

Institution: University of Oxford		
Unit of Assessment: 16 – Economics and Econometrics		
Title of case study: Transforming Central Bank Communications: wider communication with targeted audiences		
Period when the underpinning research was undertaken: Sept 2017 - 2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Michael McMahon	Professor of Economics and Fellow of St Hugh's College, University of Oxford	Sept 2017 – present
Stephen Hansen	Associate Professor of Economics and Fellow of University College, University of Oxford	Sept 2016 – June 2019
Period when the claimed impact occurred: 2017 – 31 December 2020		
Is this case study continued from a case study submitted in 2014? N		
1. Summary of the impact (indicative maximum 100 words)		
<p>Research by McMahon and Hansen underpins major changes to the Bank of England's communication and education strategy designed to ensure that policy messages reach a broader range of people with the aim of building "<i>awareness, engagement understanding and trust</i>" and in so doing improve policy effectiveness. The research identifies the channels through which central bank communication about the economy may have long-lasting effects. Moreover, they establish that by reaching out beyond their traditional audience of economists and financial market specialists to engage with the wider public, central banks can increase the effectiveness of monetary policies and enhance trust in the institution. This has led the Bank of England to adopt a new 'layered' approach to its key policy publications, targeting social media and non-experts as well as the financial markets. Alongside the transformation of its communications, the Bank of England has significantly expanded its education and outreach activities engaging directly with the public through school and community forums.</p> <p>A number of other central banks are emulating the lead taken by the Bank of England and producing simplified communications for a non-specialist audience.</p>		
2. Underpinning research (indicative maximum 500 words)		
<p>Research by Hansen and McMahon has pioneered the use of tools from computational linguistics to understand communication and decision-making in central banks. Their work examines the impact of central bank communications internally – on the quality of decision-making by policy-makers – and externally – on the financial markets and on the perceptions of the wider public.</p> <p>In a key contribution to the field, with Prat (Columba University), computational linguistic algorithms are used to examine the effects of greater transparency on the deliberations of central bank decision makers. Using evidence from the natural experiment arising from the decision to publish transcripts of the Federal Reserve's Open Market Committee, they establish that greater openness as to how the committee arrives at their decision can improve the quality of decision-making by providing additional incentives for committee members to work to find appropriate policies [R1].</p>		

In related research, Hansen and McMahon analyse the alternative channels through which central bank communications may affect market yields in both the short and the long run [R2]. Using computational linguistic methods to extract narrative and numeric signals from a series of Bank of England Inflation Reports, they establish that the policy narrative conveyed in the text drives changes in inflation expectations and long-run interest rates, even after controlling for the report's quantitative content. A key finding is that the language used to explain the forecasts and the Monetary Policy Committee's interpretation of the data affects long-run outcomes and that the channel through which this operates is mainly through the narrative description of the risks and uncertainties around economic conditions. [R3].

McMahon has extended this analysis to other country settings. As China increasingly opens to international capital flows, the need for international understanding of its financial system and policies is growing. In research with Alfred Schipke (International Monetary Fund) and Li Xiang (Halle Institute for Economic Research), McMahon examines recent developments in the communication policy of the People's Bank of China (PBoC), as well as setting out some of the changes needed in order to begin the transition to international standards of transparency [R4].

Building on this research, McMahon has turned his attention to the ways in which central bank communication may reach beyond economists and the financial markets to influence the perceptions of the wider public. Survey evidence suggests that trust in central bank actions declined during and following the financial crisis of 2008, and has yet to fully recover. Moreover, public understanding of monetary policy measures remains low, particularly among the young, the less well-educated, and those with low incomes [R5, pp1-2]. In joint research with Andy Haldane (Chief Economist, Bank of England since 2014), McMahon undertakes a controlled experiment to examine how different types of Bank of England communication affect an individual's expectations about the future values of key economic variables. Their results show that communications that are more easily understood can not only increase the effectiveness of monetary policy by anchoring inflation expectations, but also contribute to improved perceptions of the institution [R5]. Further work by McMahon, with Haldane and Macaulay (Oxford DPhil Economics, 2017-2020) emphasises the importance of going beyond just clear explanations. Presenting both theoretical and further empirical evidence, the results make clear that central banks, and other policymakers concerned with the need to build institutional trust, need to create strategies for engagement and education in tandem with clear communication initiatives [R6].

