents were asked about their inflation expectations. Individuals who receive information about policy rates adjust their inflation expectations more towards the ECB inflation target. However, providing information about asset purchase programs does not affect inflation expectations.



What is (almost entirely) missing: Trust

- Recent studies suggest that individuals who trust the ECB have inflation expectations that are more aligned with the ECB inflation target than low-trust individuals. Brouwer and de Haan (2022b) test the robustness of the finding of previous studies that individuals who trust the ECB have inflation expectations that are closer to the ECB's inflation target.
- They find that individuals with a high level of trust in the ECB have inflation expectations that are more in line with the ECB's inflation target than inflation expectations of low-trust individuals.



What is (totally) missing: Financial literacy (1)

- Financial literacy seems to be related to trust in the central bank (Mellina and Schmidt 2018). Relevant here because the inflation expectations of individuals who trust central banks tend to be closer to the central bank's inflation target (Christelis, Georgarakos, Jappelli, and van Rooij 2020; Rumler and Valderama 2020; Binder 2021a).
- The public knows very little about the ECB and despite increased communication efforts there is no improvement (see next slide). Likely that better informed respondents have more accurate expectations.



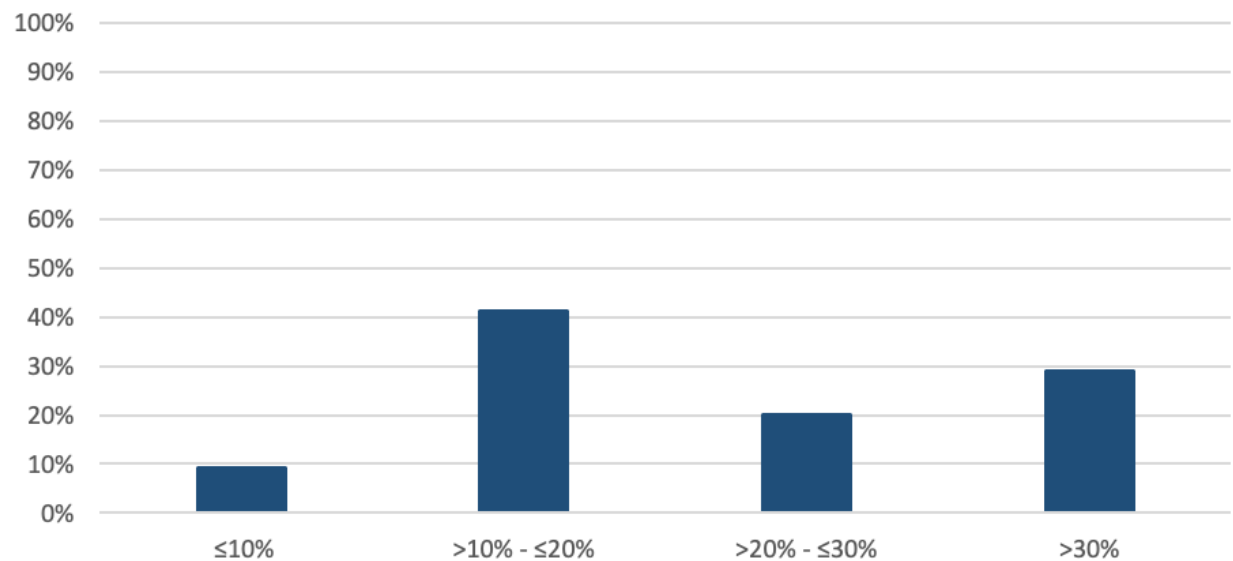
What is (totally) missing: Financial literacy (2)

Statement: The main objective of the ECB ...	% Correct		% False	
	2009	2020	2009	2020
1. is price stability	65	60	23	15
2. is to keep prices constant	36	36	24	39
3. is low unemployment	42	39	27	32
4. is an unemployment rate of at most 5%	48	42	37	18
5. is high economic growth	38	35	27	38
6. is an economic growth rate of at least 2%	27	24	33	42
7. is an inflation rate that is close to but below 2%	57	57	29	12
8. is to keep interest rates constant	27	29	23	45
9. applies to the euro area average	52	46	28	22
10. applies to all euro area countries separately	20	24	30	44
11. applies to the medium term	50	47	34	15



What is missing: Perceived inflation

- The public overestimates actual inflation. These perceptions may affect expectations.



- Source: van der Cruijssen et al. (2023). Survey for NL was done in September 2022. Actual inflation: 17%.



What is I don't like: binning and framing

- The authors use:
 - a bin histogram for expected inflation
 - all groups told that the ECB aims for an inflation rate of 2% in the medium term
- This could explain why the expected inflation of their respondents looks much “better” than what we generally find if we ask an open question.
- Do people understand the question if phrased in terms of inflation? Several studies doubt so.
- Why use average instead of median inflation in eq. (1)?



High inflation erodes trust in ECB

- Using a new survey among more than 2,000 individuals in the Netherlands, van der Cruijssen et al. (2023) examine to what extent the recent surge in inflation has affected trust in the ECB.
- Results suggest that the higher people's perceived inflation and the harder they find it to make ends meet, the lower their trust in the ECB. Trust in the ECB is relatively low for those individuals who believe the ECB has the task to keep inflation low.



Finally: RCTs are not for real

- Blinder et al. (2023): “Much of the literature on central bank communication with the broad public uses randomized control trials (RCTs) in surveys or laboratory experiments to identify causal effects of central bank communication on agents’ beliefs or actions. This would seem to be the gold standard. However, the set-up of these studies ensures that *all* “treated” participants are exposed to the communication, which is nowhere close to the situation in real life. **In fact, it may assume away the biggest part of the problem—getting the message received.**”



Policy implications

- Blinder et al. (2023): “Are central bank communications understood by the general public? Mostly not, it appears, though there are some glimmers of hope. These glimmers can be stoked if central bankers use simpler prose, explain their ideas in ways to which ordinary people can relate, and focus on monetary policy’s objectives rather than on the details of implementation.”
- KISS: Keep it short and simple.



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25/09/2023 12

Thank you for your attention