Evolving Monetary Policy Communication: Evidence from the South African Context

Abstract

This article reviews changes in communications at the South African Reserve Bank since the adoption of inflation targeting in February 2000. In particular, it examines the shift towards evolving methods of communication by the South African Reserve Bank through the use of new technologies and approaches intended to increase accountability and transparency. The analysis extensively evaluates the South African Reserve Bank's communication tools and how they affect the effectiveness of monetary policy implementation in the South African context. Notably, this study employs the Flesch-Kincaid Grade Level metric to assess the effect of communication readability on domestic inflation expectations. By using readability scores as a proxy for clarity, the research measures the impact that central bank communication standards have on market agents' inflation expectations and their interpretation of monetary policy. The findings reveal that the South African Reserve Bank's communication clarity has a significant inverse relationship with South African market participants' long-run inflation expectations, highlighting the vital role of clear central bank communication in anchoring inflation expectations.

Keywords

Central bank communication, Flesch-Kincaid Grade Level, inflation expectations, monetary policy, South African Reserve Bank

AUTHOR(S)

Arnold Segawa

Johns Hopkins University, United States of America

https://orcid.org/0000-0001-8685-205X

Magdalene Kasyoka Wilson

University of Johannesburg, South Africa

https://orcid.org/0000-0002-7193-5562

Eric Schaling

Wits Business School, South Africa

https://orcid.org/0000-0001-7699-2913

PUBLISHED ONLINE
Volume 44 (3) December 2025

Pages 15-27

Submitted March 2025

Accepted August 2025

DOI
10.36615/et3mf628

ISSN
Online 2957-7950

Print 0259-0069

© Author

INTRODUCTION

In recent decades, central banking has undergone significant reforms, with traditional monetary policy tools increasingly complemented by strategic communication (Hartmann & Smets, 2018). This evolution has enhanced the effectiveness of Monetary Policy Committee (MPC) decisions by ensuring that policy actions and economic outlooks are clearly conveyed to market participants. Consequently, central banks have implemented a heterogeneous portfolio of communication modalities, including press conferences, official press releases and public speeches, to optimise the dissemination of policy-relevant information (Segawa, 2021).

The growing emphasis on transparent communication is widely regarded as a mechanism for reducing information asymmetry among market agents. This enhances policy credibility, fosters market stability and refines the process by which monetary policy impacts the economy (Nosike & Ojobor,

2024; Sturm & De Haan, 2011; Wadood, 2025; Warjiyo & Juhro, 2019). By effectively articulating their policy stance and the economic rationale underpinning decisions, central banks contribute to greater predictability in financial markets, facilitate equitable risk assessment and strengthen public confidence in monetary authorities. It should be noted that central bank communication literature posits that the strategic management of public expectations constitutes a fundamental component of contemporary monetary policy, with particular salience in proximity to the zero lower bound (Blinder et al. 2024; Kiley & Mishkin, 2024; Lima et al. 2025; Morris & Shin, 2002).

In such circumstances, central banks can shape private sector expectations through strategic communication to signal future policy trajectories via forward guidance and economic forecasts. These communications, in turn, influence asset prices and overall economic activity. The South African Reserve Bank (SARB) is no exception, as it actively employs communication as a tool to guide and manage market expectations (Reid, 2011). Subsequent to the institution of an inflation-targeting regime in 2000, SARB has continuously and progressively augmented its communication strategies. The broader literature on central bank communication supports the premise that increased transparency and clarity in monetary policy communication contribute to macroeconomic stability by improving market predictability and fostering confidence in policy decisions.

From a communication studies perspective, central bank messaging can also be rigorously framed within established communication theories. For instance, Grunig and Hunt's (1984) two-way symmetrical communication model offers a robust framework. This model posits that effective public institutional communication transcends mere information dissemination, emphasising a dynamic process of dialogue and mutual understanding between an organisation and its stakeholders. Applied to the context of a central bank, this theory suggests that a deliberate shift towards engaging with the public in a genuinely two-way manner – rather than exclusively relying on one-way pronouncements – could significantly enhance trust and credibility in the bank's policy messages.