3. References to the research (indicative maximum of six references)

- R1.** Hansen, S, M. McMahon and A. Prat (2018), "Transparency and Deliberation within the FOMC: A Computational Linguistics Approach". *The Quarterly Journal of Economics*, 133 (2), 801–870. <https://doi.org/10.1093/qje/qjx045> [output type D]
- R2.** Hansen, S, and M. McMahon (2018), "How central bank communication generates market news", in Sylvester Eijffinger and Donato Masciandaro (eds) *Hawks and Doves: Deeds and Words - Economics and Politics of Monetary Policymaking*, Ch15, VoxEU.org eBook - <https://voxeu.org/article/hawks-and-doves-deeds-and-words-new-ebook> [output type C]
- R3.** Hansen, S, M. McMahon and M. Tong (2019), "The Long-Run Information Effect of Central Bank Communication", *Journal of Monetary Economics*, 108, 185-202 <https://doi.org/10.1016/j.jmoneco.2019.09.002> [output type D]
- R4.** McMahon, M., A. Schipke and X Li (2019), "China's Monetary Policy Communication: Frameworks and Market Impact", in A. Schipke, M. Rodlauer and Longmei Zhang (eds), *The Future of China's Bond Market*, IMF. <http://dx.doi.org/10.5089/9781484372142.071> [output type C] (Previously published as "China's Monetary Policy Communication: Frameworks and Market Impact", IMF Working Paper 18/244, November 2018)
- R5.** Haldane, A and M. McMahon (2018), "Central Bank Communication and the General Public" *AEA Papers and Proceedings*, 108, May, 578-83. <http://doi.org/10.1257/pandp.20181082> [output type D]

R6. Haldane, A, A. Macaulay and M. McMahon (2020), “The 3 E’s of Central Bank Communication with the Public”. *Bank of England Working Paper 847*.
<https://www.bankofengland.co.uk/working-paper/2020/the-3-es-of-central-bank-communication-with-the-public> [output type N]

In 2019, Michael McMahon was awarded a 5 year ERC Consolidator Grant for research on “Monetary Economics and Communication: New Data, New Tools, New and Old Questions” (EUR1,560,516, Jun 2019 – Nov 2024).

4. Details of the impact (indicative maximum 750 words)

In the wake of the 2008 financial crisis, central banks have faced mounting criticism and mistrust of their actions and influence, leading some critics to suggest limiting their degree of operational independence over monetary policy. Andrew Haldane, Chief Economist at the Bank of England, in a 2017 speech highlighted the need for these institutions to “*rebuild trust among a wider set of societal stakeholders, more distrustful and diffuse than ever previously*” [E1]. These challenges have led central banks to rethink how, and with whom, they engage, and to reach out beyond their traditional audience of financial markets participants and policy makers to the general public in an effort to rebuild trust and broaden support for independent central banks and their policies. The research by Hansen and McMahon provided the Bank of England with the analytical framework and empirical basis to develop a communication strategy to meet these objectives.

Impact on Bank of England Communications and Outreach Programmes

As part of its Vision 2020 Strategic Plan, the Bank of England devised new communications and education strategies, designed to “*ensure that our policy messages reach a broader range of people and have impact*” with the aim of building “*awareness, engagement, understanding and trust, in order to ultimately make our policies more effective*” [E2a, pp.15-17]. “*Michael’s research,*” writes Haldane, “*has provided the intellectual and academic foundations of this new approach to communications and education by the Bank and more widely. Michael has served as a consultant as the Bank developed this programme*” [E3].

