RESEARCH

Special Series on COVID-19

Central Bank Communication Through COVID-19 —Focusing on Monetary Policy[1]

D. Filiz Unsal and Hendre Garbers[2]

The uniqueness and severity of the COVID-19 shock has forced central banks around the world to relent priority to crisis management objectives and consequently respond in ways that go beyond conventional monetary policy. So far, these crisis responses in advanced economies (AEs) and emerging market and developing economies (EMDEs) have included advancing the flexibility with which monetary policy is formulated—such as reducing policy rates to near zero—and adopting unconventional or extraordinary crisis measures—such as quantitative easing, foreign exchange intervention, or even debt monetization. Monetary policy communication needs to ensure that the public fully understands the crisis response, including what exactly the measures are and what they intend to do. This note provides guidance on how central banks can integrate the crisis response into the monetary policy communication cycle in order to safeguard their existing monetary policy frameworks and longer-term focus on price stability.

I. EXCEPTIONAL TIMES NEED EXCEPTIONAL COMMUNICATION TO SAFEGUARD CREDIBILITY

Exceptional measures taken by central banks in response to the COVID-19 shock raise greater challenges for and demands on monetary policy communication. As many countries are facing enormous blows to output and employment, and some under current account and exchange rate pressures, central banks have lowered their policy rates considerably and turned to additional or new measures, such as quantitative easing (QE), foreign exchange intervention, and debt monetization in some instances.[3] Any such crisis measures, however, necessitate clear and timely communication so as to ensure the public understanding and acceptance of these measures, shape market expectations, and increase their effectiveness, without jeopardizing the central bank's credibility. Ultimately, the need for effective communication becomes more acute the more unusual or extraordinary the chosen measures are. This note focuses on central banks' continual communication of the crisis response in the context of monetary policy. The communication of a crises itself,

[1] This note benefits from a research project on macroeconomic policy in low-income countries supported by the UK's Foreign, Commonwealth and Development Office (FCDO). The views expressed in these notes are those of the authors and do not necessarily represent the views of the IMF, its Executive Board, IMF management, or the FCDO.

[2] For more information, please contact D. Filiz Unsal (DUnsal@imf.org).

[3] This note assumes that the adopted monetary measures make economic sense. It is *not* intended to provide guidance on the choice of or justification for specific measures. See the series of RES-IPF notes for guidance on the use of different instruments for macroeconomic management under the COVID-19 shock.

and especially the initial stages of communication, are covered in the MCM note on "Principles for Communicating with the Public During a Financial Crisis" (Cortavarría Checkley and Piris 2020).

Safeguarding monetary policy credibility requires transparent, consistent, and coherent explanations of the crisis response through ramped-up communications. Unsal, Papageorgiou, and Garbers (forthcoming) identify the guiding features that underpin any sound monetary policy communication strategy (and monetary policy framework more broadly), both during normal and crisis times.[4] More specifically, during crisis times, whether the crisis response entails an adjustment of interest rates or the adoption of new measures, the first and foremost premise underlying communication is *transparency*—defined as the availability and clarity of the information necessary for the public to be able to understand the associated policy actions. In addition, *consistency* regarding communication of the crisis measures needs to be continuously ensured across all communication vehicles for as long as these measures are in place. Finally, the *coherency* of the crisis measures—in terms of the way in which policy is formulated, the objectives and numerical targets, and the operating targets[5] and instruments—with the broader monetary policy strategy and operational framework needs to be clarified.[6]

The call for such communication holds across all country groups and for any monetary policy-related crisis measures, and need not be excessively costly if built on the existing infrastructure of monetary policy communication. The principle-based approach underlying this note, closely aligned with global best practices and thinking, implies that prescriptions are not restricted to specific country groups or specific policy measures. Indeed, this approach could be particularly useful for EMDEs that have recently adopted QE—previously considered only an AE tool—or for AEs considering measures typically associated with EMDEs, such as debt monetization. That being said, countries with an established communication cycle would be in a better position to successfully implement the proposed approach.[7]

II. A 3-PART APPROACH TO COMMUNICATING THE CENTRAL BANK'S CRISIS RESPONSE

A comprehensive crisis communication approach comprises three parts: Announce, Reiterate, Articulate. The approach is discussed below with concrete examples provided for each part for the case of QE (jointly used with the policy rate, when possible).[8] Table 1 further summarizes this approach, including the specific questions that need to be addressed.