Such an approach, which fosters open channels for feedback and incorporates public perspectives, aligns with the model's emphasis on achieving shared meaning and resolving potential misunderstandings, ultimately bolstering the perceived legitimacy and effectiveness of monetary policy (Grunig, 2001; Grunig & Hunt, 1984). This theoretical lens underscores the potential for central banks to move beyond a "transmission" model of communication towards a more participatory and relational approach, thereby strengthening public confidence in their vital economic functions (Blinder et al., 2024; Yulianto, 2025).

In addition, agenda-setting theory (McCombs & Shaw, 1972) highlights how communication influences which issues the public perceives as most important. By consistently emphasising particular themes in its communications, such as the inflation outlook or policy objectives, a central bank can shape the public agenda and expectations regarding the economy. However, because mass media often serve as intermediaries, clear and salient messaging is crucial, otherwise media outlets may filter or transform the content in ways that distort the intended message. These theoretical perspectives underscore that the clarity, framing and interactivity of monetary policy communications are vital for public understanding and for maximising policy effectiveness.

Despite the consensus that clear central bank communication is beneficial, a notable gap remains in the empirical literature regarding the influence of such communication on the expectations of the general public, especially in emerging market contexts. While numerous studies have examined the impact of central bank communications (CBC) on financial markets and expert audiences, far fewer have focused on how CBC affect the broader public's inflation expectations (Haldane & McMahon, 2018). This study seeks to address that gap by focusing on the role of communication clarity in South Africa.

In particular, we investigate whether the readability of SARB's MPC statements – as a proxy for clarity – has a measurable effect on inflation expectations among South African market agents and the public. Using two decades of data (2001–2023) and applying an Engle-Granger cointegration approach, we find evidence of a significant long-run inverse relationship between SARB's communication clarity and inflation expectations. In other words, clearer (more easily comprehensible) MPC statements are associated with lower long-run expected inflation, suggesting that improved communication clarity helps

anchor expectations. The remainder of this article reviews the relevant literature and theoretical context, describes the data and methodology, presents the empirical results and discusses the findings along with policy implications.

LITERATURE REVIEW

Clarity and central bank communication

Studies in the field of central bank communication have identified two broad dimensions of how communication clarity is examined. The first dimension pertains to the macroeconomic impact of CBC, specifically how policy pronouncements influence key aggregate variables such as exchange rates, inflation expectations and financial market stability. For example, Jansen and De Haan (2005) analyse the European Central Bank's communications and their impact on the euro's value. Similar approaches have been applied by Collingro and Frenkel (2020), Anderes et al. (2021) and Lehtimäki and Palmu (2022), who each examine the effects of central bank messages on financial markets or expectations in different contexts.

The second dimension of inquiry focuses on the micro-level effects of communication clarity on heterogeneous agents. This strand of research employs direct empirical methods, such as surveys and experiments, to measure how various audiences (investors, analysts, businesses or households) adjust their expectations in response to monetary policy communications. Capturing these expectation adjustments provides a more granular understanding of the transmission process of central bank information. Such evaluations are indispensable for assessing the effectiveness of different communication strategies in shaping economic behaviour and expectations across diverse groups of stakeholder. A notable study is Bulíř et al. (2013) who found significant, persistent differences in the clarity of central bank communication about inflation across various countries over time, using readability statistics and content analysis. However, their study still revealed that robust determinants of clarity applicable across all central banks proved elusive, suggesting that country-specific and institution-specific factors are highly relevant.

