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Abstract

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JEL Classification: E52, E58

Keywords: Communication

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MPC monetary communication: Children of the revolution(s)*

Delia Sih Chien Macaluso† Michael McMahon‡

First Draft: March 13, 2022
This Draft: October 8, 2022

Abstract

The Bank of England's Monetary Policy Committee (MPC) celebrated 25 years of existence in June 2022. This period is marked by a global trend toward greater transparency and more communication in central banks. While some of these changes took place before the Bank of England was given independent operational control of monetary policy, the Bank has played a leading role in many of these trends. This short paper takes a look back the communication of the Bank of England, and considers the impact of current trends going forward.

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1 Introduction

Much like most of the Bank of England's regular communications, this article has both a backward-looking and a forward-looking component. Looking backward, we will document the communication successes of the Bank's Monetary Policy Committee (MPC) as it celebrated its 25th anniversary, but we will also highlight where things could have been better. Turning to the future, we shall build on this last 25 years and try to suggest the ways communication needs to evolve further.

Blinder et al. (2008) define monetary policy communication broadly as "the information that the central bank makes available about its current and future policy objectives, the current economic outlook, and the likely path for future monetary policy decisions." As our title alludes to, there has, since the 1980s, been a monetary policy communication revolution. In fact, we will argue that there have been at least two revolutions (more if one were willing to broaden the focus to include other aspects of central bank communication). Given our focus on the MPC, we shall stick mostly to issues in monetary policy communication though we will mention other aspects of central bank communication where it is relevant.

To summarise the revolutions by broad descriptions of the questions central banks seemed to be asking themselves across different eras:[1]

- Until 1990s: "Do we (have to) communicate this?"
- 1st Revolution ≡ 1990s to Global Financial Crisis (GFC): "Why wouldn't we communicate this?"
- 2nd Revolution ≡ From GFC to Now: "How should we communicate this in a way that engages a broad cross-section of society?"

The first revolution can be linked to the adoption of inflation targeting. This involved a low frequency communication with a broad audience, the target, which was then paired with higher frequency communication with financial market participants. This is what most monetary economists would consider the conventional communication. The second revolution followed from the decline of trust in the central bank and growing threats to central bank independence after the GFC.

In this article we discuss MPC communication accounting for differences in timing, frequency, and target audience. These characteristics capture important design differences of communication media, and reflect the evolution of monetary policy communications from technically aware to increasingly democratic.

[1] Skingsley (2019) uses a similar set of questions to characterise central bank attitudes to communication.

2 Revolution 1: Inflation targeting, transparency and communication

In this section we discuss why the first revolution followed with the adoption of an inflation targeting framework. We discuss the portfolio of communication channels, and in sections 2.3 and 2.4 we focus on two specific issues with the Bank's communications.

2.1 Inflation targeting and communication

Adoption of an inflation target (IT) predates the establishment of the MPC in the UK. The first IT was adopted following Britain's departure from the Exchange Rate Mechanism in September 1992. IT regimes are based on a clear, numerical objective for inflation and a high degree of transparency and accountability. The new framework was the impetus for a lot of the first communication revolution. Even when the famous Targeting Inflation conference took place in 1995 at the Bank of England, while instrument control remained with the Treasury, a lot of the discussion was about the transparency and communication aspects; at the time, the Bank was quite unique (along with New Zealand) in publishing both a forecast as well as the minutes of the monetary briefing meeting (the so-called Ken and Eddie show). These publications are now standard in IT regimes.[2]

There are two reasons for the focus on communication (sometimes called "open mouth operations") within the IT framework, and both are key aspects that contribute to the credibility of the central bank's monetary policy. One is democratic accountability which clearly becomes important once the central bank gains independence over an important macroeconomic policy. The other is that communication plays a central role in the management of expectations which is a central tenet of monetary policy frameworks in our theoretical models (King et al. 2008). For instance, in New Keynesian models (Galí 2015, for example), inflation expectations are a vital determinant of inflation. The two reasons clearly overlap; to be able to influence expectations, the central bank has to be expected to act to achieve its target which requires the continued support of the government which grants it its independence.

2.2 The MPC's communication portfolio

The MPC communicates at both higher and lower frequencies. Both can play a key role in inflation control by influencing how agents form their expectations

[2] See Haldane (1995) or Bernanke et al. (1998) for specific discussions of the designs and implementation of IT regimes.

2.2.1 Low frequency

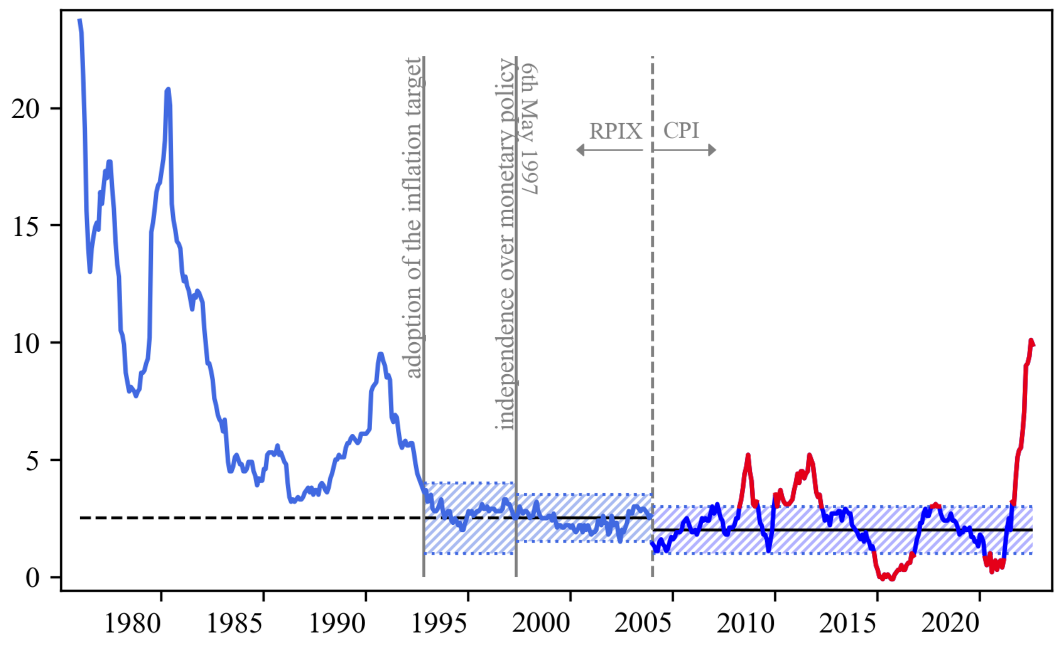
At the lower frequency, there are some great communication successes. Three warrant specific discussion.

