Central Bank Communication with Non-Experts: Results from an Experiment

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Disclaimer: The views expressed in this paper are those of the authors and do not necessarily reflect the views of the European Central Bank.

Motivation

- **Direct central bank communication**, akin to press conferences, tends to affect the expectations of certain groups more significantly than others. While it influences expectations of professionals it often fails to reach the general public.
- This phenomenon has been attributed to factors such as rational inattention, lack of trust, and limited knowledge about monetary policy among citizens.
- Moreover, citizens typically rely on **indirect communication through the media** for obtaining information on monetary policy (see Chart 1).
- Extreme circumstances can amplify the impact of direct communication, as suggested by the "**whatever it takes**" speech of former ECB President Mario Draghi in summer 2012, which had a profound effect on public expectations.
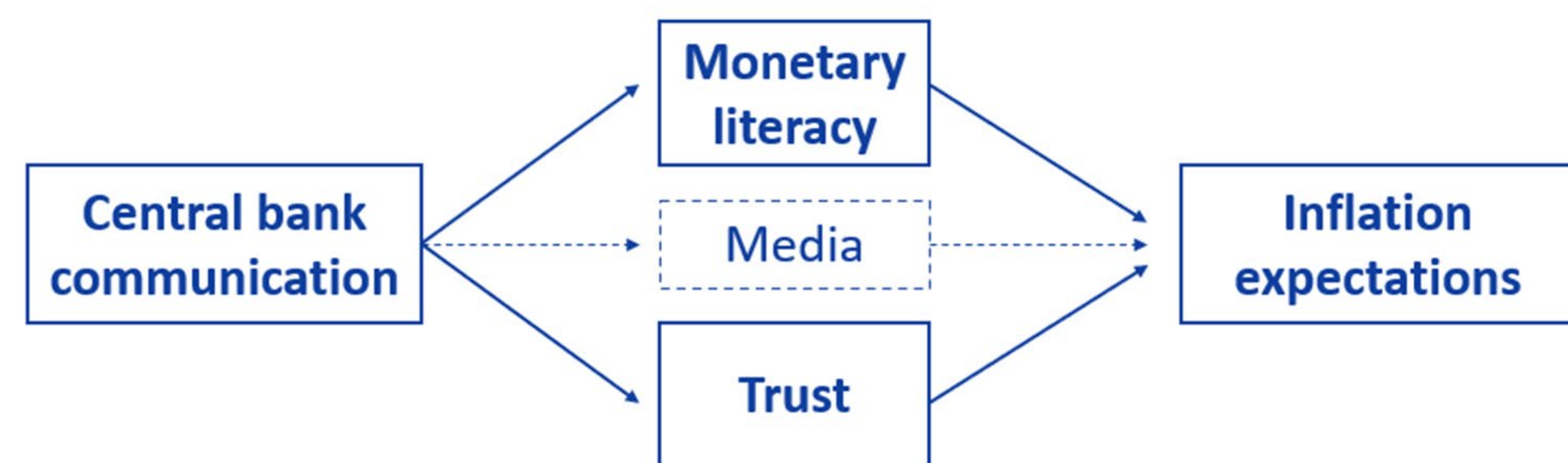

Chart 1. Direct and indirect central bank communication

- A **knowledge gap** exists on how households form their expectations about inflation and how they process economic and financial news.
- This study aims to explore whether central banks can influence non-experts through **direct communication**.

This paper's contribution

This study presents the first **randomized controlled trial (RCT)** with ECB visitors.

Direct ECB communication is shown to:
- significantly **increase non-experts' monetary literacy scores**.
- **improve policy effectiveness** by aligning non-experts' medium-term inflation expectations with the ECB's inflation target based on participants' enhanced understanding of the mandate or increased trust.
- further strengthen the effects on anchoring of private inflation expectations through the use of **native language**.