As monetary policy challenges have grown more complex, the clarity of central bank communication has become a central concern for academics and policymakers. Public discourse has trended towards simplification of language, underscoring the importance of clarity in achieving effective communication. In central banking, clarity effectively serves as a proxy for transparency. The successful implementation of monetary policy and, in particular, the effectiveness of forward guidance, hinges on the central bank's ability to convey its policy intentions in an accessible, intelligible manner (Warjiyo & Juhro, 2019). By fostering clarity and predictability, transparent communication reduces uncertainty, anchors public expectations and enhances the institution's credibility. This, in turn, amplifies the transmission of monetary policy to the broader economy, ensuring that forward guidance and other communications achieve their intended macroeconomic objectives. Conversely, ambiguous or opaque messaging can lead to misinterpretations, misaligned expectations and diminished policy impact. In essence, a central bank's ability to articulate its policy trajectory with precision and transparency is vital for the success of forward guidance and overall policy efficacy.

Recent evidence reinforces the value of clarity in CBC. Ferrara and Angino (2022) found that clearer European Central Bank communications (for example, speeches and press releases written in simpler language) tend to generate higher public engagement, suggesting that simplicity and clarity can broaden outreach and improve understanding. Similarly, Carotta et al. (2023) show that in Uruguay, improvements in the readability of CBC significantly strengthened the anchoring of inflation expectations. These findings underscore that communicative clarity is not merely a theoretical ideal but has tangible impacts: it enhances how well the public grasps monetary policy messages and can improve the effectiveness of policy transmission.

At the same time, literature also cautions about potential downsides of too much communication or overly complex messaging. Amato and Shin (2003) underscore that public monetary policy announcements can have powerful effects on markets, sometimes even exceeding the impact of private information.

However, Morris and Shin (2005) argue that if market participants over-rely on public signals, excessive communication could crowd out private information and lead to herding or inefficient responses. Dale et al. (2018) extend this caution by documenting the risks of information overload: too many data releases or overly detailed messages can create "noise", making it difficult for the public and market participants to discern the key signals. In such cases, information overload can cause analysis paralysis for decision makers and confusion among the public, ultimately diluting policy effectiveness. This line of research suggests that central banks must balance transparency with concision – focusing on high-quality, relevant communications rather than sheer quantity – to avoid undermining their messages (Aaker & Moorman, 2023; Kohn & Sack, 2003; Kostarella, & Palla, 2024; Poole, 2005). An optimal communication strategy thus balances openness with discipline, ensuring that the information shared is clear and not counterproductive (Neuenkirch, 2012; Warjiyo & Juhro, 2019).

Inflation targeting and measuring inflation expectations in South Africa

Over the past three decades, many central banks, including SARB, have adopted inflation targeting as a framework to ensure price stability. Under this approach, a central bank publicly commits to maintaining inflation around a specified target (or within a target range) over the medium term. This regime was introduced in South Africa in 2000. By announcing a clear inflation goal and consistently pursuing policies to achieve it, the central bank aims to anchor inflation expectations of businesses, investors and the public. Doing so enhances the credibility of monetary policy and can make actual inflation more stable, as economic agents adjust their behaviour (wage setting, price setting, etc.) based on the belief that the central bank will keep inflation in check.

Walsh (2009) notes that inflation-targeting regimes were often adopted to improve communication clarity regarding policy objectives, establish greater accountability for achieving those objectives and, ultimately, influence inflation expectations. In the South African context, the introduction of inflation targeting went hand-in-hand with reforms to SARB's communication practices. Walsh (2015) emphasises the need for a rule-based approach (centred on interest rates) to achieve inflation targets and, importantly, the need for central banks to clearly communicate their policy intentions to maintain credibility and guide expectations. This is reaffirmed by Castañeda (2021) and Davig and Foerster (2023). Consistency between what the central bank says (its communications) and what it does (its policy actions) is vital: credibility is earned by aligning words with deeds, which in turn stabilises expectations.

Since adopting an explicit inflation target, SARB has relied on surveys of inflation expectations to gauge whether its communications and policies are successfully anchoring the public's outlook. The Bureau for Economic Research (BER) conducts quarterly Inflation Expectations Surveys on behalf of SARB. These surveys cover four key groups: financial analysts, business people, trade union officials and households. The respondents are asked for their numerical inflation expectations for the next one to two years (rather than just qualitative higher/same/lower judgements). The BER's survey methodology draws on best practices from similar surveys (such as the Federal Reserve Bank of Philadelphia's Livingston Survey and the Reserve Bank of New Zealand's surveys). Responses are kept confidential and aggregated to produce an overview of expected inflation among different groups (see Livingston, 1989).

