

Luis de Guindos: Communication, expectations and monetary policy



Intervention by Luis de Guindos, Vice-President of the ECB, at the ECB policy panel of the Annual Congress of the European Economic Association, Manchester, 27 August 2019

Introduction

Ladies and Gentlemen,

Every year, the ECB organises a policy panel at the Annual Congress of the European Economic Association. The intention of these panels is to combine the results of research and the views of policy makers to advance our thinking on a topic of great policy relevance. This year, it has been straightforward to decide on such a topic. Communication and expectations are central to the conduct of monetary policy, and there is a substantial body of research that allows us to have an informed discussion on the topic. It is therefore a great pleasure for me to speak at this year's policy panel.

Central banks communicate with many different groups of economic actors. Let me focus my remarks on two such groups, both of which are essential to the conduct of monetary policy, namely participants in financial markets on the one hand, and the general public on the other hand.

The central role of financial market expectations in the conduct of monetary policy

There is a tight two-way relationship between central banks and financial markets. Extensive research has dealt with the flow of information from central banks to financial markets, and has shown that central bank communication exerts strong effects on financial markets.^[1] For instance, as central banks have become transparent about their objectives and their reaction functions, the inflation expectations that are priced into financial assets have become better anchored. They have become less volatile and broadly aligned with the central banks' inflation aims. Beyond this, markets also react strongly to the communication of the central bank's assessment of the current conjunctural situation and the economic outlook.^[2]

At the same time, the influence also goes in the other direction: financial markets send signals to the central bank, which constitute a central input to decision-making. It is important for us to get the market view about where the economy stands, and where it is heading. This helps us cross-checking our own views, and it provides us with a benchmark against which we can communicate our own assessment. For instance, our projections are based on market expectations about the future path of short-term interest rates, oil and non-oil commodity prices and stock market prices – effectively, we are therefore telling the markets where, in our view, the economy is heading if their expectations were to materialise.

To put it in other words, central bank communication has to be two-way. The central bank talks and listens to financial markets at the same time. There are two points in this relationship which I want to highlight.

First, by influencing asset prices and expectations of financial market participants, the central bank affects the very signals which it wants to use as input to its policy making. This has become known as the “echo chamber effect”. As Hyun Shin from the BIS has put it, “the louder the central bank talks, the more likely it is to hear its own echo.”^[3] This is particularly prominent in times when the central bank gives strong forward guidance. ECB research has shown that in such circumstances, market expectations become “cemented”, i.e. they do no longer respond to news about the macro economy.^[4] This is something we need to keep in mind when designing our communication strategy and when reading the signals from financial markets – the more forward guidance we give, the less informative are market signals for gauging the state and the expected evolution of the economy.

A second point is that even if central bank transparency and communication has helped anchoring market-based inflation expectations, they do remain rather volatile. The volatility itself is a signal that is useful for us to understand. However, even if markets are volatile, central bank policy cannot be volatile. Hence, we need to look through some of this volatility to get a feeling for the underlying pricing that would result in the absence of short-term market moves that are likely to revert quickly.

The echo chamber effect and the inherent noisiness of market signals are

reasons why we need to take the expectations that are priced in financial markets with a pinch of salt. This means that we need to also rely on other sources of information to ensure that we conduct a robust monetary policy. The incoming macroeconomic data are one such source. As we keep stressing, our monetary policy is data dependent, not market dependent: indications from market expectations cannot replace our policy judgement. Another way of robustifying our analysis is to look for expectations beyond those expressed in financial market prices.^[5]

The importance of communication with the general public

This brings me to the second group of actors I want to mention, the general public. Central bank communication with the general public has only more recently gained the attention of academic research. Also here, we need to think of the interaction as a two-way street.

On the one hand, central banks have a lot to learn from consumers. For instance, consumers form inflation expectations that can tell us to what extent the central bank's inflation aim is perceived to be credible. Variations in consumer inflation expectations are also an indicator that central banks monitor, because these affect household decision-making and do therefore shape economic outcomes.^[6]

While we have ample data available on expectations formed in financial markets, we know much less about those of consumers. To bridge this gap, we have just recently started to develop a new consumer expectations survey. This project is still in its early stages (we will soon implement a pilot survey), but it will provide us with a tool to collect information at regular intervals on household expectations and decisions, covering a broad range of topics including household income and finances, consumption, inflation, labour and housing markets. This will allow deepening our understanding of consumer behaviour in the euro area and give us up-to-date information on expectations that can feed into our policy analysis.

On the other hand, central banks do not only want to learn from the general public, they also actively reach out to it, making this a two-way interaction. They do so for several reasons. First, to manage expectations about economic outcomes – inflation expectations, but also expectations about financial stability and the safety of individual banks. Second, independent central banks need to make sure they are accountable to the public.