1. The inflation target itself (π^*)

   A major advantage of an IT is that the central bank can more easily communicate their ultimate objective. Of course, the target does not itself communicate a complete monetary reaction function, but it did eradicate the need to communicate how intermediate targets, such as money growth, are related to inflation (especially since the relationship may be volatile).

   For the UK, the target was initially a range. When the Bank gained independence in 1997, the target was expressed as a point, 2.5%, based on the RPIX inflation index. But there was also a window around this target of +/- 1pp. In June 2003, the Chancellor changed the index on which the target is based to the harmonised index of consumer prices (CPI), and simultaneously reduced the inflation target to 2% to account for the differences in the construction of the two indices. There was no material change in the target.

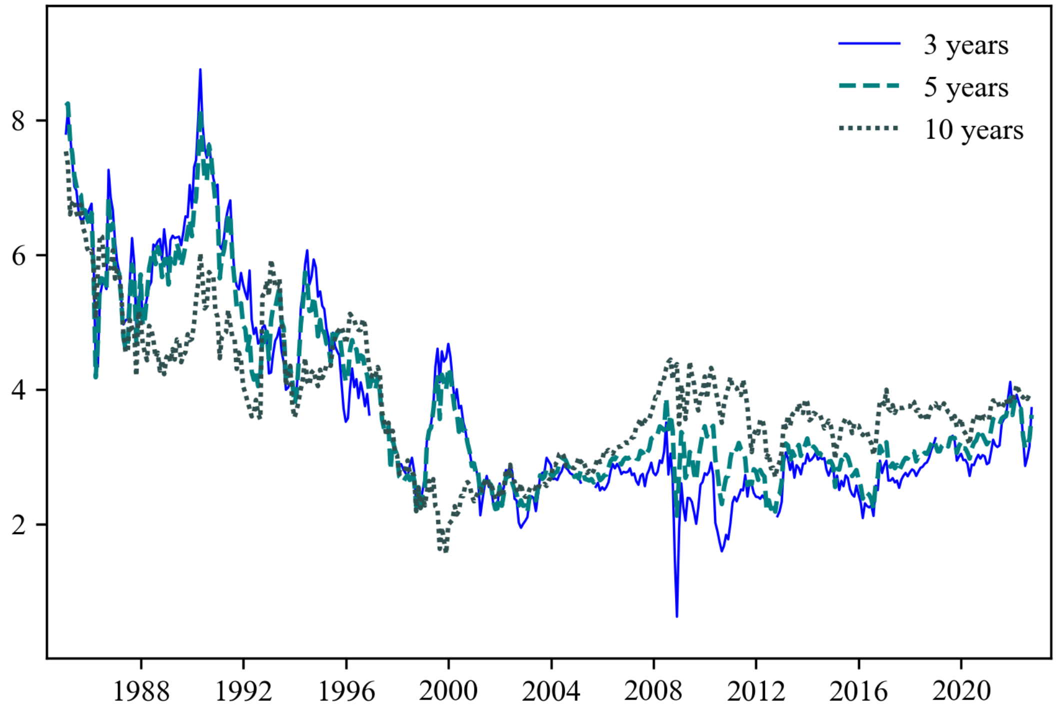
Figure 1: Actual and target inflation over time



Notes: Office for National Statistics data for inflation (RPIX and then CPI) and official target information. Sample plotted is monthly frequency from 1976 to 2022.

Figure 1 shows that, at the most basic level, the IT regime operated as expected. It shows that the target was never missed in the first 15 years of the inflation target (first nine of the MPC being charge of monetary policy).[3] However, Figure 1 also highlights the current scale of the inflation miss and the challenge facing the MPC to act, in both deeds and words, to restore their inflation-fighting credibility.

Figure 2: Market-based Inflation Expectations



Notes: Bank of England data. Sample plotted is monthly frequency from 1985 to 2022.

Figure 2 shows that market-based inflation expectations, even over longer horizons, came down with inflation targeting and again with central bank independence.

2. Descriptions of the technical details of Bank of England Monetary Policy

   The Bank, in the early days of the MPC, produced many documents to describe and explain the technical and logistical details of the monetary policy process (Bean and Jenkinson 2001), the monetary transmission mechanism (Bank of England 1999b), the models used in the policy process (Bank of England 1999a, 2000, Harrison et al. 2005, Burgess et al. 2013)[4], as well as reviews of the process (Pagan 2003, for instance) and the Bank's responses to these.

   These are, in general, quite wonkish and do not speak to a wide cross-section of the general public. Nonetheless, these are important documents and were vital pieces

[3] Inflation went above target in March 2007 (3.1%), then again from May to December 2008, December 2009 to April 2012, November 2017 (3.1%), and now since August 2021. It fell below less often; December 2014 to August 2016, October 2016, April to June 2020, and August 2020 to March 2021 (Covid).

[4] I thank Sir John Vickers for reminding me of these important documents.

of reading for professional central-bank watchers and students. These documents should be kept up to date. Searching the Bank of England website, the most recent models are not obviously described. Moreover, the transmission mechanism document has not been updated for a long time (at least publicly); in that time, the Bank has gained new policy tools such as Asset Purchases, macroprudential policy under the Financial Policy Committee (FPC) which interacts with monetary policy, and it now places more emphasis on communication through forward guidance.

3. Letters to the Chancellor

   According to the MPC's remit, if inflation moves outside of the bands (+/-1pp) of the inflation target, the Governor must write a letter to the Chancellor of the Exchequer. In this letter, the Governor must explain why inflation has missed the target bands, how the MPC is responding, and how the committee is balancing trade-offs such as getting inflation back to target more quickly versus reducing output volatility. The Governor must write again if, after 3 months, inflation continues to be outside the target bands.[5]

   The importance of these letters is that they ensure that the Bank must, in a relatively consistent fashion, explain a failure to achieve the target to the Chancellor and, more broadly, to politicians and the general public. This is a vital medium to allow communication on these issues, and enables a vital channel of accountability for an independent MPC.

   As an aside: It is not clear whether these should be seen as low frequency we waited 13 years for the first one (until May 2010); or higher frequency - we have had 23 (and rising) since the first one.

