European Parliament

Reaching a Wider Audience:
Is the ECB Trending?

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Is the ECB Trending?

Monetary Dialogue Papers, February 2020

Abstract

Central banks are increasingly recognising the importance of communicating with the wider public. We document that interest in monetary policy is intermittent, usually linked to major decisions and/or personnel changes. The ECB should not expect that every one of its decisions is noticed by the general public. The Monetary Dialogue fulfils the typical function of a representative democracy in which citizens delegate to their elected representatives the task of monitoring policy implementation by independent institutions.

This document was requested by the European Parliament's Committee on Economic and Monetary Affairs.

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ABOUT THE EDITOR

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This document was prepared for the February 2020 Monetary Dialogue between the ECON Committee and the ECB President. It is available on the internet, also as part of a compilation, at:
https://www.europarl.europa.eu/committees/en/econ/monetary-dialogue.html

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LIST OF ABBREVIATIONS

EEA	European Economic Association
ECB	European Central Bank
NCB	National Central Bank
MEP	Member of the European Parliament
ELB	Effective Lower Bound
EU	European Union
QE	Quantitative Easing

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EXECUTIVE SUMMARY

- **Central banks traditionally focussed on communicating with the financial markets** because the most direct channel of transmission of monetary policy works via interest rates and financial market conditions in general.

- However, **the beliefs and expectations of the wider public also have important economic implications.** Central banks are thus also increasingly recognising the importance of communicating with a broader audience.

- Nevertheless, **the interest of the wider public for monetary policy is intermittent**, linked to major decisions points and/or personnel changes.

- **The ECB should thus not try to reach a wider audience with every decision on monetary policy**.

- Communication on 'high frequency' decisions can remain targeted at specialists in the media and financial markets. However, **low-frequency, strategic decisions can and should be communicated to the general public**.

- **It is difficult to judge how well the ECB communicates with the wider public**. The ECB reaches a much wider audience through social media channels than national central banks. But even with its 500 000 followers on Twitter, for example, the ECB can directly reach only a small elite.

- **Opinion polls show a drop in trust in the ECB in the wake of the financial crises; and more recently a strong increase**. However, this might have to do more with the recovery of the economy than with improved communication.

- **The Monetary Dialogue plays a key, and natural role** in representing the interests of the wider public, which is generally not interested in high frequency decisions.

1. INTRODUCTION

Clear and transparent communication is essential for a successful conduct of monetary policy. The reason lies in the crucial role of managing expectations for an effective transmission of monetary policy. Woodford, at the 2005 Jackson Hole conference, explained this peculiarity using a concrete example:

> 'Central banking is not like steering an oil tanker, or even guiding a spacecraft, which follows a trajectory that depends on constantly changing factors, but that does *not* depend on the vehicle's own expectations about where it is heading'.

The forward-looking nature of the decision-making actors makes steering expectations crucial for central banking.

In today's highly uncertain economic environment, with central banks all over the world facing challenges in meeting their price stability targets (and with the feeling that the existing instruments have become less potent), communication itself has become the policy (Gros, 2018). In a longer view, one can observe a revolution in terms of central bank communication, going from the Sybil-like pronouncements of the Greenspan era to a more and more transparent and accountable way of communicating monetary policy strategy today. Central banks now try to be as open as possible and make masses of material available on their websites.

This trend towards openness finds support in an extensive literature, that was first surveyed by Blinder et al. (2008) and, more recently, by de Haan et al. (2019). Central banks use communication to affect expectations about future policy rates in particular, in order to have an impact on long-term interest rates (see Moessner et al., 2018). Moreover, they use communication to influence inflation expectations with the aim of anchoring them to the price stability target (see Svensson, 2006).

After the financial crisis, with policy rates hitting the effective lower bound (ELB), three important changes in terms of central banking communication have taken place.

The first one concerns the forward guidance of policy rates, that is used more and more by many central banks today to manage expectations about future short-term, and thus ultimately long-term interest rates. However, it is still debated in the literature which type of forward guidance (open-ended, state-contingent, time-dependent) should be used to avoid affecting credibility in a changing economic environment.

The second change concerned the communication of the size and duration of the asset purchase programme, which is important in influencing reaction in financial markets, mainly via two channels: the portfolio balance and signalling channels. Empirical studies find this communication has significant impact, but as to which channel is more effective is still an open question.