Experimental design

- This study conducts a **RCT involving 3,373 visitors** to the ECB Visitor Centre between 2022 and 2024. We examine the influence of direct central bank communication on the monetary literacy and the inflation expectations of non-experts, considering varying levels of pre-existing knowledge about monetary policy.
- This **experiment** uses the ECB's in-person briefing sessions with visitors, conducted in either English or German. Participation in the experiment was voluntary. Allocation to the treatment, placebo treatment and control groups was randomized by session rather than individually (see Chart 2).
- The **information treatment** consisted of an intense briefing on the ECB's monetary framework, recent decisions, the factors driving these decisions, and ECB staff projections about future inflation and economic growth.
- We use a **monetary literacy survey** to compare the responses of the treated individuals with those of the control group and to assess participants' prior knowledge.
- Our **key outcome variables** are participants' monetary literacy scores and their medium-term inflation expectations.
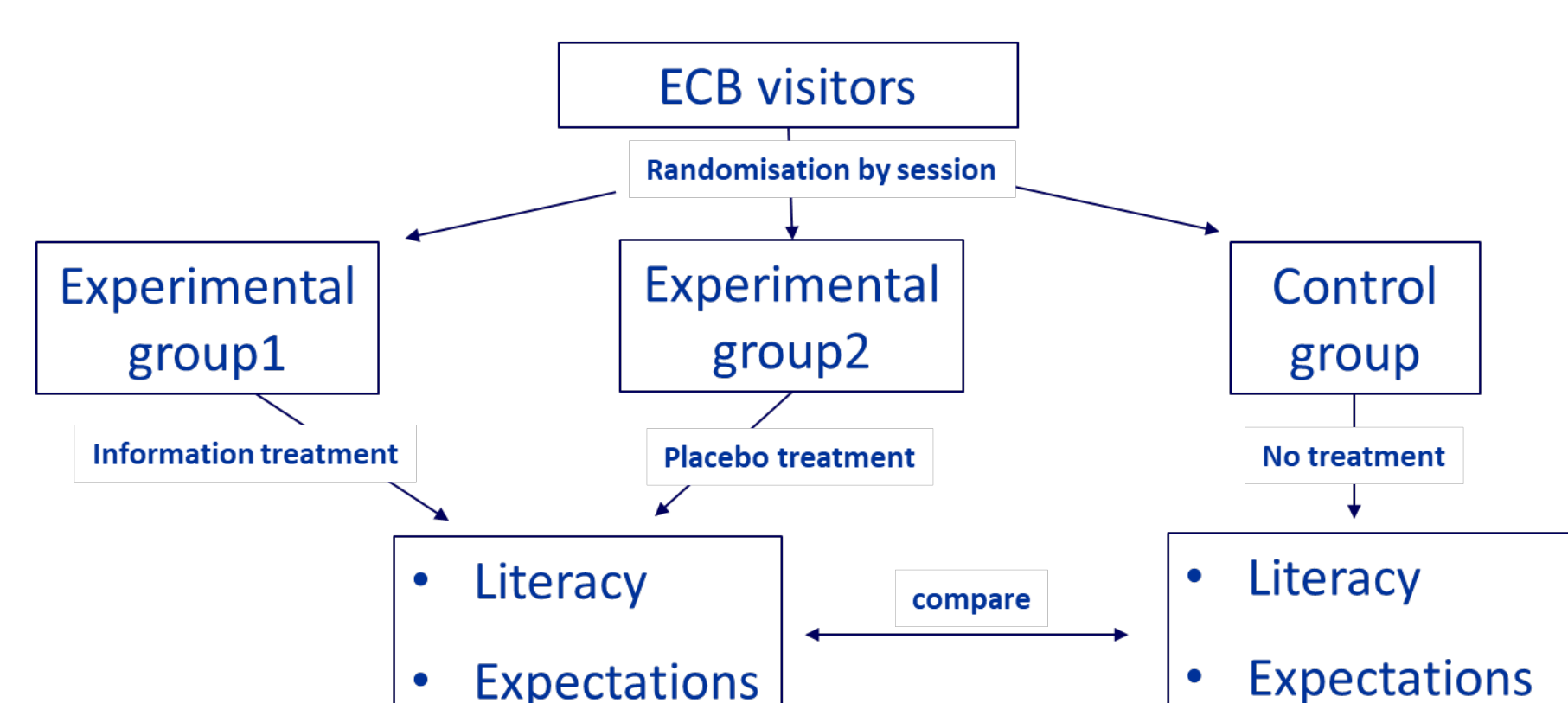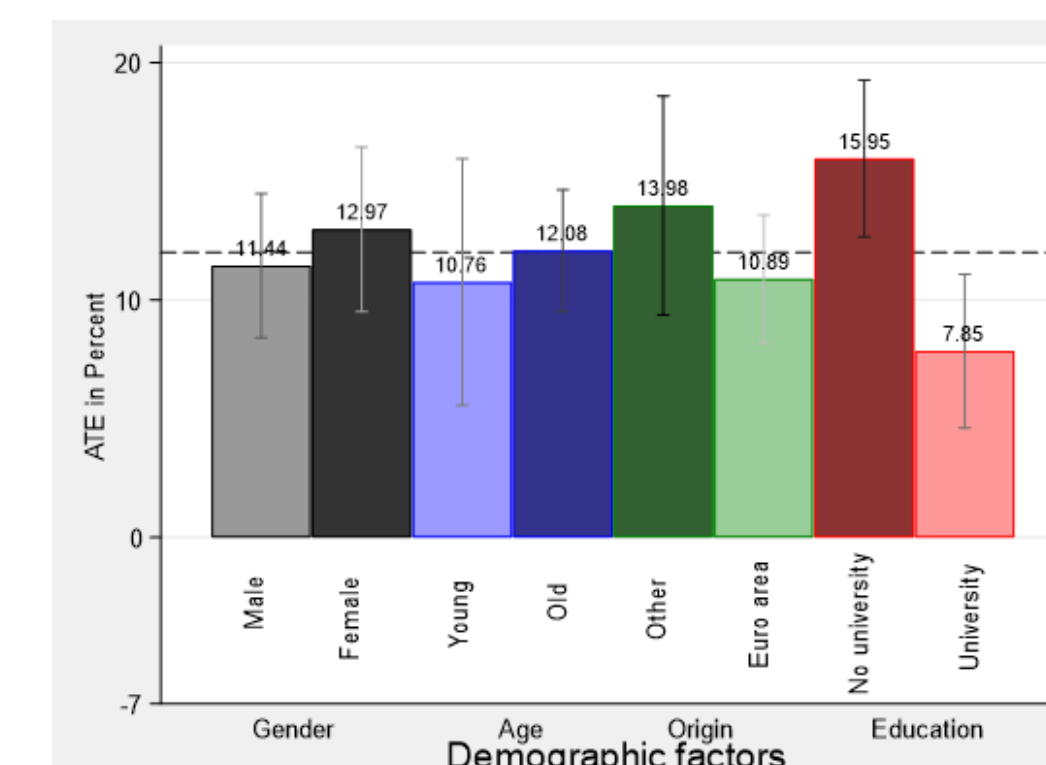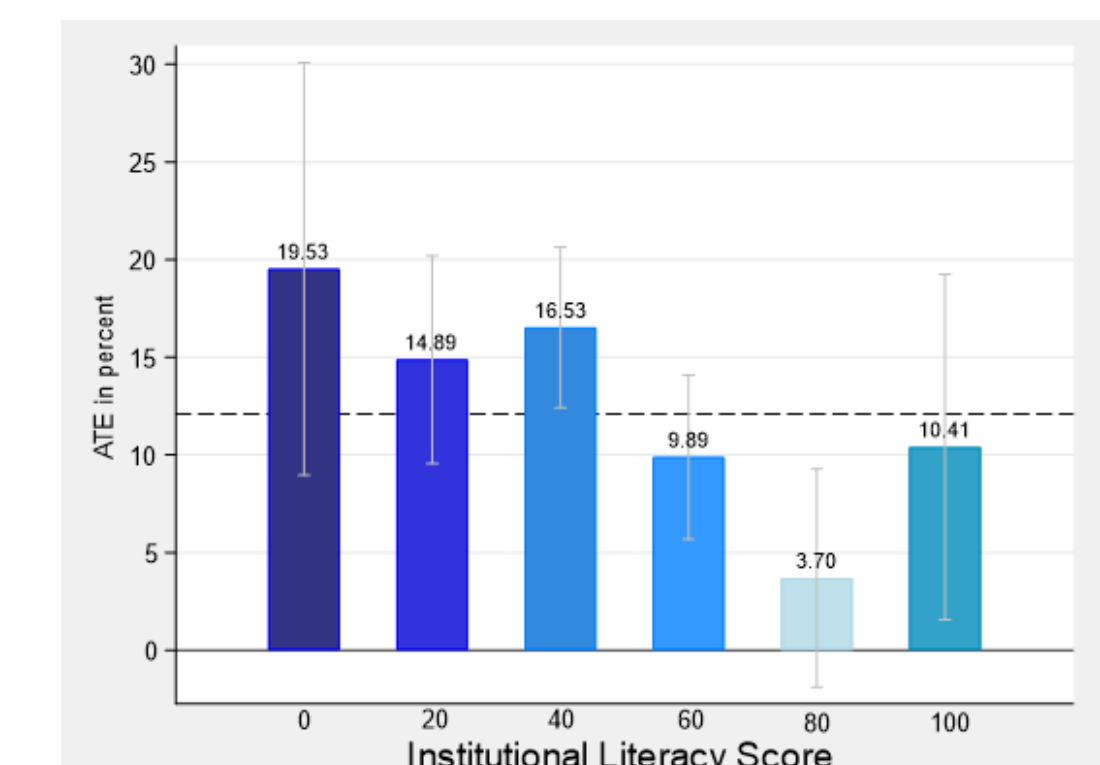