McMahon’s “*research and expertise has been a significant catalyst and contributor to the Bank’s thinking and practice on communication over a number of years*” [E3]. This has involved adopting a new layered approach to key publications. All layers are based on the same underlying analysis but targeted at different audiences, with an ‘announcement’ layer intended to be shared via social media; a visual summary which makes use of graphics and simpler language and targeted at a non-expert, general audience; and the Monetary Policy Summary intended for a more specialist economics audience [E2a, p.25]. This approach was piloted in the Inflation Report of November 2017 and an early evaluation of the experiment by Haldane and McMahon [R5] provided evidence for its effectiveness in increasing public understanding and perceptions of Bank policies. Further evaluation, by the Bank of England’s Behavioural Insights Team, confirmed that the new visual summary “*improved public understanding of Bank messages compared to the traditional Monetary Policy Summary*” and had a positive effect on peoples’ trust in the information [E4, p.2]. Consequently, the Bank of England has made these new communications a permanent part of their toolkit and further expanded their use to include more accessible versions of the Financial Stability Reports, as well as the Monetary Policy Report (formerly the Inflation Report [E2b, pp.6 & 23].

Following the policy recommendations set out in [R5], the reconfiguration of the Bank’s publications has been accompanied by an enhanced programme of education and outreach. This includes a schools’ programme with a range of classroom resources, which by the end of 2019 over 1,800 schools had registered for, and over 300 school visits were conducted by bank staff in the same year [E2c, p.64]. In November 2018, the Bank of England launched its Citizens’ Panels programme intended to give policy makers the opportunity to engage directly with the people they serve. Since the programme’s launch, the Bank has held 17 Citizens’ Panels across the UK, set up an online community to keep in touch with those who attend, and introduced monthly online surveys. In 2019, the Bank expanded this to target 16-24 year olds

and recruited its first youth forum, created in partnership with the British Youth Council [E2c, pp.64-65].

Ongoing Impact at the Bank of England

The Bank of England's Independent Evaluation Office (IEO) recently completed a review of the Bank's quantitative easing (QE) programmes, including an examination of the bank's communications around QE as part of the Bank's wider strategy around public-facing communications. As part of the review process McMahon was consulted by the IEO and his research *"has informed the IEO's recommendations of how best to talk about QE to the public. In particular, his research on the Bank's new "layered" communications shed light on the content and ways of delivering messages that could best enhance public understanding and trust in QE (Haldane and McMahon (2018), Haldane & McMahon, 2020)"* [E5]. The IEO's final report on QE was published in January 2021 and a focus of their recommendations is on building public understanding and trust in QE. To this end, they recommend further expanding the use of the 'layering' approach to key publications relating to QE, and providing accessible responses to the debates around QE arising at Citizens' Panel events and Governor Q&As [E6, section 4.1].

International Impact

The Bank of England is widely perceived to be a pioneer in adapting its communications to engage with wider audiences [E7, p. 3 & fn 7, p 21]. Its 'layering' approach has *"since been emulated by other central banks around the world, including the Federal Reserve in the US and the ECB (European Central Bank) in the euro-area"* [E3]. McMahon's research and expertise has also provided valuable inputs to the work of the central bank of Indonesia on building and evaluating its credibility [E8].

In April 2018, McMahon and Schipke presented their research findings on China's Monetary Policy Communication (subsequently published as an IMF Working Paper [R4]) to a joint conference of the IMF and the People's Bank of China (PBoC) held in Beijing and attended by senior officials of the PBoC and the Ministry of Finance [E9]. Among their policy recommendations to improve communications with financial markets was the provision of timely information, in one place in both Chinese and English, and regular press conferences [R4, p.23]. Later in 2018, the financial press noted a significant increase in the number of statements issued by the PBoC in English. This was followed by the launch of a revamped English-language website in January 2019. As reported by *Financial News* website, *"Previously only 2% of the Chinese site's content was available in English, whereas the new English site covers almost every major aspect of policy"* [E10a]. Both Bloomberg news and Central Banking websites connect the more transparent communications policy of the PBoC to the recommendations of McMahon et al [R4, E10b&c].