Finally, through forward guidance and asset purchase, central banks also aim at affecting inflation expectations, however, the extent to which they have affected short-term inflation expectations via these policy measures is unclear.

A big part of the central banking literature mainly focuses on communication with financial market participants. However, there also exists another actor playing an important role in the economy: the general public. As explained by de Guindos (2019), in a speech at the European Economic Association (EEA) annual congress, communication with the general public is two-way, as it is for financial markets participants. First, a central bank has a lot to learn from consumers, since, for example by looking at how consumers' form their expectations, it is possible to gauge evidence in terms of credibility and economic monitoring. Second, central bankers need to reach out to the general public in order to manage their expectations of economic outcomes, but also for accountability reasons.

Communicating with the general public is one of the big open challenges included in the second wave of the modern central banks' 'communication revolution', as it is called by Haldane et al. (2020). They build a model showing that in a low-trust environment, there are potential advantages in engaging a broader audience, however, there could also be potential risks of lowering welfare. A possible solution could be to implement a communication including the '3 Es', that are Education, Engagement and Explanation. However, even if big steps ahead have been made in all these dimensions, many challenges remain, as Blinder (2018) also points out, by predicting that central banks may fail in the future to communicate to the general public.

Haldane et al. (2020) recognise, rightly, that some agents might choose 'rationally' to remain uninformed because the costs of acquiring and digesting information about monetary policy exceed the potential benefits. We would argue that this is indeed the case for the overwhelming majority of the wider public.

In this paper, we aim at adding to the few existing studies on central bank communication with the general public. By using Google Trends data, we provide new evidence on the interest of the general public in the monetary policy decisions of the ECB. In practice, we analyse how often certain terms appear in searches on Google: both broad keywords as 'ECB', but also more technical keywords related to monetary policy.

The ECB faces big challenges in communication to the general public, not only because of about twenty different languages in the euro area countries, but also because its decisions will appear to be technical for most laymen. Policymakers try to reach out to the general public by being more present on social media channels. The Twitter accounts of the ECB have around 500 000 followers. However, retweets of monetary policy decisions are fairly limited: ECB tweets of press conference transcripts received on average 13 retweets and 18 likes in the last year. The most popular tweet of the ECB seems to be its Season's Greetings with a picture of its Christmas tree.

NCBs might have an advantage in communicating with the general public because they are integrated into national public discussions and use the national language. Nevertheless, their popularity on social media, in terms of the number of followers on Twitter, is much lower than the ECB. The Deutsche Bundesbank and the Banque de France's twitter accounts have around 30 000 followers each, while Banca d'Italia and Banco de España have 11 000 followers each. These national central banks, which together account for over two thirds of the euro area thus have a much smaller following in total than the ECB.

The 500 000 followers of the ECB still represent only little over one tenth of 1 % of the euro area population, a very small elite. Haldane et al. (2020) estimate that most central bank communication is couched in such a language that only about 10 % of the population can be expected to be able to read and understand it. But even by this measure, the ECB would only seem to reach about 1 % of a potential target audience via social media (Twitter).

The Monetary Dialogue could play an important role in acting as a bridge between the ECB and the general public. On one hand, the briefing papers and the meetings with the panel of experts provide clarifications and fresh views on relevant economic topics. On the other hand, the meeting between the President of the ECB and the Members of European Parliament (MEPs) helps foster engaging discussions between monetary policy experts and MEPs on relevant economic topics.

This contribution is organised as follows. Section 2 provides an analysis of the evolution of general public interest in the ECB over time. Section 3 focuses on the role of the Monetary Dialogue. Section 4 concludes and provides some policy recommendations.

2. WHEN IS THE ECB TRENDING?

In this section, we investigate how the general public interest in the ECB evolves over time and across euro area countries. We focus on the four biggest euro area countries: Germany, France, Italy and Spain. The data used to perform the analysis are retrieved from Google Trends. This search analysis website allows us to study the frequency of the search of certain words in the different countries over time. In this way, we can achieve two objectives.

First, we can check if during the period when there is a specific press conference by the ECB, we observe some changes in search patterns, and, thus, try to understand if the ECB is able to reach out to the public. Second, we can analyse each specific country-case search to highlight the main differences and similarities across countries, both in terms of geographic searches and related queries.