Chart 2. RCT study design

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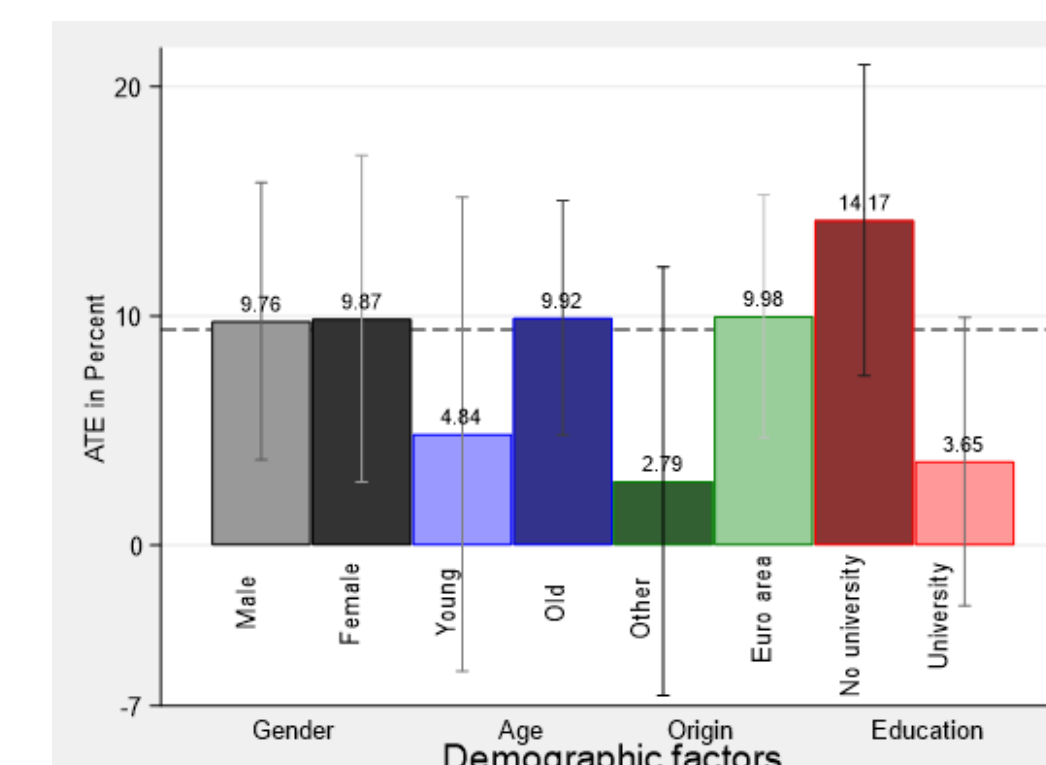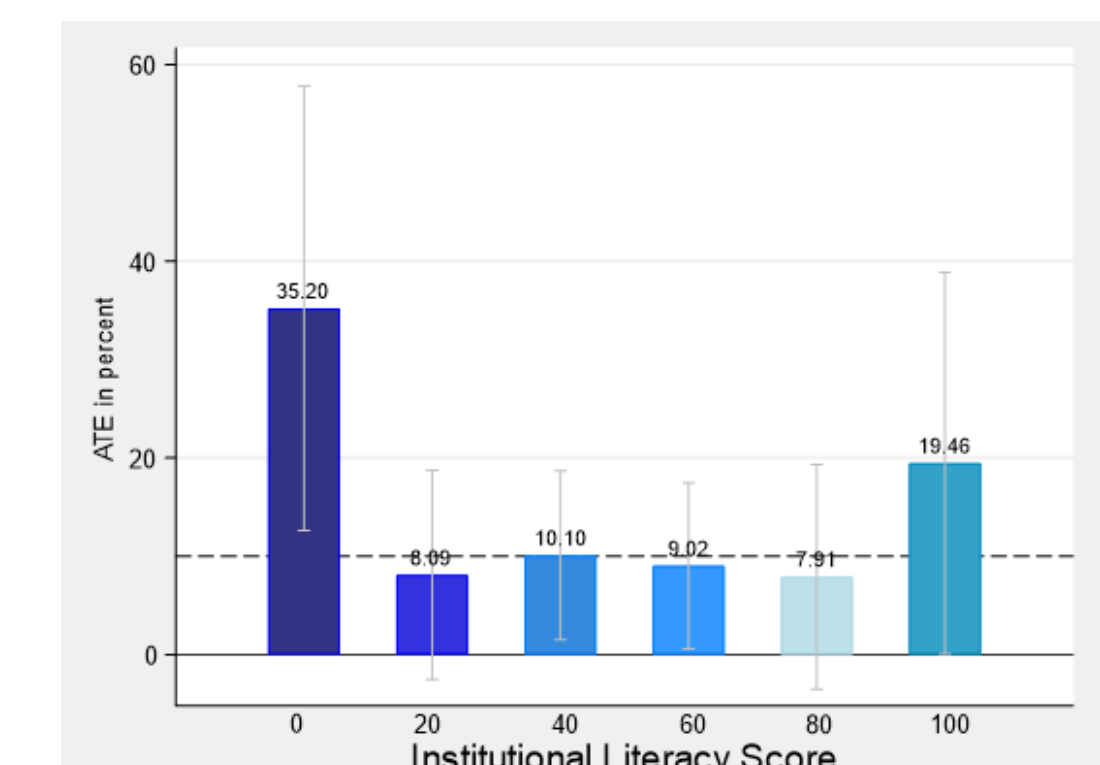Phone: +49-1722349546