Part 1: Announce—Press releases and a dedicated website page/document

The central bank should proactively define and explain: (1) crisis responses, including any new crisis measures and their objectives, operating targets, and instruments; (2) the justification for the new measures, both in terms of the broader economic climate and in terms of the individual measures chosen; and, if applicable, (3) the intended (state-contingent) duration of these actions and the broadly envisioned exit strategy. The press releases and documents should focus on providing details of the

[4] Unsal, Papageorgiou, and Garbers (forthcoming) develop a granular toolkit with which to assess the soundness of monetary policy frameworks—along all four dimensions of the framework: Independence and Accountability, Policy Strategy, Operational Framework, and Communication Strategy—and subsequently construct an index of monetary policy frameworks for 35 advanced and developing economies between 2007 and 2018.

[5] The operating target is an economic variable (typically a short-term interest rate) chosen by the central bank with the aim of controlling it on a day-to-day basis through the use of instruments (typically open market operations).

[6] The focus on transparency as one of the cornerstones of a sound monetary policy communication strategy (and monetary policy framework more broadly) is consistent with the IMF Central Bank Transparency Code (IMF 2020).

[7] Even though this note presumes a central bank with an interest rate operating target and primacy assigned to price stability through an inflation objective during normal times, an analogous approach extends to countries with monetary policy frameworks that feature other and/or multiple operating targets (for example, the simultaneous use of a policy rate and money targets), as well as other and/or multiple objectives (for example, price stability and full employment) during normal times.

[8] These examples are intended to be purely conceptual. Country-specific communication ultimately requires a tailoring of the language and content to the economic conditions and specific measures and their nuances, including whether markets are familiar with the measures employed or whether the adopted measures entail an entirely novel tool.

measures that have been put into place, while avoiding speculation and allowing the door to be left open for other future policy options. These should further be promptly updated as the crisis response evolves.[9] Concerns about (market-perceived) side effects or downsides of specific crisis measures could further be addressed when explaining why a specific measure has been chosen.

Example—In the case of QE, Part 1 could look as follows: A new crisis management objective (for example, supporting output), an operating target related to the asset purchases (in this example, the level of reserves in the banking system), details of the planned asset purchases (in this example, types of bonds and amounts purchased, the bidding and purchase process and schedule, and eligibility of issuers and counterparties), the justification for these measures (in this example, providing additional easing of monetary conditions under the COVID-19 shock), and the exit strategy (in this example, state-contingent forward guidance and details of the intended reinvestment/runoff strategy for maturing assets) are communicated as part of the announcement. More specifically, an announcement of QE along these lines can be built up around the following building blocks, tailoring it to country- and measure-specific considerations:

