

Communication

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Abstract

How central banks talk, what the evidence says reaches markets and households, the dot plot, the conditional inflation forecast, and the limits of talking.

Fifty years ago central banks said as little as possible; the Federal Reserve did not announce its rate decisions until 1994. Today every major central bank publishes a target, a forecast, minutes, projections and a press conference. The change was driven by the logic of Anchored expectations: if expectations do the work, the central bank must shape them, and it can only shape what it explains.

Why talk

Blinder and co-authors surveyed the theory and evidence and put the rationale in two parts (Blinder et al., 2008). Communication *creates news* by moving expectations of policy, which is the mechanism Forward guidance exploits. And it *reduces noise* by making policy predictable, so that markets react to the economy rather than to guesses about the central bank. Their evidence was that communication moves asset prices in the intended direction and that predictability had risen with transparency; whether it improves macroeconomic outcomes was, and remains, harder to show.

The instruments

Instrument	Who	What it does
Numerical target	all	Fixes the anchor
Published forecast	all; SNB's <i>conditional inflation forecast</i> since 2000	Explains decisions as responses to the outlook
Policy-rate projections	Fed "dot plot" since 2012, Riksbank, Norges Bank, RBNZ	Shows the expected path; risks being read as a promise
Minutes and votes	Fed, BoE, Riksbank; ECB "accounts" since 2015	Reveal the debate and the balance of views
Press conference	ECB since 1998, Fed since 2011, SNB since 2000	Puts the reasoning on record in real time
Speeches and testimony	all	Test ideas and prepare changes

The SNB's conditional inflation forecast deserves a note: it is the forecast on the assumption that the policy rate stays where it is, so a forecast above 2 percent at the horizon is a statement that the rate will have to rise. It is guidance disguised as a forecast, and it has served as the SNB's main instrument of communication for a quarter of a century (Swiss National Bank, 2024).

What reaches whom

Markets read everything. The event studies of Measuring expectations show that statements, projections and press conferences move yields within minutes, and that the *tone* of a press conference can move them in the opposite direction from the decision.

Households read almost nothing. Coibion, Gorodnichenko and Weber ran a randomised experiment on 20,000 US households, giving different groups different pieces of Fed communication and measuring their inflation expectations afterwards (Coibion et al., 2022). Simple statements of the target or of current inflation moved expectations substantially; the full FOMC statement moved them little more than a newspaper article; and most treatments had faded within months. Their conclusion is that central banks *can* reach households, but only with messages far simpler than the ones they write, and only if they repeat them.

Definition 1 (Layered communication). Messages designed for different audiences: a one-sentence statement for the public, a page for the press, the full statement and projections for markets and economists. The Bank of England adopted a layered format for its Inflation Report in 2017; the ECB simplified its statements after the 2021 strategy review for the same reason.

Limits

- **Projections become promises.** The dot plot was meant as information about individual views; markets read the median as a plan, and deviations from it cost credibility.
- **More words, more noise.** The volume of central bank communication has grown faster than its information content; when every member speaks, the signal is the dispersion, not the mean.
- **Communication cannot substitute for action.** As Credibility and disinflation showed, expectations followed demonstrated willingness to bear costs, not announcements.
- **The audience that matters is the hardest to reach.** Price and wage setters form expectations from what they buy and pay; a press conference does not enter that calculation.

The frameworks in Flexible targeting and its alternatives are, in part, attempts to make the message simpler by making the promise more mechanical.

Blinder, A. S., Ehrmann, M., Fratzscher, M., De Haan, J., & Jansen, D.-J. (2008). Central bank communication and monetary policy: A survey of theory and evidence. *Journal of Economic Literature*, 46(4), 910–945. <https://doi.org/10.1257/jel.46.4.910>

Coibion, O., Gorodnichenko, Y., & Weber, M. (2022). Monetary policy communications and their effects on household inflation expectations. *Journal of Political Economy*, 130(6), 1537–1584. <https://doi.org/10.1086/718982>

Swiss National Bank. (2024). *Monetary policy strategy*. SNB website, section Monetary policy. <https://www.snb.ch/en/the-snb/mandates-goals/monetary-policy/strategy>