Results in Graphs

Result 1. Literacy gains and demographics
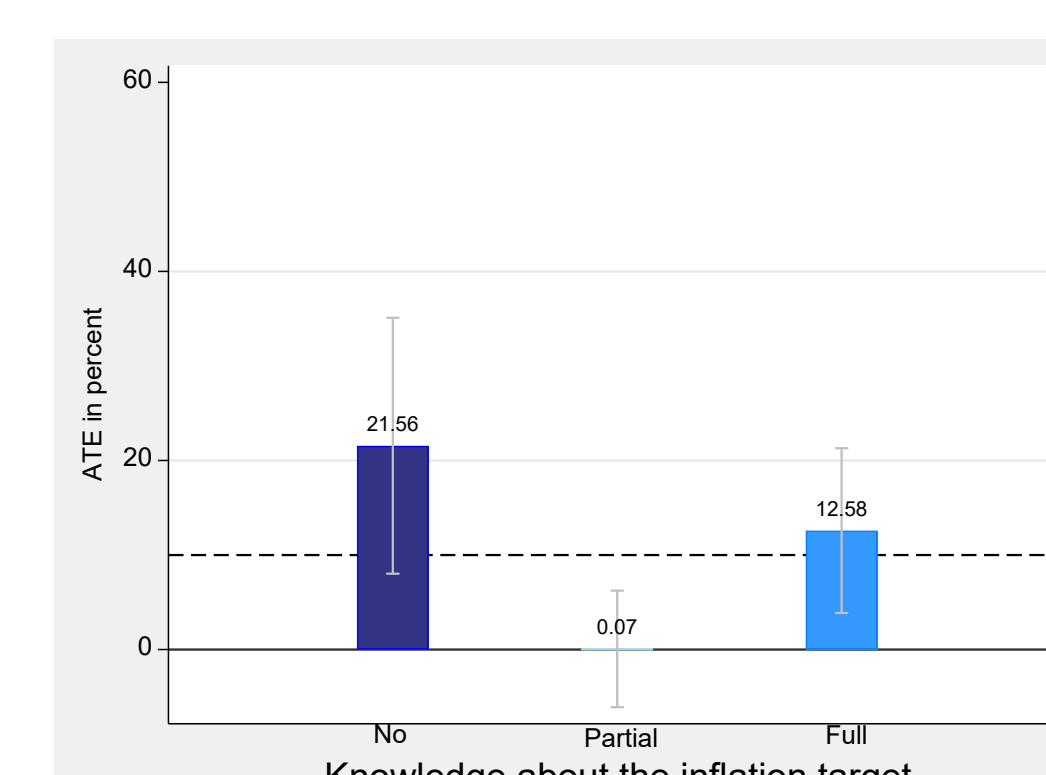