2.2.2 Higher frequency

The MPC, like other monetary policy makers, has several regular communication channels, and these too have been evolving. These include Statements, Minutes, the Monetary Policy Report (MPR, called the Inflation Report initially), and regular speeches by MPC members. Regular appearances before the Treasury Select Committee, like the Governor's Letters to the Chancellor described above, also provide a mechanism for direct accountability which is extremely important in an era of independent monetary policy.

A major reform of the MPC's information provision took place in 2015: following the Warsh review (Warsh 2014), the MPC began to publish all of their key releases - the

[5]The Letter used to be sent with the release of the CPI data showing the breach. Since March 2020, the Letter is published with the MPC minutes of the meeting following the breach. This allows the MPC time to understand the breach (if it was a surprise), and to deliberate and vote on policy action.

decision, the minutes (including the voting record), and the MPR - on the same day that they make the monetary policy decision, which is typically a Thursday.[6] This followed the recommendation to "publish policy decision and rationale as soon as is practicable". Additionally, the number of policy meetings was reduced from twelve to eight.

Prior to this, the MPC would make a statement announcing their policy decision though the post-meeting statement was typically limited (unlike the Federal Reserve and ECB statements). It would contain a few paragraphs of supporting information when a change in interest rates was made, but otherwise would simply read, as on 5 October 2000, "The Bank of England's Monetary Policy Committee today voted to maintain the Bank's repo rate at 6.0%." It would also alert the reader to the date of the minutes release. Over time, the statement was used more and more to reveal the economic thinking behind the decision, though the full discussion of views and votes was only released with the Minutes.

These Minutes would be released two weeks later containing an account of the policy decision, the members who voted for and against the proposition and a summary of the economy in terms of the data discussed at the meeting. The importance of the minutes for the UK largely reflected its role as the key vehicle to explain the thinking of the committee and, through the votes, the dispersion of views held by members.

The lack of detail in the statement meant that forward guidance in the broad sense, which existed for the FOMC via balance of risks discussions in the statements, had to wait until the release of the minutes. The MPC minutes, and especially the release of the voting outcome, played this role signalling the likely direction of future policy (Gerlach-Kristen 2003). The move to Super Thursday has clearly meant that such forward guidance can now accompany the immediate decision, though perhaps a move to more detailed statements could have also achieved this outcome.

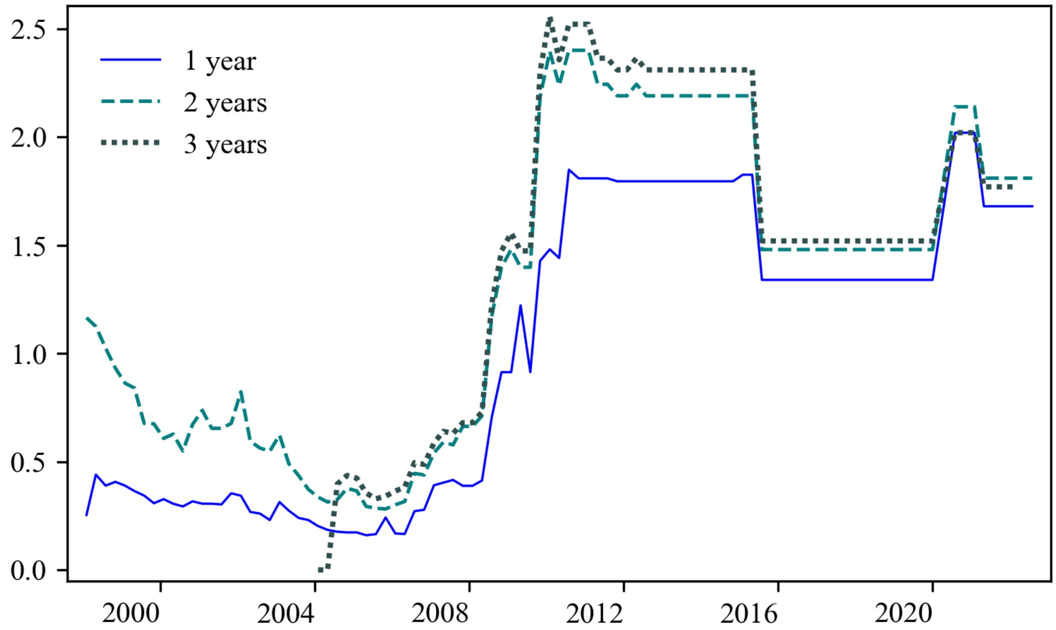
The MPC has presented its forecast in the Inflation Report (IR) / Monetary Policy Report (MPR) four times per year – in February, May, August and November. This was, in the old schedule, released typically 6 days after the MPC meeting (and a week and a day before the Minutes would be released). The forecast is communicated visually using the famous fan chart figures. Introduced by the Bank in the 1996 February IR (Britton et al. 1998)[7], these forecast probability distributions have become a key tool in both the assessment and communication of forecast uncertainty. Central banks in many countries now use similar figures even though the specific construction of the distribution varies (Razi and Loke 2017). Studies, particularly for the UK, have shown that the fan

[6]The MPC also agreed to release meeting transcripts following an 8-year lag. This applies to the March 2015 policy meeting and so we must wait until 2023 to receive the first set of these. See Hansen et al. (2018) for a discussion of the impact of transcripts on FOMC deliberation.

[7]Initially the Bank produced the fan chart for inflation only but introduced the GDP growth fan chart in the November 1997 IR.

chart distribution plays a role in communicating uncertainty to market expectations – see Hansen et al. (2019) and Rholes and Sekhposyan (2021).

