

The success of the European Central Bank's policies depends heavily on being understood by a wide audience, says **CHRISTINE GRAEFF**, its Director General of Communications

# CLEAR TALKING

**M**ONETARY POLICY? INTEREST rates? LTROs? OMTs? Full allotment? When the decision-making bodies of the European Central Bank (ECB) meet, many technical terms are used. But listening carefully you would discover that the single word most often used is simply *communication*.

Indeed, the success of a central bank's policies – both in terms of transmission to the markets and being understood by the general public – is more than ever dependent on how a bank communicates.

The times when central bank communication was based on secrecy and market surprise are over. And the aim of policymakers is no longer to have their own “dialect,” such as “Fed speak.” Alan Greenspan's remark, “I know you think you understand what you thought I said, but I'm not sure you realize that what you heard is not what I meant” is a line from the past. The key to trust is building relationships and using clear language.

But while central bank communication was previously aimed at very specific audiences, such as the financial markets, specialized financial players, economists and other key academic circles, there is now a much wider audience interested in the policies of central banks. And this explicitly includes the general public and political decision makers.



## GAME THEORY

**Your chance to play the role of ECB President Mario Draghi**

It's not *Grand Theft Auto*, but you do learn a lot. That was the verdict of a review on American National Public Radio recently by Jason Karaian of Quartz, Atlantic Media's business website, of the European Central Bank's educational games, including *€conomia*, *Inflation Island* and *Top Floor*. Marcello Di Pietro of the ECB says the games are designed to educate 18- to 25-year-olds about economics. “We hope to entertain players, who can have fun while learning about the benefits of price stability, the risks of inflation or deflation and the workings of central banks.” The ECB tools seem to gauge their audience better than similar games offered by the Fed, which Karaian thought were rather unsophisticated and perhaps “wouldn't entice future central bankers.” This may reveal the ECB's real goal: to beat the Fed at recruiting talent.

However, a message that may be helpful in steering a democratic and political process may lead, for example, to extreme nervousness in capital markets. So the ECB must be sensitive to the way its communication can be interpreted by various audiences.

**ADDED TO THAT**, there is the challenge of cultural bias. While German commentators, influenced by the savings banks and life insurers, complain about low interest rates, southern Europeans argue that they are still too high if you measure the real rates local companies have to pay. For some, the exchange rate is too high; for others, too low. For some, ECB experts in the “Troika” – the European Commission and International Monetary Fund in liaison with the ECB, which organizes loans to the beleaguered governments of Europe – are the “men in black.” Meanwhile, bond purchases by the ECB are sometimes seen as the sell-off of people’s assets. What Germans call the “euro rescue” (*Euro-Rettung*) is for the Greeks “the memorandum,” the paper the Greek government had to sign to receive European loans. It is all about language and images and historic associations.

The key to success will therefore be to explain how every single policy decision advances the public interest. In the case of the ECB, this means the public interest of millions of citizens, from the eurozone bailout program countries to the core European nations.

To achieve this, beyond the monthly press conference geared towards the markets – a feature invented by the ECB – its board members reach out to wider audiences. In addition to speaking at academic conferences, they also explain the policies of the ECB at local chambers of commerce, regional gatherings and universities, and by giving interviews to

various national and regional newspapers.

The importance of communication was again highlighted in the summer of 2013, when the ECB’s Governing Council introduced “forward guidance,” assuring the markets that interest rates would stay low for an “extended period of time.” This statement helped to ease concerns – reflected in the market – that interest rates would rise after talk in the US of “tapering” [scaling back stimulus measures]. Forward guidance in the case of the ECB is to be understood as a way of increasing transparency. Market participants know our guidelines – though this did not stop the latest rate cut taking some of them by surprise.

Another aspect of communication is currently being discussed: the publication of an account of the Governing Council’s deliberations, both to increase transparency and to help the various audiences understand how decisions come about and what the key elements



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## The times when bank communication was based on secrecy and market surprise are over

of the discussion are. Some people are concerned, however, that too much transparency may be counterproductive to a healthy discussion, given the political sensitivities involved.

The ECB is also well aware that the hierarchy of information has fundamentally changed: the top-down approach of one-way communication through established channels is no longer working. Instead, social media users are increasingly shaping policy or seeking to influence how policy is made. New coalitions and networks need to be engaged on their terms through central bank communication. Audiences are participating in the debate and, in many instances, are co-creating and collaborating with us. Establishing a dialogue rather than one-way communication via the different tools available is what the ECB is aiming at.

**AS COMPANIES** and governments know all too well, just having better arguments is not enough.

The key is that we maintain, or even increase, the confidence of the euro area’s 330 million citizens in our ability to keep the value of money stable.

“A secure and stable currency in an insecure world” would be our motto, if we had one. And given that the ECB has delivered this for 15 years now, it is high time that we make citizens aware of it and, more to the point, that we help everyone better understand the opportunities created by the euro and Europe. ♦