For SARB, these survey-based inflation expectations serve as an important metric for policy success. If communication is effective and credible, one would expect survey respondents' expectations to remain close to the target range, even in the face of short-term economic fluctuations. Large or persistent deviations of expectation from the target may signal a communication or credibility problem. In our study, we use the BER's measure of average inflation expectations as the dependent variable of interest to examine whether improvements in SARB's communication clarity are associated with shifts in these expectations over time.

DATA AND METHODOLOGY

Communication channels and data sources

Today, central banks disseminate information through a wide array of channels, leveraging traditional and digital media to reach broad audiences. The primary data for this study consist of SARB's official MPC statements, obtained from SARB's website, spanning January 2001 to September 2023. The post-meeting statements by the SARB Governor outline the rationale behind policy decisions and the Bank's assessment of economic conditions.

It is important to note the evolving communication channels that SARB employs in the contemporary period. In addition to the official website publications, SARB now broadcasts the MPC statement via live webcasts and shares highlights through social media platforms. The MPC statements and press conference proceedings are communicated through channels that include Twitter (now rebranded as X), Facebook, LinkedIn and YouTube. This multi-platform strategy greatly broadens SARB's audience beyond the traditional financial press. For example, SARB's communication team used a combination of Twitter, Facebook and interactive mobile-friendly microsites to publicise the launch of a new banknote series.

SARB's social media presence has grown significantly over the past decade, reflecting a broader trend of central banks embracing information and communication technology (ICT) for outreach. As of July 2025, SARB's official Twitter (X) account had over 135,000 followers, its Facebook page over 42,000 followers, and its LinkedIn page over 260,000 followers. Studies have noted that SARB is among the most active of central banks in Africa on Twitter, having posted over 6,700 tweets by mid-2025 – only slightly fewer than the continent's leader in this regard (Bank of Uganda, which boasts over 10,000 posts). This proactive adoption of social media indicates SARB's commitment to broadening its communication strategy and engaging with both expert audiences and the general public through ICT channels. Such channels complement traditional press releases and speeches, and they enable SARB to directly deliver its messages (in plain language, often accompanied by infographics or videos) to citizens, thereby potentially reducing reliance on intermediaries in the media.

For our empirical analysis, however, we focused on the content of the official MPC statements as the core communication instrument. These statements are standardised, authoritative and available continuously over our sample period. By analysing the text of these statements, we could quantify changes in communication clarity and examine their relationship with measured inflation expectations.

Quantifying communication clarity

To measure the clarity (or readability) of SARB's MPC communications, we employed textual analysis techniques. Our primary indicator of clarity was the Flesch-Kincaid Grade Level (FK) score. The FK score is a well-established metric of readability that translates text complexity into a United States (US) grade level equivalent. It is computed based on sentence length and word syllable count, according to the formula below:

$$0.39 \times (\text{words/sentences}) + 11.8 \times (\text{syllables/words}) - 15.59 \quad (1)$$

This formula yields a score roughly between 0 and 18 for typical texts, with higher values indicating more complex, difficult-to-read material. For example, an FK score of 8 corresponds to an eighth-grade reading level, whereas a score above 16 would indicate graduate-level difficulty. Lower FK scores thus reflect greater readability and clarity.

Bulíř et al. (2013) employed the FK grade level as an objective measure of communication clarity, interpreting the score as the number of years of education required for text comprehension. The FK grade level was applied to English versions of central bank documents, with the resulting scores used to proxy changes in clarity and analyse their relationship with the evolving economic context. In the context of central bank statements, a lower FK score (simpler language) is presumed to make the content more accessible to the general public, potentially enhancing the effectiveness of communication.