Figure 3: Variance of inflation projections at a one-year, two-years, and three-years horizon

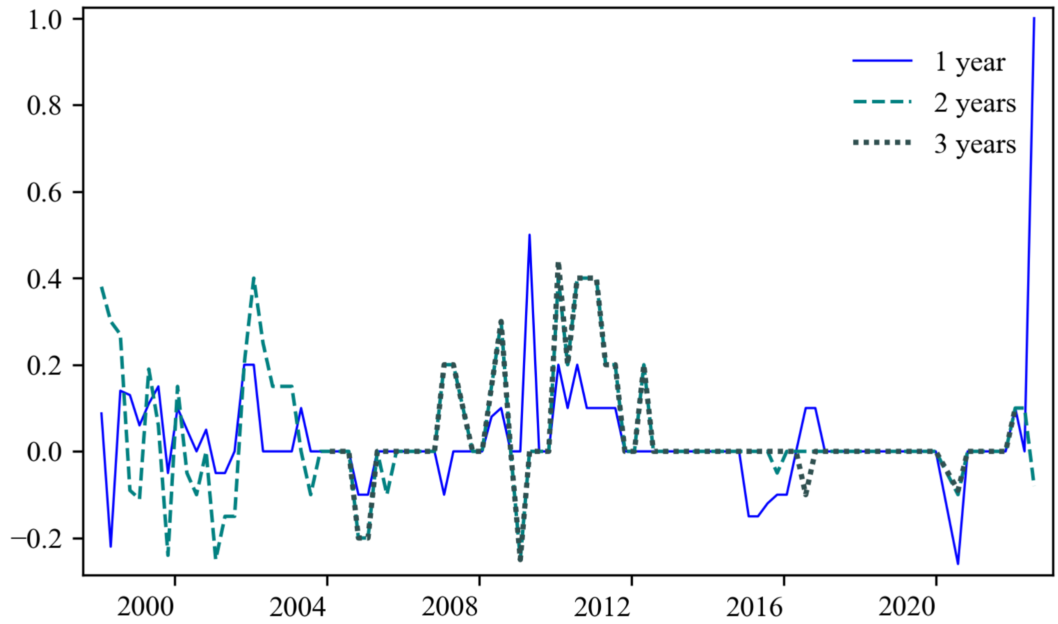


Notes: Bank of England data.

However, there is an issue about the extent to which the MPC continues to use fan charts to communicate changes in uncertainty. Figure 3 shows the variance parameter underlying the inflation forecast at one-, two- and three-year horizons; we use this as a measure of the uncertainty perceived by the MPC in its forecast. At all horizons, there was a large increase in uncertainty at the GFC followed by long periods of unchanged uncertainty.[8] Figure 4 shows that skewed forecasts seemed to have become much less prevalent than previously; however, the August 2022 forecast introduced an all-time highest skew in the one-year forecast. Rholes and Petersen (2020) show that communicating a density around a forecast affects how effective the point forecast is at managing expectations, but also how subsequent inflation misses are treated. It is not certain that the introduction of more-skewed forecasts would have better signalled the probability and direction of likely interest rate moves because even if the skew signalled the direction of concerns, the interest rate move would depend also on how the MPC chose to react to

[8] A similar pattern exists for GDP growth forecasts. These are harder to show consistently because the Bank reported the level, rather than the growth rate, of GDP between August 2020 and August 2021 (given that post-Covid growth rates were very large). During this period, the standard deviation and skew were reported in bn. As such, it is not possible to easily compare the evolution of GDP uncertainty in that period.

Figure 4: Skewness of inflation projections at a one-year, two-years, and three-years horizon



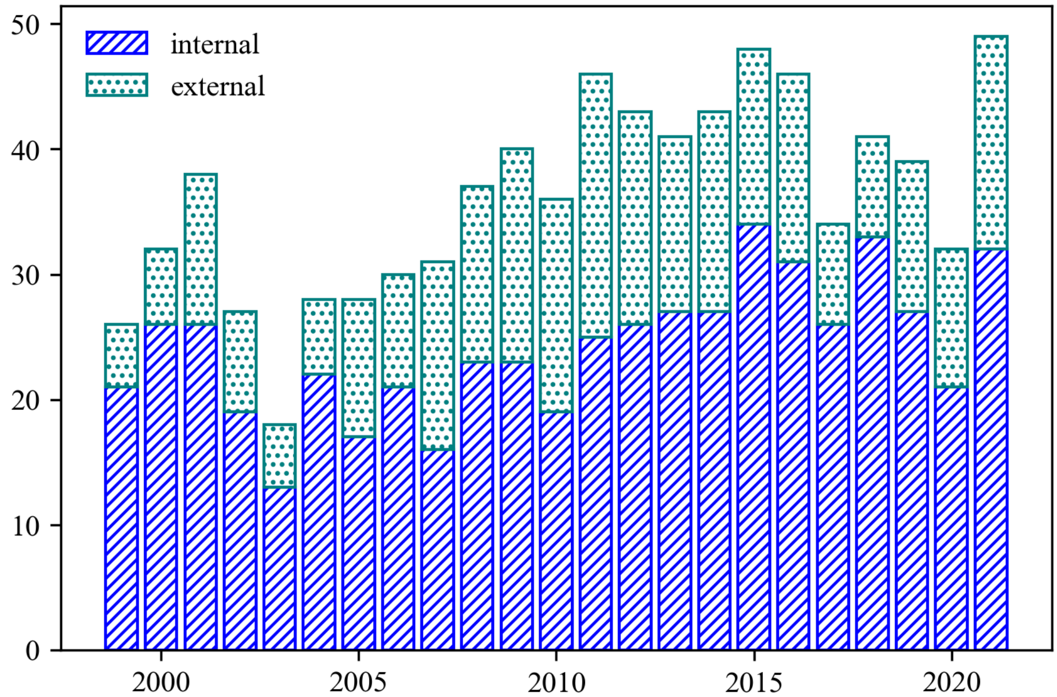
Notes: Bank of England data.

these concerns. Nonetheless, it is not clear how the MPC converged on using the fan charts in the way that they have and whether their use as a communication tool has changed.

The other mechanism for communication of the MPC's views are speeches. These are an important aspect of the one-person-one-vote philosophy of the MPC. While some people complain about the cacophony of voices, cacophony is an important channel to communicate a diversity of views, and, potentially, uncertainty. Figure 5 shows that, over the last 25 years, MPC members on average deliver more speeches. Moreover, the breadth of information covered, topics beyond monetary policy, has also increased, especially by the internal members who have multiple committee commitments.

Two other publications deserve mention. First, the Quarterly Bulletin, released (as the name suggests) quarterly, is not specifically from the MPC, but it regularly presents discussions of monetary policy topics including monetary policy operations. Second, MPC members and the Bank's staff produce numerous research Working Papers. These, often more academic pieces, help to communicate the latest thinking about monetary economics topics, and how the Bank is treating them in their analysis. The Bank has improved in the last 25 years in terms of its willingness to release research and disseminate the findings; in the past there was often a long lag in the publication process even for working papers as the Bank seemed to be worried about the research being perceived as official views (despite the "usual disclaimer"). This trend should continue.