For both objectives, first-order importance should be given to making sure the general public understands the mandate of the central bank, and trusts its commitment and ability to deliver on its mandate. There is ample evidence that this matters.

ECB research finds that general trust in the ECB has an impact on consumers' inflation expectations, in two ways.^[7] First, it lowers their uncertainty about future price developments. Second, those who trust are less likely to have inflation expectations that are far from the ECB's inflation objective.

In other words, trust in the ECB helps anchoring inflation expectations around the ECB's inflation objective, as agents are more likely to view deviations of inflation from the target as temporary. And it matters how the central bank drafts its communications – research has shown that relatively simple, but targeted messages, are particularly effective in shaping consumers' inflation expectations.^[8]

So it is important to increase awareness about the central bank mandate and to enhance trust in the central bank. Just as an aside – the ECB's task here is particularly challenging, as we need to communicate in 24 different languages. In any case, we have stepped up our efforts along these lines in several dimensions. Let me highlight three of them:

First, we have developed educational material about the ECB and its policies that is made available on our website – for the young generation in particular, but also more generally: there are educational games and videos, and we have published a large number of “explainers” where we give answers to frequently asked questions. Just to give one example – with our Euro@20 game, we reached 1.6million people.

Second, we are now much more present in the social media. This is an important channel whereby central banks can reach out a relatively broader audience directly, without intermediaries, and interact with the public, for instance through our Q&A sessions on Twitter.

Third, we are also working to make our regular policy publications more accessible to the general public. Our most recent Financial Stability Review, with a streamlined structure and clear focus on core messages, is presented on the ECB's website in a way that makes the content more easily understood, for instance by using visuals. Our efforts are already bearing fruit – with a significant increase in its readership.

Conclusion

Let me conclude by reiterating the central role of expectations in the conduct of monetary policy. We are well aware that our communication influences the very expectations that we want to use as input into our decision-making. We do therefore need to ensure that we base our decisions on a multitude of information, covering not only financial markets and experts, but also the general public. At the ECB, we are enhancing our toolkit for the communication with the general public in two ways – both by collecting more information about consumers, and by targeting some of our communication efforts more directly at the general public. I am confident that this investment will pay off and help us achieving three objectives at the same time – being a trusted institution, being accountable to the public, and maintaining price stability.

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G7 Summit: EU announced record €550 million contribution to save 16 million lives from AIDS, tuberculosis and malaria

During the G7 summit in Biarritz, which is dedicated to the fight against inequalities this year, the EU announced a €550 million pledge to [The Global Fund](#), to contribute to the fight against AIDS, tuberculosis and malaria around the world. The Fund is an international partnership and its work has already saved 27 million lives since it was created in 2002. European Commission President **Juncker** said on this occasion: *“The EU has been a strong supporter of the Global Fund since its creation, when the AIDS, malaria and tuberculosis epidemics seemed to be unbeatable. And today we are announcing a record contribution of a further €550 million. We hope the international community will follow suit and step up the fight to fulfil the Fund’s target of ending these diseases’ epidemics by 2030.”* European Council President Tusk, who represented the EU at this year’s G7, made the [announcement](#) in Biarritz, ahead of the Global Fund donors’ conference that will take place in October in Lyon. The Global Fund seeks to raise at least €12.6 billion (US\$14 billion) for the period 2020-2022. The full [press release](#) and [Q&A](#) are available online. (For more information: *Natasha Bertaud – Tel.: +32 229 67456; Carlos Martin Ruiz De Gordejuela – Tel.: +32 229 65322*)

Concentrations: La Commission autorise l’acquisition conjointe d’un projet photovoltaïque en Espagne par Mirova et ENGIE

La Commission européenne a autorisé, en vertu du règlement européen sur les concentrations, l’acquisition conjointe de PSFV Palma del Rio S.L., basée en Espagne, par Mirova et le groupe ENGIE, toutes deux des entreprises françaises. PSFV Palma del Rio détient une centrale de production d’énergie photovoltaïque en construction à Palma del Rio en Espagne, d’une capacité totale d’environ 50 mégawatts. Mirova gère des fonds d’investissements contenant divers types d’actifs, tels que les énergies renouvelables et les infrastructures de base, les actions durables et les obligations « vertes ». Mirova est contrôlée en dernier ressort par le groupe BPCE, groupe bancaire français actif dans le secteur de la banque et des assurances. ENGIE est un groupe industriel et de services actif dans les métiers du gaz, de l’électricité et des services liés à l’énergie. La Commission a conclu que la concentration envisagée ne soulèverait pas de problème de concurrence en raison des activités marginales exercées par l’entreprise commune. La transaction a été examinée en vertu de la procédure simplifiée de contrôle des concentrations. De plus amples informations sont disponibles sur le site internet [concurrence](#) de la Commission, dans le [registre public](#) des affaires sous le numéro d’affaire [M.9438](#). (Pour plus d’informations: *Lucía Caudet – Tél. +32 229 56182; Giulia Astuti – Tél.: +32 229 55344*)