We calculated the FK grade level for each SARB MPC statement in our sample. In practice, this involves preprocessing each statement (removing non-substantive text such as titles, dates and page numbers), then computing sentence lengths and syllable counts. The statements, originally published as PDFs, were converted to plain text for analysis to ensure consistency over the 22-year period and to avoid artifacts from formatting changes.

Besides readability, we also considered the sentiment and tone of communications, as these could influence public reception. Using the Besigye-Segawa TextBlob framework (Segawa, 2021) with the Loughran-McDonald financial lexicon (Loughran & McDonald, 2011), we derived two additional text-based indices from each statement: a polarity score (measuring the sentiment on a scale from negative to positive) and a subjectivity score (measuring the degree to which the content was subjective/opinion-based or objective/factual). These scores allowed us to control for whether the tone of communications (such as optimistic or pessimistic language) might confound the relationship between readability and expectations. However, our primary focus remained on the readability metric as an indicator of clarity.

Our analysis centred on the hypothesis that improved clarity (lower FK scores) in SARB communications leads to better anchoring of inflation expectations. This hypothesis aligns with prior findings that simpler, clearer language by central banks can enhance public understanding and engagement. We formally tested this by examining the relationship between the FK score of MPC statements and subsequent movements in measured inflation expectations in South Africa.

Empirical strategy

To investigate the relationship between communication clarity and inflation expectations, we used a time-series econometric approach. Given that we were interested in the long-run association between the readability of communications and the level of inflation expectations (which may both exhibit trends over time), our main technique was the Engle-Granger two-step cointegration test.

In the first step, we estimated a simple long-run equilibrium relationship of the form:

$$\text{Inflation Expectations} = \alpha + \beta * \text{Flesch-Kincaid Grade Level score} + \varepsilon \qquad (2)$$

Inflation Expectations is the dependent variable, representing the expected average inflation rate by the market agents. As the independent variable, the FK grade level score indicates the ease of reading with α as the intercept term, representing the constant term for the equation. β is the coefficient of the FK grade level score, indicating the relationship between the readability and inflation expectations, and ε represents the error term or residual, accounting for unexplained variations in the dependent variable.

The Engle-Granger cointegration captures the long-run equilibrium relationship between the two variables, suggesting that changes in FK grade level score may or may not have a substantial long-term effect on inflation expectations after accounting for short-term dynamics.

RESULTS

Descriptive statistics

Before turning to the regression results, we present summary statistics for the key variables and their simple correlations. Table 1 reports descriptive statistics for SARB's MPC statement FK scores, the average inflation expectations and other text-based indicators (polarity and subjectivity) over the sample period.

Table 1: Descriptive statistics

	Average_ Expectations	Fleschkincaid	Subjectivity	Polarity
Mean	6.00	12.024	0.337	0.0345
Median	6.00	12.9	0.337	0.030
Maximum	10.1	15.7	0.408	0.113
Minimum	3.2	7.00	0.269	0.008
Std. Dev.	1.575	2.225	0.0253	0.025
Skewness	0.713	0.00	0.032	0.621
Kurtosis	3.356	2.416	3.043	2.954
Jarque-Bera	8.029	9.858	0.022	5.734
Probability	0.018	0.007	0.988	0.056
Sum	534.8	1070.2	30.039	3.074
Sum Sq.				
Dev.	218.372	435.955	0.056	0.056
Observations	89	89	89	89

Table 1 shows the results of the descriptive statistics. We observe that the mean and the median of the time series are close to one another, which implies a relatively even distribution. The skewness is expected to be zero and kurtosis 3. However, for all the time series the skewness is positive. Apart from FK grade level score, the kurtosis is relatively normal because it approximates to 3. However, the Jarque-Bera statistic suggests that only subjectivity has a normal distribution.