Figure 5: Volume of speeches and breakdown by speakers' affiliation



Notes: Bank of England data including any speeches given by members of the MPC at the time that the speech was given. Early speech data from the Bank website is incomplete so the sample in 1999; we stop the sample at the end of 2021.

2.3 Specific Issue 1: How unreliable is the Bank as a boyfriend?

One specific concern that has been raised about the Bank's communication is the extent to which the Bank's monetary policy actions disappointed market expectations that had been heavily influenced by earlier central bank communication.[9] Specifically, the idea is that, in the months prior to a meeting, MPC members may hint at a particular move such that this action is priced in by investors; when these hints fail to translate into action at the subsequent meeting, it generates a market surprise (and some annoyance from investors). In these cases, the Bank has been likened to an 'unreliable boyfriend'.[10]

[9] Of course, the way in which central banks communicate, and the extent to which they conduct forward guidance goes beyond the Bank of England. In providing forward guidance, it is itself a communication issue to ensure that markets understand the nature of that guidance. In particular, to what extent the guidance is *Odyssean*, giving a committment to a future path, or *Delphic* which is state dependent guidance.

[10] The moniker was first used by MP Pat McFadden in 2014 in relation to the then-Governor Mark Carney; the MPC chose to forego the forward guidance policy for more ambiguous statements. It has been picked up several times since then, whenever the Bank didn't act consistently with the expectations previously set by themselves.

The most recent was after the MPC meeting of November 2021. In late September, the Governor, Andrew Bailey, was seen to strike a more hawkish tone in a speech at Society of Professional Economists' annual dinner. In October, the Governor then expressed greater urgency for the Bank, and other central banks, to act on rising inflation. The markets took a clear message of the Bank's intention to hike rates before the end of the year. If we look at Figure 6a reporting the time series for the estimated number of 0.25% movements priced into overnight index swaps for the November 4th meeting, we can see that the underlying expectation was of no rate change until Bailey's speech (Sept 27), when the market started to price in the probability of a hike, and then moved further towards certainty of a change after the G30 declaration (Oct 17). Markets also expected future policy rate increases in the December and February meetings.

The MPC left interest rates unchanged in November, taking financial markets by surprise. On the day of the meeting, markets had to face the sudden realisation that the expected tightening would not be forthcoming as can be inferred from the abrupt adjustments in the series for the December and February meetings. When confronted with accusation that he had, like his predecessor, displayed unreliable tendencies, he clarified that his statement was a conditional one upon the transient, or not, nature of inflation and the lingering repercussions of the pandemic.

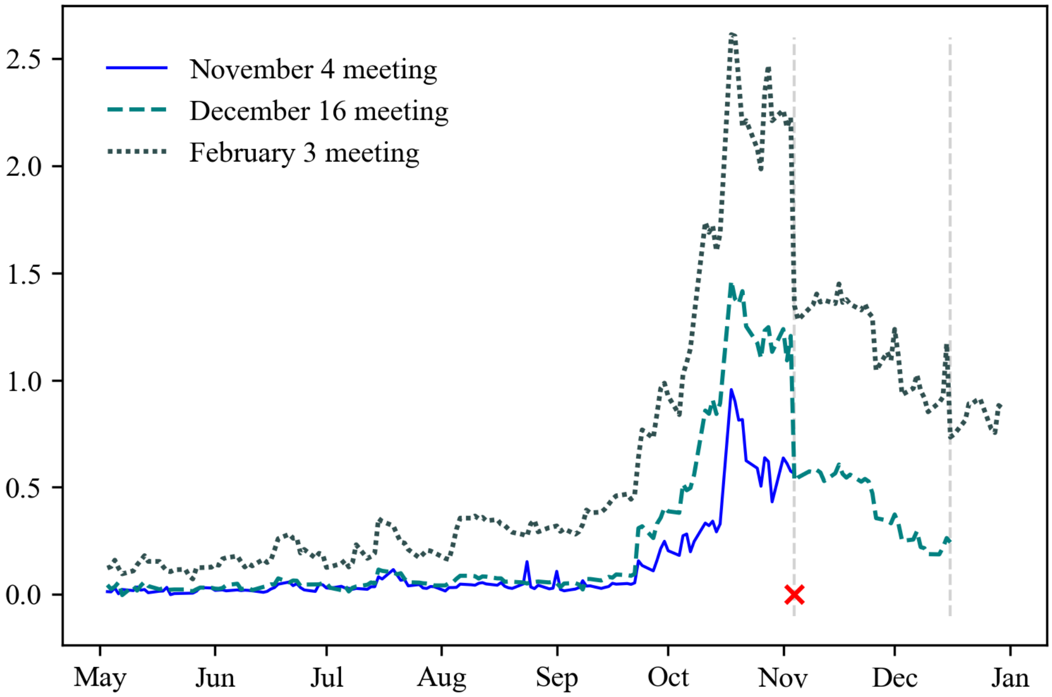
For comparison, Figure 6b reports the priced in movements for a meeting two years before: while there is still some underlying variation over time, these normal market movements are of a completely different magnitude and, more importantly, eventually do not lead to surprise on the day of the meeting.

Clearly markets are very attentive to developing sentiments across the MPC that might hint at what the following action might be. One typical way to communicate different views is through speeches by individual MPC members. Speeches typically include commentary on the state of the economy, and sometimes proposing appropriate actions when the economy might veer away from achieving the inflation target. The focus on these speeches means that members need to be very careful about what they want to communicate and the way to communicate it to markets effectively; in particular, communicating any conditionality.