2.1. A broad search interest

The key result is that the interest in the ECB is highly variable with peaks that often, but not always coincide with major monetary policy decisions. This finding is confirmed for all four countries we looked at. Moreover, we also find that in many, but by all means not all, cases, the peaks coincide.

This coincidence of the peaks was particularly pronounced during early 2015, when major announcements concerning asset purchases were communicated and then implemented. Unfortunately, high frequency (weekly) data is not available for previous years. We would expect that similar spikes occurred earlier, especially during the crisis period.

Moreover, inspection of Figure 1 also shows that most spikes coincide with ECB press conferences (marked by vertical lines); showing that these events do stimulate interest among the wider public.

Figure 1: **Interest over time in 'ECB' for Germany, France, Italy and Spain, and ECB Press Conferences**
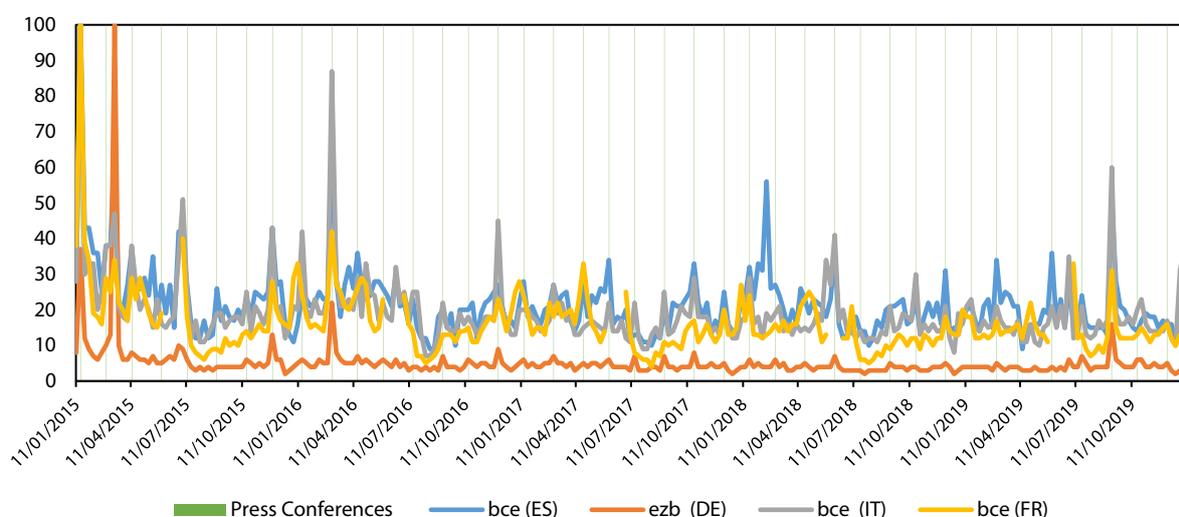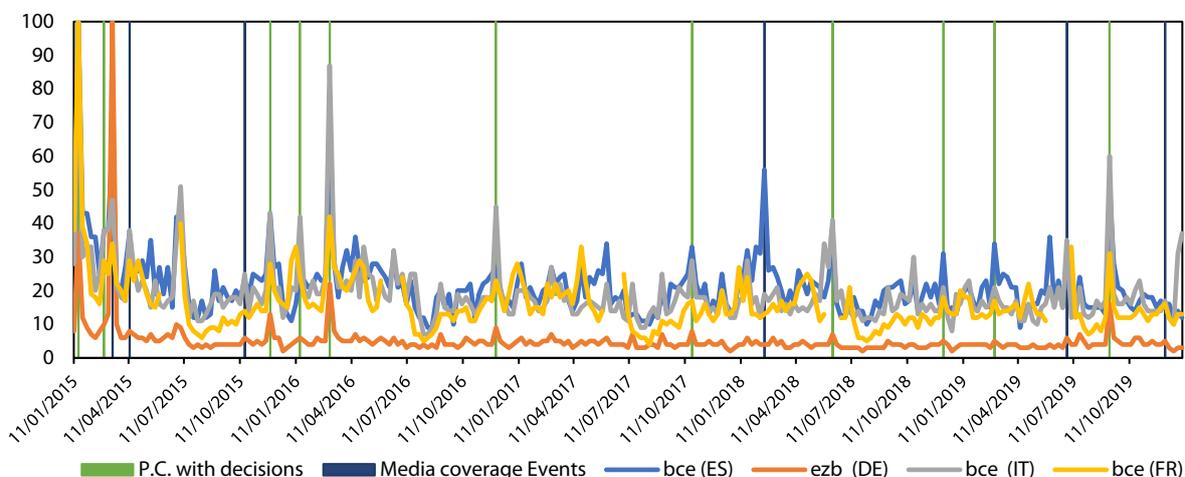