[Upcoming events](#) of the European Commission (ex-Top News)

Remarks by President Donald Tusk before the G7 summit in Biarritz, France

Good afternoon, bonjour,

First of all, let me express my best wishes to the President of the European Commission, Jean-Claude Juncker. I always attended G7 summits with Jean-Claude, and I must say I will miss him in Biarritz.

This is another G7 summit which will be a difficult test of unity and solidarity of the free world and its leaders. There is still no certainty whether the group will be able to find common solutions, and the global challenges are today really serious, or whether it will focus on senseless disputes among each other. The last years have shown that it is increasingly difficult for all of us to find common language when the world needs our cooperation more, not less. This may be the last moment to restore our political community. Today it would be especially urgent and essential to build our unity around the following challenges:

1. The defence of liberal democracy, rule of law and human rights, in particular in the context of the revival of nationalisms and new forms of authoritarianism, as well as threats coming from the development of digital technologies (meddling in elections, fake news, using artificial intelligence against citizens and their freedoms).
2. Climate crisis and the protection of natural environment, including forests and oceans. The burning Amazon rainforest has become another depressing sign of our times. We of course stand by the EU-Mercosur agreement, which is also about protecting the climate and environment, but it is hard to imagine a harmonious process of ratification by the European countries as long as the Brazilian government allows for the destruction of the green lungs of Planet Earth. This is about our "to be or not to be." At the same time the EU is ready to offer financial help to fight the fires.
3. Putting a stop to trade wars. Trade deals and the reform of WTO are better than trade wars. Trade wars will lead to recession, while trade deals will boost the economy, not to mention the fact that trade wars among G7 members will lead to eroding the already weakened trust among us.
4. The threat of nuclear proliferation. The rejection of the nuclear deal with Iran by the US hasn't brought about any positive results, and the divisions in the Western world when it comes to this issue, play into the hands of the Iranian Ayatollahs, as well as Russia and China. G7 leaders should make one more effort to find common language on this.

5. Russia's policy towards its neighbours, especially its aggression against Ukraine. One year ago, in Canada, President Trump suggested reinviting Russia to G7, stating openly that Crimea's annexation by Russia was partially justified. And that we should accept this fact. Under no condition can we agree with this logic. When it comes to speculations around inviting Russia to the table I would like to say this. First: the reasons why Russia was disinvited in 2014, are still valid. What is more, there are new reasons, such as the Russian provocation on the Azov Sea. Second: when Russia was invited to G7 for the first time, it was believed that it would pursue the path of liberal democracy, rule of law, and human rights. Is there anyone among us, who can say with full conviction, not out of business calculation, that Russia is on that path? Today I will try to convince my interlocutors that it would be better to invite Ukraine, as a guest of course, to the next G7 meeting, to hear the opinion of the new President. I talked with him about it two days ago, and I know he would be very interested.

Let me also say that the EU has concrete proposals for Africa. We are keeping our longstanding commitment to the Global Fund against AIDS, malaria and tuberculosis, and we will contribute 550 million euros to the replenishment of the Fund. This means that our overall involvement will exceed 1 billion euros.

I am also happy to announce that the EU will join the "Affirmative Finance Action for Women in Africa", which is an important step in the fight for women's empowerment. The EU's contribution of over 85 million euros will help develop 100.000 businesses run by women. Last but not least, the EU will contribute an initial 1 million euros to the "International Fund for Survivors of Conflict-Related Sexual Violence" that Nadia Murad and Doctor Denis Mukwege, winners of the 2018 Nobel Peace Prize, will present to G7 leaders tomorrow.

Also tomorrow, on the margins of the summit, I will have a meeting with Prime Minister Boris Johnson. He will be the third, British Conservative, Prime Minister, with whom I will discuss Brexit. The EU was always open to cooperation, when David Cameron wanted to avoid Brexit, when Theresa May wanted to avoid a no-deal Brexit, and we will also be ready now to hold serious talks with PM Johnson. The one thing I will not cooperate on is no deal. And I still hope that PM Johnson will not like to go down in history as Mr No Deal. We are willing to listen to ideas that are operational, realistic, and acceptable to all Member States including Ireland, if and when the UK government is ready to put them on the table.