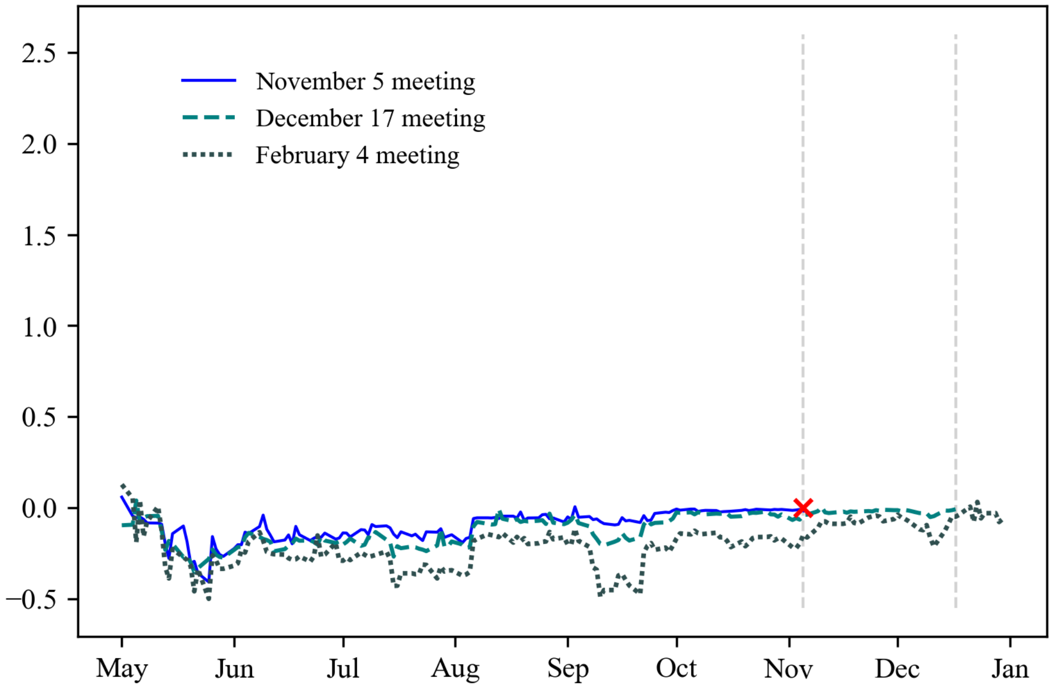
The more formal way that MPC members express disagreement is through their voting behaviour in meetings. The MPC has typically enjoyed a reputation for sincere and democratic voting; the one-person-one-vote philosophy becoming particularly clear in August 2005 when the Governor voted on the losing side of a decision to cut rates.

More recently, the question arose as to whether the committee was dissenting less. Had there been a shift towards debating disagreements behind closed doors and presenting a united front to the public arose? This wouldn't be a novelty in itself; it has been a

Figure 6: Market expectations on future actions



(a) November 2021



(b) November 2019

Notes: Bloomberg data. Daily estimated number of 0.25% movements forecasted for each meeting as priced into the contemporaneous overnight index swaps forward curve for the UK at market close.

common practice for the FOMC. Figures 7 and 8 show voting dissent patterns over the years. Even accounting for the Zero Lower Bound (ZLB) period[11] where a more inertial behaviour can be reconciled with a floor for the policy rate, the data for policy rate and for asset purchases seems to be consistent with less dissent than initially.

While we can quantitatively measure the extent of the dissent in voting, there can be many underlying reasons for voting differences: different opinions on the current state of the economy, alternative views of how it will evolve, and disagreement on the optimal policy action.

And, of course, MPC members can disagree to agree. That is, because the economy is complex and dynamic, differences in beliefs about the current state of the economy, as emphasised in Byrne et al. (2022), can coexist with different beliefs about the likely dynamics of the economy, such that MPC members agree on the future outlook and the appropriate policy choice.[12] Similarly, the committee might have different views on what the correct reaction function such that they agree on the choice of policy even though their views on the economic outlook differ. These possibilities are likely greater at the ZLB, where the already noisy signal loses an important component, the economy being constrained and the liquidity trap limiting the central bank's ability to stimulate it.

Also, communication of monetary policy becomes more difficult when there are multiple instruments. This means that it is possibly harder to communicate with as much clarity since the GFC when the instruments available to the MPC have expanded (and even more so when the Bank as a whole is considered).

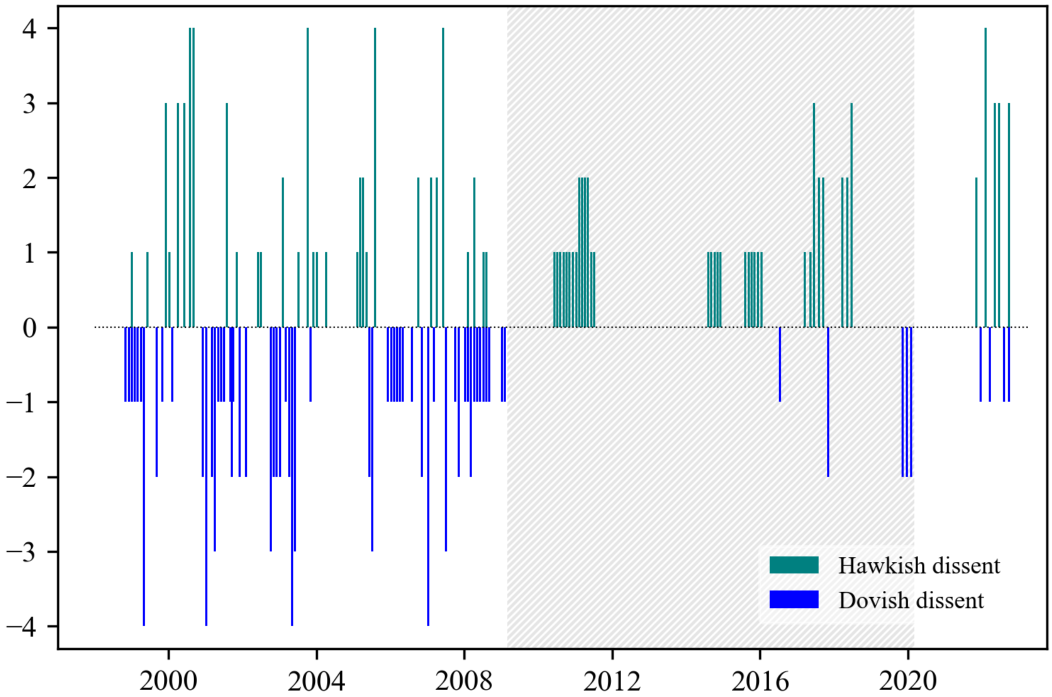
2.4 Specific Issue 2: Super Thursday and Information Overload

As mentioned above, the Warsh review brought significant changes to the timing of communication of MPC decisions and analysis. Announced on 11 December 2014, the introduction of Super Thursday on which the decision, the minutes (including the voting record), and the MPR (in the relevant months) are now published on the same day. The logic was to enhance the effectiveness of its communications, and its accountability, and to address the lack of a detailed policy statement. (To accommodate these communication changes, the MPC also adjusted the logistics around the meeting.)