Note: For every country, we plot the search interest provided by Google Trends, over the past 5 years with weekly frequency (Jan2015-Jan2019). The search interest is relative to the highest point on the chart for the given region and time: 100 is the peak popularity for the term, 50 means that the term is half as popular and 0 means there was not enough data for this term. The 40 vertical lines represent the weeks when ECB press conferences took place. For France (yellow line), the data for June are omitted because there could be potential bias due to a similar acronym search in a different context.

Source: Google Trends, ECB website.

However, not all press conferences are associated with spikes in searches (and vice-versa, not all spikes are associated with press conferences). Figure 2 thus concentrates only on those press conferences with a significant decision (and press coverage). These events are marked by vertical lines below.

Figure 2: **Interest over time of 'ECB' by countries, and ECB Press Conferences with decisions and Events with high media coverage**

Note: For every country, we plot the search interest provided by Google Trends, over the past 5 years with weekly frequency (Jan2015-Jan2019). The search interest is relative to the highest point on the chart for the given region and time: 100 is the peak popularity for the term, 50 means that the term is half as popular and 0 means there was not enough data for this term. The vertical green lines represent the week when there was an ECB press conference with a decision, while the blue lines are identified as events related to the ECB that received high media coverage. For France (yellow line), the data for June are omitted because there could be potential bias due to a similar acronym search in a different context.

Source: Google Trends, ECB website, authors' search.

The press coverage events (outside decision weeks) have been identified as those weeks when no major press conference took place, but there was still a significant spike in interest for at least one country considered. Following this methodology, we can identify six events.

1. In March 2015, the inauguration of new ECB premises in Frankfurt triggered a large-scale protest in Frankfurt, so the biggest spike in interest is observed for Germany.

2. In May 2015, during a press conference where no major monetary policy decisions were taken, a protester disrupted the meeting by jumping on the stage and throwing confetti.

3. In October 2015, President Draghi unexpectedly signalled the intention to extend QE in the future.

4. In February 2018, the Eurogroup gave its support to the candidacy of Luis de Guindos for the position of ECB Vice-President, and we observe a spike in search interest for Spain.

5. In July 2019, the European Council considered Christine Lagarde to be the appropriate candidate for the ECB Presidency.

6. In December 2019, there was the first press conference by Lagarde as President.

That press conferences lead to a marked increase in public interest in the ECB can be seen in Table 1 below, which shows that, (for three of the four countries considered) the incidence of searches is higher, on average, during weeks with press conferences. The difference becomes much more marked if we only consider the major events of Figure 2, leading to the result presented in Panel B. During the weeks with major ECB events, searches are over twice as high as during the other weeks.

Table 1: **Descriptive statistics for the search interest in the term 'ECB' considering the events in Figure 1 (Panel A) and Figure 2 (Panel B)**

Panel A

	bce (ES)	ezb (DE)	bce (IT)	bce (FR)
Weeks of Press Conferences	29.9	7.5	29.1	13.7
Other weeks	20.1	4.7	17.4	15.1

Panel B

	bce (ES)	ezb (DE)	bce (IT)	bce (FR)
Weeks with events (PC with decisions and media coverage)	41.76	15.71	41.65	29.00
Other weeks	20.25	4.44	17.68	15.21

Note: For France, the data for June are omitted because there could be potential bias due to a similar acronym search in a different context.

Source: Google Trends, ECB website and authors' computations.

The annex also shows the distribution of the searches across regions of these four countries. In France and Spain the searches are concentrated in the capitals. However, in Germany and Italy, searches for 'ECB' are concentrated in the financial centres, Frankfurt (also seat of the ECB) and Milan. A common trend in all four countries is that searches for 'ECB' are lower in poorer or more peripheral regions. This could be due to a lower interest in monetary policy in these regions or to the generally higher level of education of richer regions.