Result 2. Literacy gains and prior knowledge

Result 3. Inflation expectations and demographics
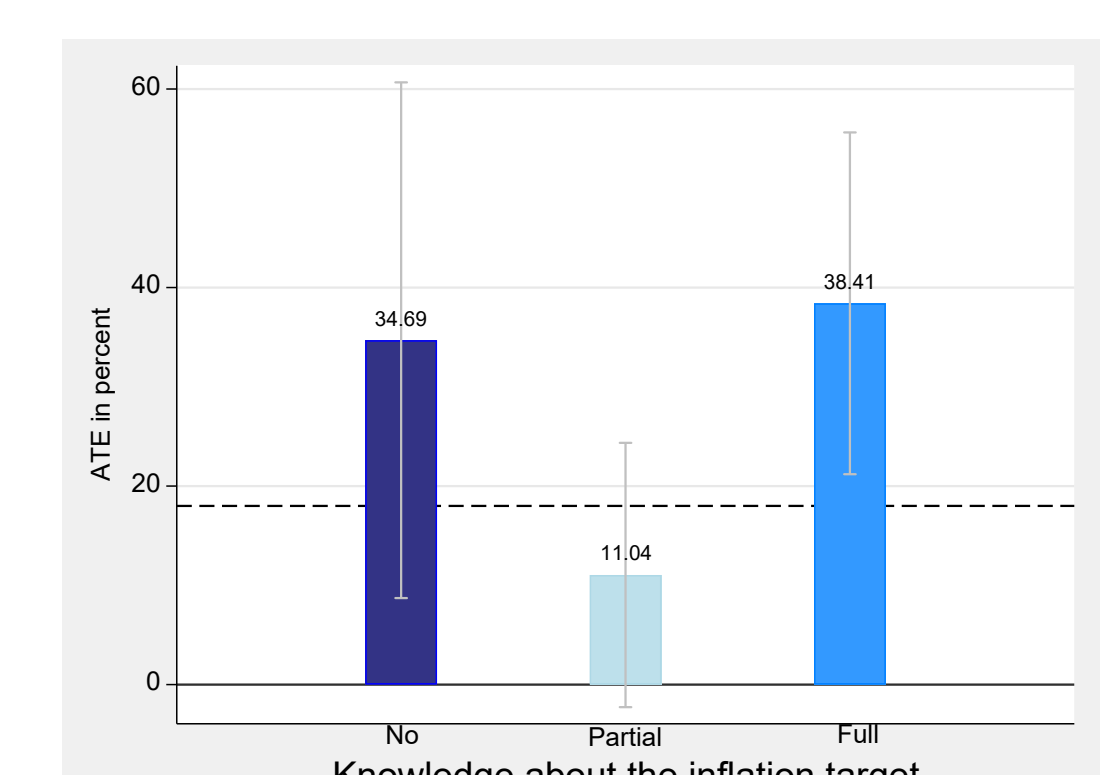

Result 4. Inflation expectations and prior knowledge

Result 5. Literacy about the ECB's inflation target and inflation expectations
Note: The dashed horizontal lines show the respective total effect.

Discussion

- **Monetary literacy gains:**
  Participants who were exposed to direct ECB communication showed a 12% increase in monetary literacy, outperforming the control group by one correct question per survey (see Result 1). The effects were more pronounced for visitors with no university education and those with lower initial monetary literacy (see Result 2).
- **Improved anchoring of medium-term inflation expectations:**
  Following the treatment, 9.4% of the participants aligned their medium-term inflation expectations with the ECB's inflation target (see Result 3). These effects were stronger among older visitors, participants from the euro area, and those with no university education, with less knowledgeable participants benefiting more (see Result 4).
- **Role of trust, knowledge about the inflation target, and language:**
  Trust in the ECB and knowledge about the inflation target significantly contributed to the anchoring of medium-term inflation expectations (see Result 5). The effects were even stronger for German-speaking participants when communication was conducted in their native language (see Result 5, RHS).

Conclusions

- Our study demonstrates that **direct ECB communication** significantly enhances the monetary literacy of non-experts and improves the anchoring of medium-term inflation expectations, aligning them more closely with the ECB's target.
- The **effectiveness of these communication strategies** varies based on demographic factors, participants' prior knowledge about monetary policy, their trust in the central bank, and the language used during communication.
- By highlighting the effectiveness of direct communication strategies for diverse audiences, this research provides **valuable insights for central banks aiming to optimize their outreach activities with the public**.

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