AT A GLANCE

Monetary Dialogue September 2018

Central bank communication at times of non-standard monetary policies

Background

The real effects of monetary policy depend among others on the investors' interpretation of central banks' actions and communication. Communications about future monetary policy plans are particularly important at times of non-standard measures, as the additional uncertainty faced by economic agents, the higher uncertainty regarding the effectiveness of the new instruments and the possible limits to the central bank's toolkit could hamper the predictability of the policy actions. In particular, the yields on long-term financial instruments depend on expectations of future monetary policy and are sensitive to guidance from central banks. Overall, a sound communication strategy by central banks is a key tool to make policy (more) effective and influence the economy in the desired direction.

MONETARY DIALOGUE
September 2018

The publications are prepared by the Policy Department A of the European Parliament and are available in the relevant section (**Monetary Dialogue**) of the ECON Committee website.

Contact us: **poldep-economy-science@ep.europa.eu**

For the September 2018 session of the Monetary Dialogue, the Committee on Economic and Monetary Affairs (ECON) of the European Parliament has asked monetary experts to analyse the issues related to the central bank communication at times of non-standard monetary policy. References to the relevant in-depth analyses are provided below.

Policy Department for Economic, Scientific and Quality of Life Policies
Directorate-General for Internal Policies
Authors: Dario Paternoster, Denitza Dessimirova
PE 631.020 - September 2018

EN

In-depth analyses of the September 2018 Monetary Dialogue

Central Banks Communications and Monetary Policy by Karl Whelan (University College Dublin)

Communications about plans for future monetary policy are one of the key tools through which central banks can affect the economy. The addition of non-standard policies such as quantitative easing has complicated communication for central banks and there have been some lessons for the ECB to learn from communications mistakes made by other central banks in recent years. The ECB has so far done well in handling the communications issues relating to the ending of its Asset Purchase Programme but it faces a number of communications challenges as it seeks to normalise monetary policy.

Central Bank Communication at Times of Non-Standard Monetary Policies by Lukasz Janikowski and Andrzej Rzonca (Center for Social and Economic Research)

Communication is an important monetary policy tool, as central banks can use it to manage the expectations of economic agents. Communication becomes even more important in times of non-standard monetary policies due to increased levels of uncertainty and the introduction of new policy tools. In this paper, the authors summarise the literature on central bank communication in times of non-standard monetary policies, with a particular focus on forward guidance.

Central Bank Communication during Normal and Crisis Times by Christophe BLOT and Paul HUBERT (Observatoire Français des Conjonctures Économiques and Sciences Po)

Central banks have intensified their communication strategy since the mid 1990's and it has become an important instrument of central banks' policymaking toolkit. A large empirical evidence suggests that central bank communication has effectively enhanced the transmission of monetary policy before and during the financial crisis. Nevertheless, the use of communication as a policy instrument is fragile since it depends on economic agents' perceptions and beliefs. It is crucial that central bank communication be consistent with policy decisions.

When Communication becomes the Policy by Daniel Gros (Centre for European Policy Studies)

Non-standard policy measures are intended to work via financial markets. Their effectiveness thus depends on how ECB communication affects the expectations of market participants far into the future. Communication has become as important as the details of the policy measures itself. The success of communication is often measured by short term market reactions, increasingly using advanced statistical techniques to interpret them. But this 'policy making by the markets' lacks a strong anchor because financial markets often anticipate policy and the assessments of investors change all the time, often independently of monetary policy actions.

Administrator responsible: Dario Paternoster Editorial assistant: Janetta Cujkova
Contact: Poldep-Economy-Science@ep.europa.eu

This document is available on the internet at: www.europarl.europa.eu/supporting-analyses
IP/A/ECON/2018-27