2.2. A more technical search interest

In this subsection, we focus on investigating the search interest in more technical words related to the goals of the ECB (inflation below but close to 2 %) and its policy instruments. This is done again for each of the four biggest euro area countries. The terms considered are: 'inflation', 'negative rates' and 'assets purchase'. To be used in different countries, these terms are translated in the four official languages, using the official translation by the ECB on their website. For every country, we study: i) the evolution over time of the search interest, ii) the interest by region over the period considered; iii) the queries related to the search of those specified keywords.

Figure 3 shows the distribution over time of searches for these terms, for the four large euro area countries considered. Several conclusions emerge from a comparison across these three different keywords.

First of all, searches for inflation are almost always more frequent than those for the other two terms. Moreover, the searches for inflation are less 'spiky' than those for the ECB. There seems to be a more persistent, albeit still somewhat variable, interest in inflation than in what the ECB is doing. This phenomenon is most marked for Germany, confirming the *cliché* that Germans are more concerned about inflation.

Second, a comparison across countries shows that, not surprisingly, Germany is the only country in which negative rates play an important role, at least during the second half of 2019. The spikes in the searches for negative rates are not related to ECB decisions, but rather to announcements by banks of the imposition of negative rates on their clients. This is most evident in the single spike for Italy, where the announcement of one single, large bank led to the spike observed in the summer of 2019. In Spain, and even more in France, there seems to be little interest in negative rates.
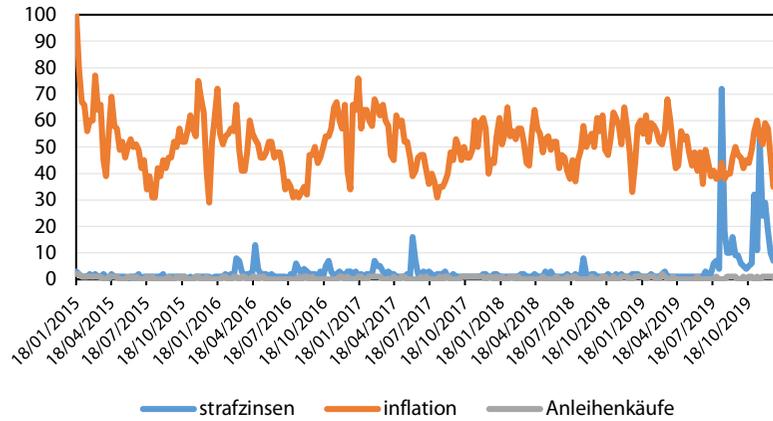
Finally, we find few searches for asset purchases throughout the entire 5-year period although this was a period of operation of the PSPP and there was a long drawn out period of deliberation on the end of the purchases (and their resumption more recently). This suggests that there is little interest in the general public about this specific monetary policy tool, despite the controversial discussions in the political sphere about this unconventional instrument.

We also analysed the regional distribution of these more technical searches and found that they are again concentrated in the financial centres and more generally in richer regions (results available upon request). The concentration is even more marked for these technical terms. For example, in one case (Italy) we found searches for negative rates only in the North.
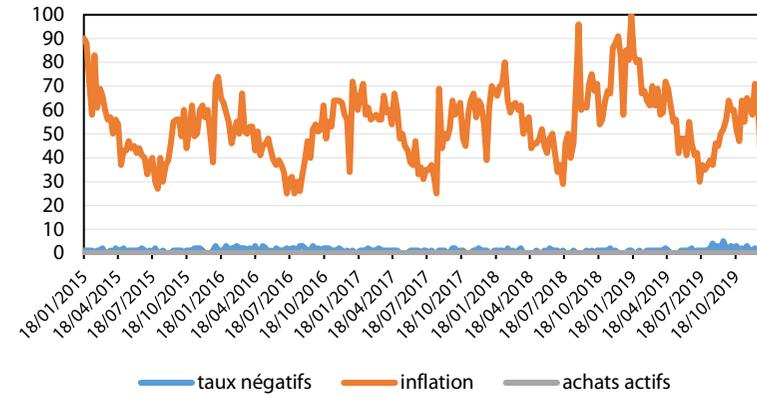
This uneven regional distribution confirms the general picture that interest in the ECB and its instruments is patchy and volatile.

