Chapter 17
The Global Financial Crisis and Central Bank Speak

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ABSTRACT
Words are critical in how the public perceives the work of central banks and the quality of monetary policy. Press releases that accompany policy rate decisions and, where available, the minutes of central bank committee meetings, are focal points for the media in public discussions about the conduct of monetary policy. Using data from five countries, this chapter examines whether the language used by central banks has changed since the Global Financial Crisis (GFC) began. Briefly, the findings show that concerns about financial stability peaked just as the global financial crisis reached its zenith. However, concerns over uncertainty about the current and anticipated state of the economy have also risen over time. More generally, central bank speak became more aggressive throughout the crisis years. More conventional expressions about the current stance of monetary policy took a back seat to other concerns in central bank policy statements and minutes.

INTRODUCTION
Until the financial crisis, followed soon after by the ongoing sovereign debt crisis in Europe, began to pre-occupy central banks, central bank communication was dominated by an interest rate announcement. This was accompanied by a brief explanation of the outlook for the economy as well as a justification for the current stance of policy set by the monetary authority. To be sure, central banks communicated along many other dimensions. There were inflation or monetary policy reports and, increasingly, financial stability reports, among other publications produced by central banks aimed at both the well-informed and general public.
The push for greater transparency and accountability by central banks, originated in an understanding between them and their governments: monetary policy authority was responsible for its actions and could be held account for its decisions. In many, though not all, cases the agreement between central banks and governments consisted in giving the monetary authority full discretion over short-term monetary policy decisions. Longer term, and more strategic, decisions about the nature of the monetary policy regime (e.g., formal inflation targeting versus some alternative) would be left for the politicians, preferably in consultation with the monetary policy experts.

However, since at least 2008, monetary policy actions shifted away from interest rate changes to other types of announcements. As shown in Figure 1, three developments in particular characterize the dramatically changed role of the central bank policy rate since the onset of the global financial crisis. First, interest rates fell quickly as central banks, seemingly slow at first to recognize the severity of the financial shock, eventually responded by loosening the stance of monetary policy on a scale rarely seen in recent decades. Second, particularly in the economies most directly affected by the crises (i.e., the US, the UK, and the euro zone), policy rates effectively reached the so-called zero lower bound, that is, a threshold that could not be breached since ‘negative’ interest rates, even if feasible, are often deemed impractical. Finally, policy rates have remained at, or near their lowest levels, for at least three years; presently, there are few signs that central banks will raise policy rates in the near future.

In this environment, the central banks most affected had few options but to devise new instruments to help their economies recover as well as, arguably, relying more heavily on their policy statements to influence expectations of financial

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**Figure 1. Central bank policy rates: RBA, BoC, RBNZ, BoE, and Fed**