Table 2: Correlation analysis

Variable	Average_ Expectations	Fleschkincaid	Subjectivity	Polarity
Average_ Expectations	1.000			
Fleschkincaid	0.164	1.000		
Subjectivity	0.094	0.233	1.000	
Polarity	0.263	0.189	0.161	1.000

Table 2 depicts the correlation among the variables. We observe that polarity has the highest correlation coefficient with average inflation expectations of about 0.26, which is statistically significant.

FK grade level score has a correlation coefficient of 0.16, which is not statistically significant. Among the control variables, we find that FK grade level score has a statistically significant pairwise correlation with subjectivity and polarity, but the correlation is relatively low.

The relationship between CBC indicators and inflation expectations is visually represented in Figures 1 to 3. We observe in Figure 1 that the FK level score has had a downward trend since 2015, which indicates increased clarity regarding communication. There is also a clear positive relationship between the clarity indicator and the average inflation expectations. This means that due to clarity of communication, market agents revised their expectations downward until the start of the COVID-19 pandemic.

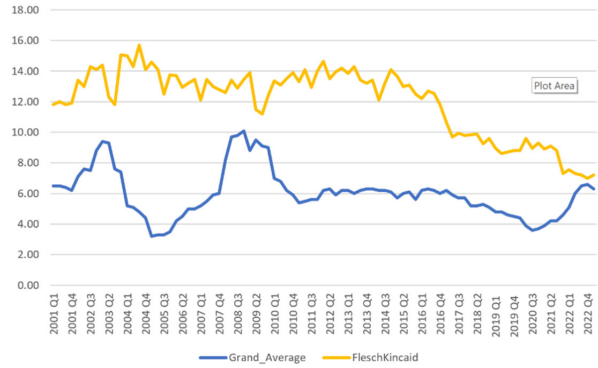

Figure 1: Average inflation expectations and Flesch-Kincaid index

Figure 2 shows the relationship between the polarity indicator and inflation expectations. There seems to be a clear negative relationship between the two series during certain periods, especially during the financial economic crisis and also during the COVID-19 pandemic.

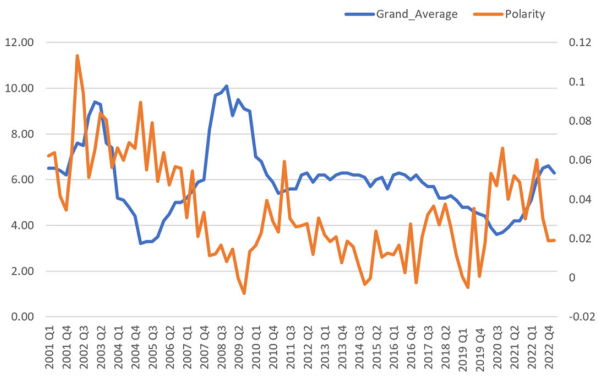

Figure 2: Average inflation expectations and polarity index

Figure 3 shows the relationship between the subjectivity index and inflation expectations. The series moves together during the early period of inflation targeting and then moves in the opposite direction from 2003 until the 2011 quarter 1, which includes the financial crisis period. The two series seem to lose their relationship in the 2022 quarter 3.

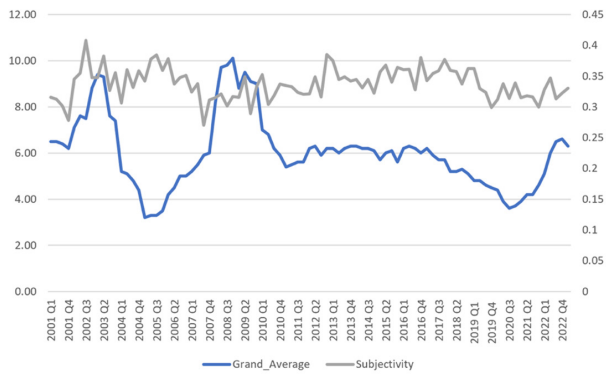

Figure 3: Average inflation expectations and subjectivity index

Stationarity tests

The Augmented Dickey–Fuller (ADF) and Phillips-Perron (PP) tests were conducted for each of the variables to assess whether they were stationary or not before testing for Engle-Granger cointegration. This is because the series must be at the same level of integration for the long-run relationship to be established.