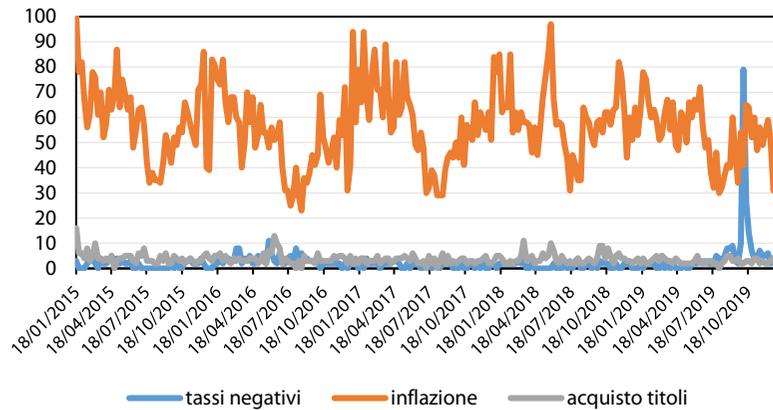**Figure 3:   Search interest over time by countries**

a) Germany

strafzinsen   inflation   Anleihenkäufe

b) France

taux négatifs   inflation   achats actifs

c) Italy

tassi negativi   inflazione   acquisto titoli

d) Spain

tipos negativos   inflación   compra activos
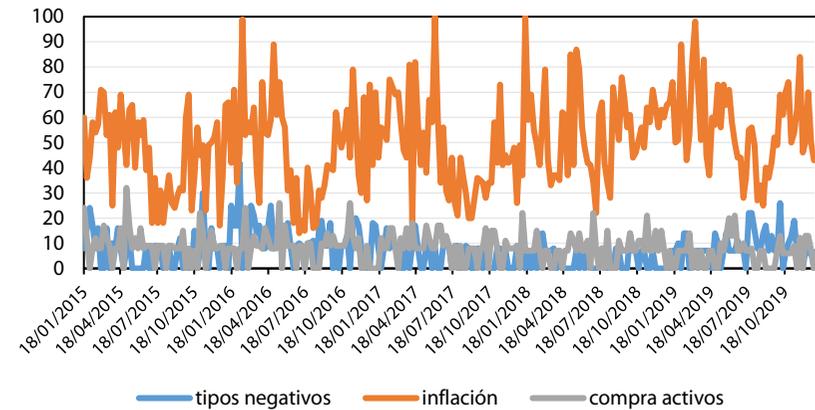
Source: Google Trends, ECB website.

3. THE ROLE OF THE MONETARY DIALOGUE

The Monetary Dialogue between the European Parliament's Committee of Economic and Monetary Affairs and the ECB becomes crucial, in this framework, as an intermediary between the ECB and the general public. The Monetary Dialogues also performs, in the area of monetary policy, a more general function of a representative democracy. Most citizens are not interested in following policies on a daily basis; this is a task they delegate to their democratically elected representatives. These representatives in turn rely partially on experts to provide them with more in-depth information and advice. A study by Collignon et al. (2016) finds that the Monetary Dialogue is an important pillar for informing and engaging Members of parliament.

Haldane et al. (2020) find a self-defeating mechanism which can lead to a 'confidence trap'. If the public trusts an institution, it forgets about the variability which is unavoidable in any real world setting. Something similar seems to have afflicted the ECB as well. Trust in the ECB was high during the boom years preceding the financial crises. When the economy started to turn down, trust in the ECB declined (although most experts agree that the ECB was instrumental in preventing the crisis from spiralling out of control in 2012). Figure 4, below, illustrates this drop in trust in all countries, even those, like Germany, where the economy recovered very quickly.

Our period of observation covers only the years from 2015 (the data on trust is only available until 2018). Trust seems to have recovered more recently, but this does not seem to be connected in any way to the frequency of ECB searches. It would thus be difficult to argue that more communication efforts would have a large impact on trust in the ECB. The state of the economy is ultimately the key determinant of trust.

