

THE ECB'S STRATEGY REVIEW: "WE'VE HEARD WHAT YOU SAID AND WE'VE LISTENED"

The outcome of the ECB's strategy review shows that the governing council has carefully listened to what its audience had to say. Its inflation objective is now truly symmetric, which addresses the perception that its previous objective was asymmetric. Three other changes reflect points that were strongly emphasized during the outreach events organised by the Eurosystem. The cost of owner-occupied housing will be taken into account when assessing the inflation environment. The communication will become geared towards a broader public and a decision has been taken to commit to an ambitious climate-related action plan. Now it's back to the hard work of trying to push inflation up to 2%.

Wim Duisenberg, the first president of the ECB, used to say in press meetings "I hear what you say but I'm not listening". Since then, a lot has changed and the outcome of its strategy review shows that, in several areas, the ECB governing council has listened to its audience.

Firstly, it has listened to the ECB watchers by making its new inflation objective – aiming for two percent over the medium term – truly symmetric. This implies that "the Governing Council considers negative and positive deviations from this target as equally undesirable."¹ According to the ECB, the previous objective – to maintain inflation rates below but close to 2% over the medium-term – was also symmetric² but the double-key formulation – 'below but close to' – created a perception that, in reality, it was asymmetric. The strategy review has acknowledged this by stating that "[it] may have further contributed to the persistence of low inflation by insufficiently anchoring inflation expectations at levels below, but close to, two per cent."³

Secondly, the governing council has decided to include the costs to owner-occupied housing in the HICP. According to ECB president Christine Lagarde, this decision was caused by "the very strong feedback that we heard from the Europeans with whom we had those many outreach events, and who were vocal and loud on the fact that housing costs should be properly accounted for because they constituted a major component of their budget."

Thirdly, the communication will become geared towards a broader audience. This is clearly necessary. Research by the Dutch central bank has shown that "knowledge on the ECB's objectives is far from perfect. Both a weak desire to be informed and unawareness of insufficient knowledge are barriers for improving the public's understanding of monetary policy."⁴ Clearly, stepping up the communication efforts should be worthwhile: "more intensive use of information improves understanding, suggesting that the media channel may play an important and constructive role in building knowledge. Finally, we find that knowledge on monetary policy objectives contributes to

an individual's ability to form realistic inflation expectations."As a consequence, on the occasion of the press conference following the governing council meeting, the introductory statement – which will be renamed monetary policy statement – "[...] will be shorter, crisper and probably more to the point and with less jargon."⁵ This reminds us of Federal Reserve Chairman Jerome Powell who in June 2018 began the post-FOMC meeting press conference by stating "because monetary policy affects everyone, I want to start with a plain-English summary of how the economy is doing".⁶ Finally, the decision to commit to an ambitious climate-related action plan echoes the messages received via the Eurosystem's "listening" activities.⁷ The outcome of the strategy review should be welcomed. The symmetric inflation objective removes the ambiguity that was perceived previously. Moreover, taking decisions after having carefully listened to its audience should enhance the ECB's credibility. However, the latter also depends on its ability to reach the 2% inflation target. Clearly, the hard work continues.

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5. Source: Press conference of Christine Lagarde, President of the ECB and Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 8 July 2021.

6. Source: Chairman Powell's press conference, Federal Reserve, 13 June 2018

7. Held in preparation of the strategy review, these concern events with the academic community, civil society organisations, the public at large, national parliaments and the European Parliament.

1. Source: The ECB's monetary policy strategy statement, ECB website.
2. "We pursue our objective symmetrically". Source: Delivering a symmetric mandate with asymmetric tools: monetary policy in a context of low interest rates, Speech by Mario Draghi, President of the ECB, Vienna, 2 June 2016.
3. Source: An overview of the ECB's monetary policy strategy, ECB website.
4. How much does the public know about the ECB's monetary policy? Evidence from a survey of Dutch households, Carin van der Crujssen, David Jan Jansen and Jakob de Haan, De Nederlandsche Bank working paper 252, July 2010



SOURCE: EUROSTAT, BNP PARIBAS

Following the strategy review, the ECB's inflation objective is now truly symmetric. This addresses the perception that its previous objective was asymmetric but it makes reaching the 2% target even more challenging.