[11] We refer to ZLB period as the time frame for which the range of policy rates was below 0.5%.

[12] There is uncertainty about the horizon at which monetary policy has its maximum effect on the economy (estimates vary anywhere from 18 months to three years), and the effect is likely time-varying. Additionally, even though the bank has an inflation target, its secondary objective is "subject to [price stability], [it] support[s] the Government's economic policy, including its objectives on growth and employment". Therefore, within reasonable bounds, it is a matter of individual decision how to evaluate the trade-off between the nominal and real sides of the economy and assess the costs of, say, a temporary rise in inflation to alleviate unemployment pressures.

Figure 7: Voting discrepancy on interest rate changes over time

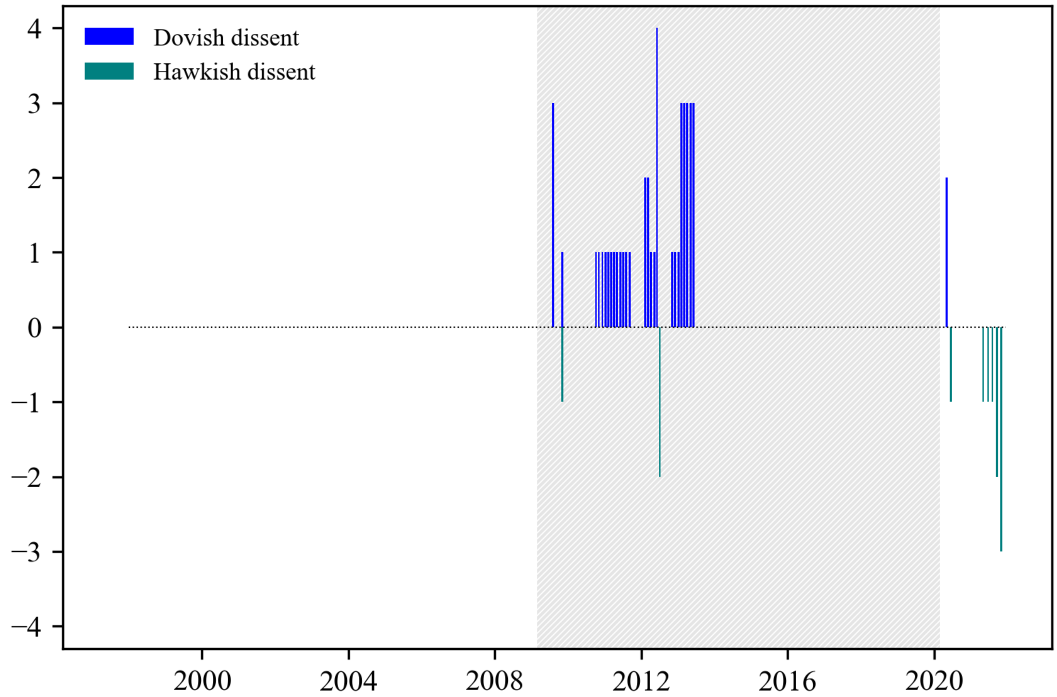


Notes: Number of votes in favour of a higher (in green) or lower (in blue) rate compared to majority

Eichengreen and Geraats (2015) worried that the changes would worsen transparency rather than strengthen it. In particular, the "deluge" of information would make the logistical changes to the meeting process would negatively impact the ability to make the best possible decision.

Did the introduction of Super Thursday lead to noticeable errors of interpretation that were not made in the earlier period? How do such errors compare with the impact of having markets have to wait (and trade) without knowledge of the detailed reasons for a policy decision? It is difficult to isolate the impact of Super Thursday. One simple exercise compares the amount of time for the OIS market price to settle on IR days before and after super Thursday; the time to digest information seems to go from around 35 mins to around 60 mins on average (Munday, 2022). This doesn't seem too concerning. But enough time has passed that it would be good for the Bank to do a review of these changes and, if necessary, fine tune the communication of monetary policy. This may be especially useful since the communication of policy has, since 2017, been broadened to include a wider cross-section of society. We now turn to this issue in more detail.

Figure 8: Voting discrepancy on asset purchases over time



Notes: Number of votes in favour of a higher (in blue) or lower (in green) asset purchase volume compared to majority

3 Revolution 2: Broader Communication

Haldane (2017) emphasised the emergence of both a deficit of public understanding about the central bank and a deficit of public trust in central banks. These developments potentially make the Bank's monetary policy less effective and undermine their ability to achieve the inflation target and weakens the impact of their communications. The second revolution concerns the attempts by the Bank to rebuild trust in the institution following the GFC. Other central banks are making similar attempts – see Blinder et al. (2022) for a broad discussion of the literature on communication with the general public.

Haldane and McMahon (2018) consider four reasons to address the general public:

1. Households are central to economic activity: their expectations matter and so communication can help the central bank to influence the narrative (Shiller, 2017).
2. Building public understanding may be important as a means of establishing trust and credibility about central banks and their policies. This is important not only for shaping expectations, but also for reasons of political accountability,[13] ensur-

[13] There is an empirical correlation such that those with greater understanding and satisfaction in the Bank have better anchored inflation expectations even controlling for all the demographic controls that stratified the responses (Haldane and McMahon 2018).

ing operationally independent central banks are meeting the terms of their social contract with wider society.

3. The availability of clearer, more-straightforward messaging might even benefit the more technical, traditional audiences. They can always get into the detail later.
4. To the extent that monetary policy committees aggregate information (Hansen et al. 2014), perhaps wider engagement also improves information sets by starting a two-way dialogue with a broader set of economic agents.

With the November 2017 Inflation Report release, the Bank of England began to release simplified ("layered") content describing the main messages; many central banks have now followed their lead. The emerging message from the research on such simplified communication is that, in information provision experiments, it can go a long way to achieving the aims of expectation management and trust building (Haldane and McMahon 2018, Haldane et al. 2021, Coibion et al. 2021). However, there has been less evidence from the general population that the implemented measures have meaningfully impacted expectations.[14]

McMahon and Naylor (2022) examine whether what matters in terms of explanation is simplicity of language, or simplicity of concept. Simple language, or semantic simplicity, relates to how difficult it is to read the text; it is often measured by Flesch-Kinkaid reading age scores which indicate how many years of education are needed to read a particular text. Conceptual simplicity relates to how well the reader understands the topics being discussed; it can be measured by counting the occurrence of different technical concepts such as GDP. McMahon and Naylor (2022) find that the latter matters most.