"The monetary policy committee (MPC) has taken the decision to start using quantitative easing as an additional monetary policy tool to provide additional support to output in response to the COVID-19 shock…	New measure Crisis management objective
Quantitative easing is a monetary policy tool whereby the central bank buys high-quality assets directly from private investors in the secondary market in order to inject money into the economy. … Specifically, we plan to purchase up to x amount in government bonds from primary dealers through a series of competitive auctions that will begin on date. … In doing so, the MPC aims to stabilize the level of reserves in the banking system at a level y…	Definition New Instrument New operating target
The economy is currently facing a recession brought about by the COVID-19 shock. This is reflected in rising unemployment, falling household income and, decreasing corporate profits and investment, as well as falling output. Data for the world economy also show a similarly weak outlook. … The risks around the outlook are weighted to the downside…The MPC has already strongly responded by using its main monetary policy instruments, lowering the policy rate by x%. However, given the severity of the shock, the MPC deems it necessary to provide additional stimulus through government bond purchases…	Justification—Economic conditions
For our economy with certain domestic conditions, the MPC regards QE as a more effective instrument for easing monetary conditions than any other because …	Justification—Specific measure
The crisis response through the exceptionally low policy rate in combination with the announced asset purchases will be appropriate and expected to remain in place for at least as long as output remains below x amount and inflation is projected to be no more than x percent above the target in the medium term, and longer-term inflation expectations continue to be well anchored…The MPC will take a gradual approach toward normalization, maintaining the stock of assets for some time by reinvesting maturing obligations to ensure that the supply of reserves remains ample…	Duration Exit strategy
All future decisions about the QE program, including the process of normalization, will be taken and announced by the MPC jointly with decisions about the policy rate …"	Joint future communication (Part 2)

9 Other complementary modes of communication (such as speeches by policymakers or social media) play an important role in monetary policy communication, particularly in ensuring the dissemination of information to a broader audience of stakeholders. The principles underlying communication and the elements that need to be covered as laid out in this note extend to these additional forms of communication.

Part 2: Reiterate—Policy decision statements and monetary policy reports.

The central bank should continuously emphasize and instill the crisis response by incorporating all crisis measures announced (in Part 1) into the regular, active communication cycle for as long as the crisis measures are in effect. In all policy statements and monetary policy reports, both the policy rate decisions and any new crisis measures should be explained jointly with respect to both the standard inflation objective as well as new crisis management objectives. The explanations should reference back to the announcement in Part 1, if available. Where the crisis management objectives appear to be in "conflict" with the inflation objective, the central bank should be open about the trade-offs, while focusing on explaining the differing time horizons, the reading of risks and how objectives are being balanced. These communication vehicles should further provide the central bank's (data-driven) assessment of the balance of risks to the outlook and an indication of the likely (not guaranteed) future path of policy, including the new crisis measures. Any side effects or downsides of specific crisis measures could further be addressed in the context of the discussion of risks.

Example—In the case of QE, Part 2 could look as follows: Continuing with the example above, the interest rate and asset purchase decisions are announced jointly and explained in terms of both the new crisis management objective (supporting output) and the inflation objective. For example, the press release following a monetary policy meeting could start with an announcement and include some explanation broadly along the following lines, again tailored to country- and measure-specific considerations:

"At its meeting today, and in line with the earlier announcement on the introduction of QE, the MPC decided to continue taking action to support output and to achieve a sustainable return of inflation to the target. Specifically, it was jointly decided to cut the policy rate by x basis points to x%, and to purchase up to x amount of government bonds to target x level of bank reserves …	Crisis management objective New instrument & operating target
These developments present a trade-off for the MPC between delivering inflation at the target and supporting output. Given the extent of the likely weakness in demand relative to supply due to the COVID-19 shock, the MPC judges it appropriate to provide additional stimulus to the economy, thereby supporting output at the possible cost of a temporary period of above-target inflation. The actions decided on today will help output to recover over time, and, as such, it should also ensure that inflation does not fall below the target beyond the forecast horizon. Thus, in tolerating a temporary period of above-target inflation, the MPC expects the eventual return of inflation to the target to be more sustainable …"	Balancing objectives

As shown in Table 1, this explanation then further also covers in more detail the choice of the policy stance, any mutually reinforcing elements, the expected impact on different economic variables, how decisions were taken (whether there were dissenting views), perceived risks and pressure points, and the likely future policy stance. Any interactions with other bodies or broader economic coordination are also included.

Part 3: Articulate—Monetary policy strategy and operational framework on the central bank's website and in related documents.