H0: The series is non-stationary (has a unit root).

H1: The series is stationary.

Rejection criteria: Reject H0 if the absolute value of the test statistic is greater than the absolute value of the critical value. Alternatively, reject the null hypothesis if the probability value is less than 0.05.

According to the PP test, both variables are non-stationary at level because the probability values are greater than 0.05. The ADF test confirmed that Flesch-Kincaid is non-stationary at level, but the average expectations are non-stationary at the 5 per cent level when the intercept and trend are included. We therefore concluded that both series are non-stationary at level. Once the series are differenced once, they become stationary because the probability values are zero. The results are presented in Table 3.

Table 3: Unit root test table (PP and ADF)

UNIT ROOT TEST TABLE (PP)			
	At Level		
		FLESCHKINCAID	EXPECTATIONS
With constant	t-Statistic	-0,6359	-2,4791
		n0	n0
With constant & trend	t-Statistic	-2,7568	-2,5742
		n0	n0
Without constant & trend	t-Statistic	-0,7698	-0,6409
		n0	n0
	At First Difference		
		d(FLESCHKINCAID)	d(EXPECTATIONS)
With constant	t-Statistic	-12,5078	-7,4436
		***	***
With constant & trend	t-Statistic	-14,1567	-7,3570
		***	***
Without constant & trend	t-Statistic	-12,3909	-7,4837
		***	***
UNIT ROOT TEST TABLE (ADF)			
	At Level		
		FLESCHKINCAID	EXPECTATIONS
With constant	t-Statistic	0,1137	-3,1759
		n0	**
With constant & trend	t-Statistic	-3,0518	-3,4009
		n0	*
	Prob.	0,3060	0,3837
		n0	n0
	At First Difference		
		d(FLESCHKINCAID)	d(EXPECTATIONS)
With constant	t-Statistic	-9,4401	-7,3065
		***	***
With constant & trend	t-Statistic	-9,7938	-7,2661
		***	***
Without constant & trend	t-Statistic	-9,3925	-7,3494
		***	***

Notes: (*) Significant at the 10%; (**) Significant at the 5%; (***) Significant at the 1% and (no) Not Significant
**MacKinnon (1996) one-sided p-values*

Engle-Granger cointegration analysis of FK grade level score and SARB inflation expectations

The analysis employed the Engle-Granger cointegration methodology, with inflation expectations designated as the dependent variable, to ascertain the presence of a long-run equilibrium relationship between the FK grade level score of SARB MPC statements and SARB's average inflation expectations.

In the first stage of the analysis, a cointegration regression was implemented, with inflation expectations specified as the dependent variable and the FK grade level score as the independent variable. The outcomes of this estimation are presented in Table 4. The cointegration regression is run with inflation expectations being the dependent variable and the FK grade level score as the independent variable, as shown in Table 4.

To test the long-term relationship between the variables, we used the Engle-Granger two-step procedure. The first step was to run an ordinary least squares (OLS) regression of the variables. In the second step, we tested whether the residuals from the regression in the first step were stationary. This was done by running the Engle-Granger cointegration test on the results. These results are exhibited in Table 4. The *tau*-statistic is 3,4959 with the probability of 0.04, which is less than 0.05. This result means that we can reject the null hypothesis of no cointegration and conclude that there is a cointegrating relationship between the two variables at the 5 per cent level of significance.