This is important because the initial layered content reduced complexity along both dimensions. But, since the introduction of layered communication, conceptual complexity has increased a lot while semantic complexity has remained low. This suggests that one reason we might not see big effects from the layered content is that simply hasn't been targeted correctly.

Two further issues emerge. First, Haldane et al. (2021) emphasise the need to not just explain but also to engage and to educate. On engagement, clearly explained communication will count for nothing if people don't engage with these communications. Do they read what the central bank writes? Do they follow the twitter account? Do they actively seek layered communication of the Bank's analysis? In the research, participants are typically incentivised to engage, and the prior engagement is not great - 34% had never heard of the IR while only 6% claim to have ever read it. In fact, the reverse combination - engagement without understanding - might not be as bad if the engagement contributes

[14] There is anecdotal evidence that people appreciate the layered content.

to building and maintaining trust. Joseph et al. (2021) looks at the impact of Citizens' Panels which are another initiative launched by the Bank that aims to engage (not just explain). The emerging evidence on such two-way communication is encouraging, albeit these can only reach relatively small numbers of people.

On education, there is a worry that people read the messages, but they quickly become confused by the complexity of the economy. For instance, the concepts of "inflation" and "GDP" (central to policy discussions) are not well understood by the general public (Runge and Hudson-Sharp 2020). Moreover, better economic education appears to be positively correlated with trust and likely reduces the costs of engagement. Of course, there is an important question about who should be responsible for economics education.

Overall, this second revolution is still in its infancy and, we believe, is important. In that sense, there is still a lot to learn. We are likely long way from getting it right. As Blinder (2018) predicted: "Central banks will keep trying to communicate with the general public, as they should. But for the most part, they will fail."

4 Is a 3rd Revolution Coming?

Before concluding, it is worth looking ahead to think about what the next revolution might be. There are two broad, on-going issues for the MPC, and the Bank of England more generally, in terms of communication that may be considered potential drivers of major change in communication strategy. These are (i) communication and alternative monetary frameworks, and (ii) the link between monetary communication and communication on other objective or even other issues. We briefly discuss each in turn.

Discussions about the exact details of the monetary framework, or the desirability of a different framework, continue (as they should). There is a large body of work examining the theoretical properties of different monetary regimes (Clarida et al. (1999) is a classic reference but there are many others). However, this literature largely takes as given the precise communication of the central banks policies and objectives, and the incorporation of these policies into expectations. We know that this is not always so. We believe, therefore, that it is important that the communication dimensions of any alternative frameworks is assessed more carefully than is typically done in theoretical assessments. For example, while there are some desirable characteristics of price level targeting, communication of it is not as straight forward and adopting the policy may weaken, rather than strengthen, the central bank's nominal anchor and its control of real interest rates.

This also applies to changes within the existing inflation target regime. For instance, raising the inflation target may be desirable in the sense that it reduces the probability of being constrained by the effective lower bound on nominal interest rates. But switching could involve large costs if it reduces credibility or trust in the target. To be effective, there needs to be careful consideration of the timing of such changes, and these need to be communicated in a way that shifts and then anchors expectations at the new target (Reichlin et al. 2021).

This would necessitate a three-pronged strategy. First, it is important that monetary policy acts in a manner that achieves the new inflation target. This is hard because of the stochastic nature of actual outcomes meaning that some luck might be needed to build the credibility of the new regime. Second, the change must be communicated effectively to financial markets. While this audience is engaged and can understand the reasons for the change, it must not come across as the central bank trying to shift the goal posts when they have been missing their target for a long period. Third, communication with the general public will be more difficult given they are less engaged. Coibion et al. (2021) show that the Fed's shift to average inflation targeting has had very little impact on household expectations.

The second issue concerns communication about other objectives and other issues. Since the GFC, the Bank has a broader set of policies and responsibilities. Four of the five internal MPC members additionally sit on the Financial Policy Committee and the Prudential Regulation Committee. This has advantages because knowledge of the health of the financial system can clearly be important for the conduct of monetary policy. But the risk is that given the complex nature of the interaction between macroprudential policies, financial stability and monetary policy, speeches on financial topics might be difficult to interpret in terms of what they mean for monetary policy.

With respect to other issues, this also poses a potential difficulty. Climate change itself, as well as policies to address the risks posed by it such as carbon taxes, are sources of shocks which monetary policy must react to. Climate risks have implications for monetary operations. While climate change naturally has an impact on the economy and the financial system, the extent to which central banks actively engage in the discussion on climate policy remains controversial.[15]

In terms of monetary communication, the MPC needs to be careful to communicate how these issues feed into the monetary policy discussions. On the one hand, discussion of pertinent issues can increase engagement with the central bank and increase their perceived relevance among the public. On the other hand, as with other policy discussions, there is a risk that speaking about other issues will complicate or dilute the communication of key messages on monetary policy. In periods of high inflation, such as a the time

[15]The ECB's strategy review presented a plan to incorporate climate considerations into monetary policy as discussed in Reichlin et al. (2021).

of writing, reverting to the old messages of a strong commitment to the inflation target is likely necessary.

5 Conclusion

The Bank of England and MPC have been at the forefront of monetary communications. This is true of both conventional communication with financial markets, and, more recently, communication with the wider public. There are still areas for improvement.

While a widespread engagement is to be encouraged, communication difficulties can arise when there is a multiplicity of forms of communication and a multiplicity of policies: ultimately the key is to make sure that the right message reaches each group, avoiding noise and confusion, and being aware of the fact that each plays a different role in the economy.

The clarity of communication, and especially of any conditionality of statements, can help avoid accusations of being an unreliable boyfriend. And the Bank should be seen to be regularly reviewing how it operates.

When evaluating the mandate or operation of monetary policy, it is key that the communication aspects are carefully considered. This is true of both future developments in terms of regime shifts and secondary objectives, as any ulterior motive carries the risk of diluting the message killing the main advantage of an inflation targeting framework. The central bank's credibility is vital to the effective operation of monetary policy, and communication must enhance and not hinder that.

Communication will continue to evolve. This may be new approaches to communication, or the evolution may involve a reversion back to previous approaches. In either case, remembering that just as communication has developed to enhance transparency, so too must transparency concerns guide the development of communication. As T.Rex taught us: "No you won't fool the children of the revolution". What they didn't mention was that you might lose your hard-earned credibility trying.

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