Figure 4: **Evolution of confidence in the ECB over time**
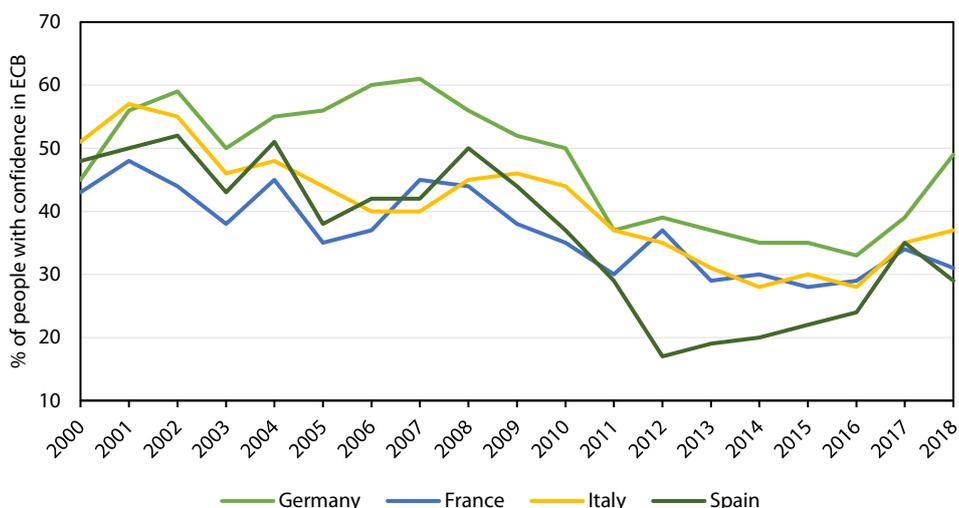
Note: The indicator measures the confidence of EU citizens in the ECB, as reported in the Eurobarometer survey, for the four biggest euro area countries. It is expressed in terms of the share of people declaring that they tend to trust the ECB.

Source: European Commission - Directorate-General for Communication (DG COMM).

4. CONCLUSIONS

The main conclusion that emerges from this short analysis of public interest is that the ECB should not expect the general public to show much interest in all of its actions or pronouncements. In the 5-year period for which the weekly data is available we counted less than 20 episodes with a spike in interest for the ECB. This means that there are only about 3-4 weeks each year during which the interest of the general public suddenly becomes strong, leading to a spike in searches for the ECB.

There seems to be little need for the ECB to increase its efforts to communicate routine or minor policy adjustments to the wider public. These efforts should be concentrated on the rare occasions when a major policy shift is happening. These considerations also apply to the overall review of monetary policy which is planned to take place soon. One should not expect the public to show much continuous interest in a long and technical process. However, an intensive communication effort would be justified (and would probably also work) if the review leads to major changes.

The limited and volatile interest of the general public in monetary policy should not surprise. Something similar applies to many policy domains and provides the ultimate justification of representative democracy. The Monetary Dialogue thus performs an essential function, even if its sessions do not attract much interest among the wider public.