The central bank should further coherently integrate the crisis responses into the monetary policy framework. Specifically, the monetary policy strategy and operational framework should be updated to clarify and explain how the new crisis measures modify (or not) the key elements of the monetary policy—the choice and setting of operating targets, objectives, and associated numerical targets, and the policy instruments. At the outset, reference could again be made back to the announcement in Part 1, if available. The key part consists of providing an explanation relating the crisis management objective to the inflation objective, the new operating target to the policy rate, and the new instruments to open market operations (OMOs). The process for policy formulation subsequently needs to be clarified in terms of how developments in the objectives guide decisions about both the policy rate and the new operating targets, and how all the objectives and decisions are balanced and over which horizons. Decision-making procedures also need to be laid out. Similarly, the process for policy implementation should clarify how all instruments are jointly used to implement all operating targets. These explanations need to be thorough and detailed without being overly technical, which typically requires longer and more elaborate explanations.[10] Any other potential measures in the central bank's arsenal (that have not yet been triggered) should also be explained ex ante. Appending FAQs can also be a useful way of providing information on temporary measures.

Example—In the case of QE, Part 3 could look as follows: Going back to the example, in Part 3 the use of QE is conceptualized as part of the broader monetary policy strategy and operational framework. Some snapshots of starting points for communication regarding policy formulation and implementation are provided below:

Monetary policy strategy: *"… In setting monetary policy during the ongoing crisis, the MPC's objectives are to support output as well as to keep inflation around its medium-term target. Severe economic or financial disruption risks destabilizing prices and, as such, supporting output with additional measures is necessary at the current juncture to prevent economic instability from translating into price instability …*	Crisis management objective
If during this time of crisis these objectives are in conflict, a balanced approach will be followed in promoting them with explicit consideration for the magnitudes of the deviations from the desired levels and the potentially different time horizons over which output and inflation are projected to return to these levels ...	Balancing objectives
Adjustments to the stance of policy are made jointly through the policy rate and the level of bank reserves targeted by the QE program. In doing so, the MPC takes the interactions between these two operating targets into account explicitly. … The choice of adjustments to either or both operating targets is guided by monetary conditions and developments in the economy. The adjustment that is expected to be most effective in achieving the desired outcome will be chosen and subsequently explained after monetary policy meetings …"	Balancing operating targets
Operational framework: *"Both asset purchases and open market operations affect liquidity and interest rates in the economy. … The use of these instruments is jointly programmed…When implementing the monetary policy stance, the announced asset purchases will be executed automatically, while standard open market operations will continue according to the relevant schedule, but with the parameters adjusted to account for the expected impact of the asset purchases …"*	Balancing instruments

[10] The Federal Reserve (in its document: "The Federal Reserve System Purposes & Functions"), the Bank of England, and the Czech National Bank (on their websites and FAQs, respectively) provide useful examples of integrating crisis measures into the broader monetary policy strategy and operational framework during and after the global financial crisis—the former two during periods of QE and the latter during a switch to exchange rate targeting regime.

TABLE 1. Communicating Crisis Responses—Joint Use of the Policy Rate and a New Crisis Measure

