



Comments on  
"Communication and  
Decision-Making by Central  
Bank Committees"

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# General comments

- Very Important Paper
    - Communication is costly to produce
    - Communication is costly to monitor
    - Communication should be evaluated
    - Lack of clear strategy
  - Very useful descriptions, but no normative analyses (effectiveness, not efficiency)
  - Should stimulate further research on the driving forces behind communication
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# Why is communication important?



- Asymmetric information
    - About policy and the CB's view of the transmission mechanisms
    - Committee members may have different objectives for monetary policy
  - Information continuous, policy discrete
    - 8 – 12 meetings per year
    - Interest rate changes in discrete steps
  - Interest rate decisions and forecasts (even of interest rates) do not give enough information
  - Committee members may have different objectives, unrelated to monetary policy
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## **Is there a clear communication strategy (comparable to monetary policy strategy)?**

- Why are there so large differences in the frequency of communication?
  - Given the continuous flow of new information, why is communication dispersion low?
  - If committee members have somewhat different objectives, why is voting dispersion low?
  - Why do committee members give so many neutral statements?
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# Why does not the more communication yield predictability?



BoE is generally viewed as "more transparent" – but communicates less, and with less predictability

- What do you expect from boring communication?
- Can policy surprises be distinguished from other shocks?
- What if policy responds to communication? Predictability could reflect causality...
- Does the Fed and the ECB communicate more, and with higher predictability, because they're "less transparent" in other ways?
- You want to test whether communication is predictable...



# We need a model of communication



Probit model of frequency and character of communication?

- Population size
  - GDP/cap, importance of financial markets, foreign trade
  - Frequency of policy meetings
  - Number of committee members
  - Macroeconomic shocks
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# Minor comments

- Are interviews part of communication policy?
- Does a "neutral" statement confirm current policy rate or market expectations?



# Is there a "crowding out" effect from communication on analyses of "fundamentals"?



*A "policy shock": The Fed temporarily dropped the fully expected sentence "Longer-term inflation expectations remain well contained"*

*"I worry a little about how the market hangs on every little sentence the Fed puts out, and this whole thing shows how important it is not to get too hung up on wording. It's almost borderline silly."*

*Behraves, Global Insight*