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ANNEX

Figure 5:   **Interest in 'ECB' by regions**

Italy

Spain
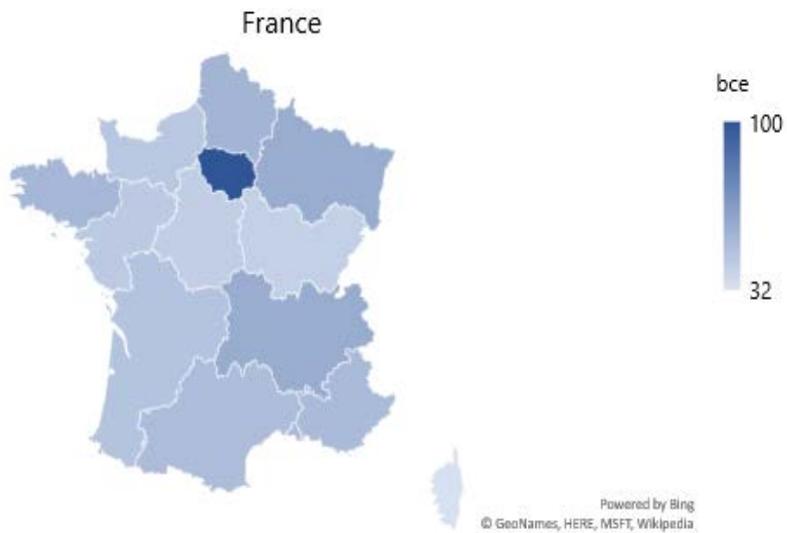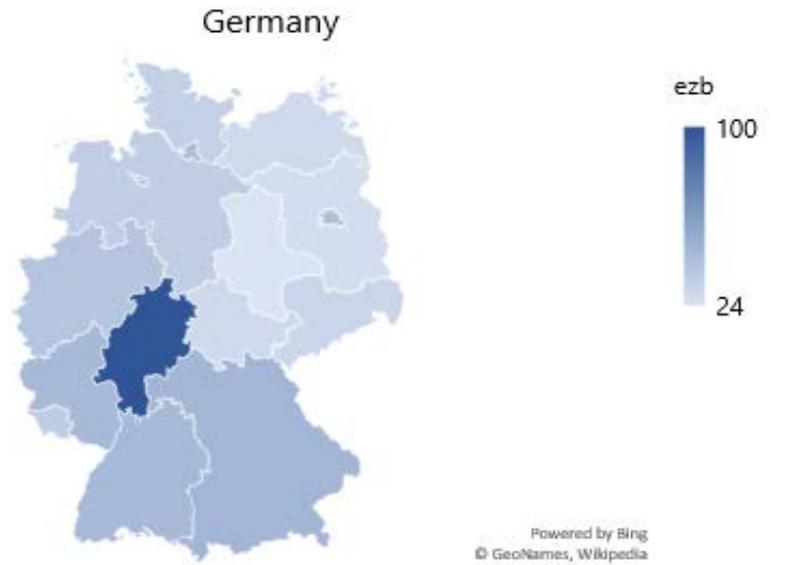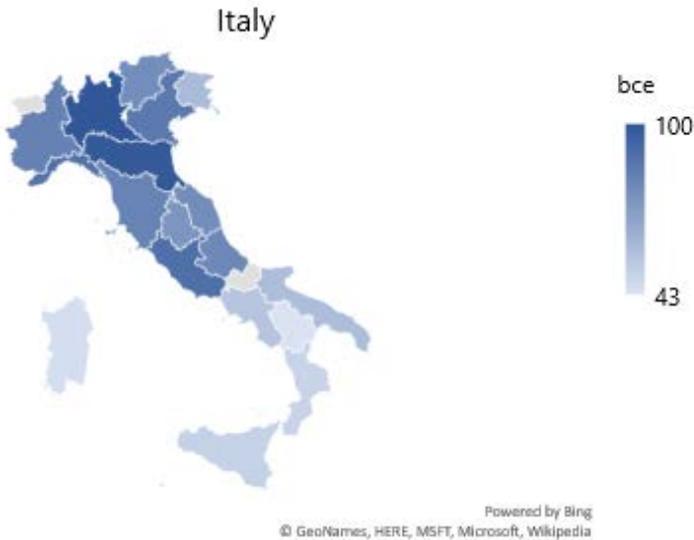
Note: The figures report, for every country, gradient-colored regions based on the popularity of the term 'ECB' over the past 5 years (Jan2015-Jan2020). The geographical interest is computed on a scale from 0 to 100: 100 corresponds to the location with the most popularity as a fraction of total searches in that location, 50 indicates a location which is half as popular, and 0 indicates a location where there was not enough data for this term. A dark blue color is used for the location with the most popularity of the term, and then lighter shades of blue are used for location with a lower popularity of the term.

Source: Google Trends and authors' computations.

Table 2:   **Topics related to the search of 'ECB' by country**

	Germany	France	Italy	Spain
Rising Related Topics	Quantitative Easing	Christine Lagarde - President of ECB	Power of attorney	Luis de Guindos – Spanish Politician

Note: The table shows the topics related to the search of the term 'ECB'. For every country, we report the first topic that at January 2020 shows the biggest increase in search frequency since the first time period (Jan. 2015).

Source: Google Trends.

POTENTIAL QUESTIONS FOR MEPS

1) Is the ECB planning to invest more in social media in the near future to try to extend its reach to the general public?

2) Could there be a danger of 'information overload' if the ECB tries to communicate too much?

3) In its monetary policy decisions, the ECB indirectly communicates a deep frustration with its inability to reach the inflation target of close to 2 %. At the same time, the ECB wants to project the image of a confident institution, fully in control. How can these two conflicting messages be reconciled?

Central banks are increasingly recognising the importance of communicating with the wider public. We document that interest in monetary policy is intermittent, usually linked to major decisions and/or personnel changes. The ECB should not expect that every one of its decisions is noticed by the general public. The Monetary Dialogue fulfils the typical function of a representative democracy in which citizens delegate to their elected representatives the task of monitoring policy implementation by independent institutions.

This document was provided by Policy Department A at the request of the Committee on Economic and Monetary Affairs.