<table>
<tr><th></th><th>Vehicle</th><th>Content</th><th>Specific questions to address</th></tr>
<tr><td>Part 1. Announce</td><td>Ad hoc press release
&
dedicated website page/ document</td><td>Explain and justify all crisis measures
+
Define new crisis management objectives, operating targets and instruments
+
Indicate duration and exit strategy</td><td>▪ Which crisis measures have been introduced and when?
▪ What is the economic situation and why are they needed?
▪ For how long will they be in place and what would be the steps to normalization)?
▪ Is another body involved in the crisis response and, if so, why? How are decisions taken and when?
▪ Do these measures come with any new crisis management objective, operating targets, or instruments?
▪ Why have these specific measures been chosen?
▪ What level/amount has been chosen and why?
▪ How are these measures to be implemented?</td></tr>
<tr><td>Part 2. Reiterate</td><td>Monetary policy meeting press release
&
monetary policy report</td><td>Announce decisions about all operating targets (interest rate and crisis management operating targets)
+
Explain all decisions with reference to all objectives (inflation and crisis management objectives)
+
Explain how all objectives are balanced</td><td>Recap of questions from Part 1, PLUS:
▪ What decisions were taken regarding the interest rate and new crisis management operating targets? What is the joint stance of policy?
▪ What does the outlook underpinning these decisions look like?
▪ How is the setting of the interest rate and new crisis management operating targets expected to jointly contribute to the inflation and new crisis management objectives, and over what horizon? How are these objectives being balanced?
▪ What is the likely future trajectory of the joint policy stance?</td></tr>
<tr><td rowspan="2">Part 3. Articulate</td><td rowspan="2">Website
&
strategy document</td><td>As part of the Policy Strategy:
Describe how policy formulation centers around all objectives
+
Explain relationships of all operating targets to all objectives
+
Explain how all objectives and operating targets are balanced</td><td>Integration of questions from Part 1, PLUS:
▪ What are the interactions and potential trade-offs between the inflation and new crisis management objectives?
▪ How do the inflation and new crisis management objectives jointly guide policy formulation? How will they be balanced?
▪ What is the relationship between the operating targets (interest rate and new crisis management) and the objectives (inflation and new crisis management)?
▪ What are the interactions and potential trade-offs between the interest rate and new crisis management operating targets? How will they be balanced?</td></tr>
<tr><td>As part of the Operational Framework:
Explain all instruments (OMOs and new crisis management instruments) and their joint use
+
Explain how all instruments are balanced</td><td>▪ Has there been a change in the type of operating system?
▪ Are there new crisis management instruments? What are they and which specific outcomes are targeted by each?
▪ How are the main instruments, including any new crisis management instruments, jointly used to implement the interest rate and new crisis management operating targets daily?</td></tr>
</table>

III. ADDITIONAL COMMUNICATION WHEN OTHER BODIES ARE INVOLVED

It is often the case that fast and decisive policy action in response to a crisis requires close collaboration with other domestic policymaking bodies, in turn necessitating that communication be extended to include the justification for and nature of the alliance. For example, close cooperation with the fiscal authorities would be necessary when coordinating a domestic response to the crisis or when central banks adopt measures beyond their traditional mandate or designated instruments (for example, through debt monetization). In such cases, as illustrated in Table 1, clarifying the rationale and modalities of the collaboration (for example, duration, division of responsibilities, and decision-making across policy measures), and establishing timely and unified communication on behalf of both authorities are key. This would also help avoid the misperception that the central bank's independence is under pressure or that these crisis collaboration arrangements are permanent.

IV. COUNTRIES SHOULD CAUTION AGAINST NEGLECTING COMMUNICATION

While this three-part communication approach gives an impression of successive steps, there is no strict prerequisite, and central banks should try to advance on all fronts simultaneously. Communication along all three parts (or within a relatively short amount of time) would help create synergies—with different parts benefiting each other—foster a deeper understanding of the crisis measures and build confidence in the central bank's crisis responses. Moreover, all three parts are essential for emphasizing the temporary nature of the crisis response and the central bank's continued commitment to the mandated objectives (notably, price stability) over the medium term. This may be particularly important for cases where fiscal dominance is of first-order concern.

REFERENCES

Cortavarría Checkley, L., and A. Piris. 2020. "Principles for Communicating with the Public During a Financial Crisis." Monetary and Capital Markets Department Special Series on Financial Policies to Respond to COVID-19, International Monetary Fund, Washington, DC.

International Monetary Fund (IMF). 2020. "The Central Bank Transparency Code." IMF Policy Paper No. 2020/038, Washington, DC.

Unsal, D. F., C. Papageorgiou, and H. Garbers. Forthcoming. "Monetary Policy Frameworks: An Index and New Evidence." International Monetary Fund, Washington, DC.