McMahon's wider influence is supported by his role as the founding Director of the Centre for Economic Policy Research (CEPR) Research and Policy Network on Central Bank Communications (RPNCBC). This initiative was launched in October 2018 by McMahon with Christine Graeff, then Director General Communications at the European Central Bank, as co-director. The RPNCBC is a vehicle for discussion and idea-sharing intended to link researchers from different specialisms and connect them in a two-way dialogue with policy-makers and practitioners through workshops, blogs etc. [E11]

Summary

"My judgement", writes Haldane, "is that Michael's research and insights on these topics have not only led to him being widely regarded as one of the world's leading experts in these areas; they have also had a very significant impact in shaping practice, radically, within the central banking community, at the Bank of England and beyond...He has provided the academic underpinnings of a wholly new approach to central bank communications that appears to be increasingly effective and important at a challenging time for central banks." [E3]

5. Sources to corroborate the impact (indicative maximum of 10 references)

- E1. “A little more conversation, a little less action”. Speech by Andrew G Haldane, Chief Economist, Bank of England to Federal Reserve Bank of San Francisco Macroeconomics and Monetary Policy Conference, 31 March 2017.
<https://www.bankofengland.co.uk/speech/2017/a-little-more-conversation-a-little-less-action>
- E2. Bank of England Annual Accounts:
a) 2018 - <https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2018/boe-2018.pdf?la=en&hash=37A60AD4BB7912B2A7D065A828C8B0E30B59C1B6>
b) 2019 - <https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2019/boe-2019.pdf?la=en&hash=81B18F6F7CD3EB6F4DA476BA100B7811FF65BD80>
c) 2020 - <https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2020/boe-2020.pdf?la=en&hash=2E9658E006FC1AA89E39415B9833BAE0BA753877>
- E3. Letter from the Chief Economist, Bank of England, 16 November 2020.
- E4. *Bholat, D., N, Broughton, J. Ter Meer and E. Walczak. (Aug. 2018) “Enhancing central bank communications with behavioural insights”, Bank of England Staff Working Paper, 750.*
<https://www.bankofengland.co.uk/working-paper/2018/enhancing-central-bank-communications-with-behavioural-insights>
- E5. Letter from Director, Independent Evaluation Office (IEO), 2 November 2020.
- E6. Independent Evaluation Office (2021) *Evaluation of the Bank of England’s Approach to Quantitative Easing*, 13 January. <https://www.bankofengland.co.uk/independent-evaluation-office/ieo-report-january-2021/ieo-evaluation-of-the-bank-of-englands-approach-to-quantitative-easing>
- E7. International Monetary Fund (IMF) Communications Department: “Frontiers of Economic Policy Communication”, No. 19/08 (May, 2019).
<https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2019/05/20/Frontiers-of-Economic-Policy-Communications-46816>
- E8. Letter from Director, Statistics Department, Bank Indonesia, 16 December 2020
- E9. Sixth Joint Conference People’s Bank of China and International Monetary Fund: China’s Growing Bond Market in a Global Context (April 26-28, 2018).
<https://www.imf.org/en/News/Seminars/Conferences/2018/03/09/6th-PBC-IMF>
- E10. Press Coverage regarding PBoC communication initiatives:
a) Financial News Website, “So far so good for China’s quiet central banking revolution” (8 March 2019). <https://www.fnlondon.com/articles/chinas-quiet-central-banking-revolution-20190308>
b) Bloomberg News, “China’s quiet central bank now wants to talk to global investors” (Dec. 5th 2018) [https://www.bloombergquint.com/global-economics/china-s-quiet-central-bank-now-wants-to-talk-to-global-investors-which-references-its-earlier-report-on-r4-“China-Central-Bank-Needs-Regular-Media-Briefings,IMF-Paper-says”-\(19-Nov-2018\)https://www.bloomberg.com/news/articles/2018-11-19/china-central-bank-needs-regular-media-briefings-imf-paper-says](https://www.bloombergquint.com/global-economics/china-s-quiet-central-bank-now-wants-to-talk-to-global-investors-which-references-its-earlier-report-on-r4-“China-Central-Bank-Needs-Regular-Media-Briefings,IMF-Paper-says”-(19-Nov-2018)https://www.bloomberg.com/news/articles/2018-11-19/china-central-bank-needs-regular-media-briefings-imf-paper-says)
c) Central Banking, “PBoC continues with communications overhaul”, 30 January 2019.
<https://www.centralbanking.com/central-banks/monetary-policy/communication/4001636/pboc-continues-with-communications-overhaul>
- E11. Centre for Economic Policy Research: Research Policy Network on Central Bank Communications website - <https://cepr.org/content/cepr-rpn-central-bank-communication>