[Visit the meeting page](#)

EU announces record €550 million contribution to save 16 million lives from AIDS, tuberculosis and malaria

Today, the EU announced a €550 million pledge to [The Global Fund](#) during the G7 summit in Biarritz. The Fund is an international partnership to fight against AIDS, tuberculosis and malaria around the world. Its work has already saved 27 million lives since it was created in 2002.

European Commission President **Juncker** said on this occasion: *“The EU has been a strong supporter of the Global Fund since its creation, when the AIDS, malaria and tuberculosis epidemics seemed to be unbeatable. And today we are announcing a record contribution of a further €550 million. We hope the international community will follow suit and step up the fight to fulfil the Fund’s target of ending these diseases’ epidemics by 2030.”*

European Council President **Tusk**, representing the EU at this year’s G7, made the announcement in Biarritz. It comes ahead of the Global Fund donors’ conference that will take place in October in Lyon, as more support is needed so that developing countries can improve their health systems, reach universal health coverage and help end the 3 epidemics by 2030.

The Global Fund seeks to raise at least €12.6 billion (US\$14 billion) for the period 2020-2022. By 2023, these funds should help save an additional 16 million lives, avert 234 million infections, cut the mortality rate from AIDS, tuberculosis and malaria in half, and build stronger health systems.

Today’s pledge is made under the assumption that the EU’s new Multiannual Financial Framework for the period from 2021-2027 and the new external action instrument, which would provide the budget for today’s pledge, are adopted broadly along the lines proposed by the European Commission.

Background

The Global Fund

More than 60 countries have contributed to the Global Fund. In 2017 alone, the fund provided 17.5 million people with antiretroviral therapy for HIV, distributed 197 million mosquito nets to protect children and families from malaria, and tested and treated 5 million people for tuberculosis.

Since its creation, the European Commission has contributed more than €2.6 billion to the Fund. Together with the additional support from EU countries, the overall EU contribution represents almost 50% of all resources received by the Global Fund.

EU global support to health in developing countries

On top of the overall €1.3 billion contributions made to global initiatives

such as the Global Fund, the Global Vaccination Alliance (GAVI) or the WHO's universal health coverage partnership, the EU's development cooperation supports with additional €1.3 billion the health sector in 17 countries (mostly in Africa) during the period 2014-2020.

In global health, the EU focuses on equitable and accessible health care, sustainability of health systems, human rights, women and girls, and private sector engagement.

For More Information

[Q&A – The EU and the Global Fund to fight AIDS, tuberculosis and malaria](#)

The EU and the Global Fund to fight AIDS, Tuberculosis and Malaria

Despite the significant medical progress achieved, nearly 1,000 adolescent girls and young women are still affected with HIV every day. Every two minutes, a child dies from malaria and nowadays, tuberculosis is the world's leading killer among infectious diseases and 10 million people fall ill with it every year.

What is the Global Fund against AIDS, Tuberculosis and Malaria?

The Global Fund is a public-private partnership and a global financial instrument to fight AIDS, tuberculosis and malaria. It is the most important single external financier of the health sector in many African countries. It has achieved significant progress in the fight against such diseases working with governments, civil society organisations and the private sector.

What has the EU achieved so far through its contributions to the Global Fund against AIDS, Tuberculosis and Malaria?

Through its support to the Global Fund, the EU has so far helped save more than 27 million lives since 2002. Some of its concrete achievements in 2017 include:

- 17.5 million people on antiretroviral therapy for HIV;
- 5 million people tested and treated for tuberculosis;
- 197 million mosquito nets distributed to protect children and families from malaria.

The positive impact of the Global Fund goes beyond the health benefits. It also effectively involves civil stakeholder groups in local and global governance.

How does the EU support the Global Fund?

The European Commission has been associated to the Global Fund ever since it was created in 2002. Since then, it has contributed with more than €2.6 billion. The European Commission is the sixth-largest donor to the Global Fund representing on average around 5% of all contributions. The Fund also receives additional support from EU countries, bringing the collective EU contribution to almost 50% of all resources received by the Global Fund.

What is the Global Fund's current budget and what are its needs?

Since its creation, the Global Fund has received around €60 billion (US \$66 billion) and now needs at least additional €12.6 billion (US \$14 billion) to fight the 3 diseases and build stronger health systems in the next 3-year cycle (2021-2023). These funds would help save 16 million lives, avert 234 million infections and cut the mortality rate from HIV, tuberculosis and malaria by half 2023.

How will those additional funds be raised?

France will convene the Global Fund's Sixth Replenishment pledging conference on 9-10 October 2019 in Lyon, France.

For More Information

[The Global Fund](#)

[Press release – EU announces record €550 million contribution to save 16 million lives from AIDS, tuberculosis and malaria](#)