

Central banks learn to dance to a different tune

Some central banks are changing how they communicate with the public, drawing from behavioural science to simplify their message and reach more people. It is only a matter of time before others do the same



From Ukraine to the UK, there's a revolution underway in how central banks communicate with the public.

With disinformation and 'fake news' eroding trust in public institutions, and central banks still facing criticism for their unconventional response to the financial crisis, policymakers are realising that clear communication is more than just another instrument in their toolkit; it's essential for their very survival.

Nowhere has this change in tone been felt more than in the Caribbean island of Jamaica. A series of central bank videos on [Twitter and other social media](#) in recent months featured reggae singers and musicians telling viewers that if inflation is too high "the people have a cry" and "if it's too low the country nah grow".

"Low, stable, and predictable inflation is to the economy like what the baseline is to reggae music,"

sings artist Tarrus Riley. "Reggae music run the country, like low and stable inflation haffi run di economy."

Underneath the smooth tones was a serious mission: to communicate a transition to a new regime of targeting an inflation level of between 4% and 6%.

Medium is the message

A central challenge for economic policymakers in a post-truth world of 'alternative facts' is ensuring their message is heard, understood, and believed. In a working paper published by the [International Monetary Fund](#), the IMF's senior communications advisors laid out the many challenges.

Institutions that make themselves heard and understood are the only ones that get public trust... [and] can withstand the pressure of populism, fake news [and] manipulation. - Yakiv Smolii, Governor of the National Bank of Ukraine.

The first is that trust in institutions has fallen. A well-respected trust barometer by [Edelman](#), a public relations firm, found only 20% of people believe the system is working for them. The IMF puts this down to the effects of the global financial crisis, increasing inequality caused by globalisation, and technological advances, [which have exacerbated worries about job security](#).

Central banks must also ensure their messages are heard in an increasingly noisy media environment where there are many new suppliers of news thanks to the growth of the internet and use of mobile apps. The fragmentation of audiences into internet echo chambers poses a particular challenge while the proliferation of social media makes it possible for more people to express their views on public policies, making the central bank's message just one of many.

This is compounded by the fact that central bankers have tended to use technical language that a typical citizen may not understand. Stephen Poloz, Governor of the Bank of Canada, [noted](#) in 2018 that "transparency is only helpful if people can understand what we are saying".

Horses for courses

This cocktail of changes means that central banks must respond in kind. The Bank of England's (BoE) chief economist Andrew Haldane has [said](#) central banks are increasingly communicating beyond "markets, economists, and newswires."

The IMF says behavioural insights and cognitive science could help, with banks targeting different sections of the population by delivering their message at different technical levels.

Many central banks produce growth and inflation forecasts, often with a graph showing a range of options. The BoE issues what it calls "[fan charts](#)" in its Inflation Report, which can run to 45 pages and which few non-financial professionals read.

But the [bank](#) has designed shorter versions of two key publications: a [Monetary Policy Summary](#)

(MPS) and a [Visual Summary \(VS\)](#), which is broken up with headlines and cartoon graphics. The bank found that compared to the MPS, the Visual Summary improved the average comprehension score by 25%.

The bank's team also designed a Reduced Text Summary with more words but simpler language, and a Relatable Summary, couching the explanation in how it affects "you" rather than what "the Bank does." The Reduced Text Summary improved the average comprehension score by 30% (0.6 points) relative to the MPS while the Relatable Summary improved direct comprehension scores by 42%.

Some central bankers say the message can be communicated even more simply, and therefore more directly. Former BoE member Minouche Shafik, who now heads up the London School of Economics, told the Hay Festival two years ago that staff at the bank studied the writing style of [Dr Seuss](#) as part of a push to make its communications more easily understood.

Finessing the language

The idea that central bank communications can affect financial markets is not new. It used to be said the Governor of the Bank of England could change behaviour in the City of London with a discrete raise of his eyebrows.

Central bankers have become adept at using tiny changes in language to send signals to investors and financial markets. In [June 2019](#), ECB President Mario Draghi sent bond yields tumbling and triggered a furious response from President Trump with one sentence inside a 4,000-word speech that said: "further cuts in policy interest rates...remain part of our tools".

What is new, is the pivot towards less financially-literate consumers. And this is just the start. As populism threatens the established order and digital and social media expand their reach, it is only a matter of time before other central banks recognise the need for plain talking, as well.

As Ukraine's central bank governor said, "Gone are the days when central banks could afford to be closed technocratic institutions that spoke in numbers and vague terms. 'If you don't understand us, it's your problem' is the rhetoric that is outdated and obsolete. Today, if you - our clients - have difficulty understanding us, it's our problem."