Table 4: Cointegration regression of inflation expectations on Flesch-Kincaid Grade Level Score

Series: AVERAGE_EXPECTATIONS FLESCHKINCAID				
Sample: 2001Q1 2023Q1				
Included observations: 89				
Null hypothesis: Series are not cointegrated				
Cointegrating equation deterministics: C				
Automatic lags specification based on Schwarz criterion (maxlag=11)				
Dependent	tau-statistic	Prob.*	z-statistic	Prob.*
AVERAGE_EXPECTATIONS	-3,495992883	0,0405	-30,48456619	0,0029
FLESCHKINCAID	-1,309663549	0,8286	-5,208335048	0,7085
*MacKinnon (1996) p-values				
Intermediate Results:				
		AVERAGE_ EXPECTATIONS	FLESCHKINCAID	
Rho - 1		-0,150720155	-0,059185626	
Rho S.E.		0,04311226	0,045191473	
Residual variance		0,331853662	0,784488613	
Long-run residual variance		1,835553653	0,784488613	
Number of lags		2	0	
Number of observations		86	88	
Number of stochastic trends**		2	2	

DISCUSSION AND POLICY RECOMMENDATIONS

The findings of this study provide clear evidence that CBC exerts a measurable influence on the formation of inflation expectations in South Africa. By quantifying clarity through the FK readability score, we have shown that periods of more readable, plain language communication by SARB's MPC correspond to

lower long-run inflation expectations among market participants and the public. In practical terms, when SARB's statements are easier to read and understand, the public's expectations of future inflation tend to be better anchored (closer to the official target). This result underscores the broader point that how a central bank communicates, and not just what it communicates, can affect the efficacy of monetary policy.

Two main implications emerge from our analysis:

Importance of readability and clarity: The evidence that improved readability correlates with reduced inflation expectations (in the long run) reinforces the argument that central banks should strive for clear and accessible language. The FK score essentially captures the structure and complexity of the text. A lower FK (simpler communication) likely makes it easier for a wide audience, including non-specialists, to grasp the central bank's message and policy stance. Our findings echo those of Bholat et al. (2018) at the Bank of England, who found that using "relatable" communication materials (including simpler language and visuals) increased public understanding and trust in the central bank. In SARB's case, greater clarity in MPC statements appears to enhance credibility and accountability, as evidenced by the inverse relationship with expectations. This suggests that central banks in emerging markets can benefit from adopting plain language approaches similar to those being implemented by major central banks to connect with the general public.

Communication as a policy tool: Our results reinforce the view that communication itself is a tool of monetary policy. When done effectively, communication can guide the public's expectations in the same direction as the policy intent, thereby improving policy transmission. Acting as a conduit for transparency and accountability, clear communication can build trust among the public and market participants. This trust, in turn, makes policy announcements more credible and potent. For SARB, maintaining a high level of clarity could help mitigate unwarranted swings in expectations, especially during times of uncertainty. For instance, during periods of economic stress (financial crisis or pandemic), straightforward messaging can help prevent an unmooring of inflation expectations by reaffirming the central bank's commitment to its goals in language that the public finds reassuring and understandable.

Based on these insights, we offer several policy recommendations for SARB and, potentially, other central banks in similar contexts:

Continue to prioritise readability: SARB should continue its recent efforts to improve the readability of its communications. This could involve internal guidelines or checklists for drafting MPC statements in plain language (avoiding unnecessary jargon, explaining technical terms, using shorter sentences where possible). Regular readability audits (using FK or similar metrics) could be instituted. Given the proven long-run benefits, even incremental improvements in clarity may yield dividends in terms of better anchored expectations.

Expand communication channels mindfully: While SARB has embraced social media and other channels, it should ensure that content across these platforms maintains clarity and consistency. Posts on Twitter or summaries on Facebook should mirror the clarity of the full statements, potentially using infographics or videos for key points. By engaging on platforms popular with younger or non-expert audiences, SARB could further broaden understanding of monetary policy. Importantly, the Bank should also monitor feedback and questions from the public on these channels, as this could indicate where messages are not clear and require further clarification or outreach.

Strengthen forward guidance practices: Forward guidance – communicating about future policy intentions – is most effective when messages are clear and credible. SARB should refine its use of forward guidance by providing as much clarity as possible about the factors that will influence future policy (without making unwarranted commitments). As our research and other studies suggest, clear forward guidance could reduce uncertainty during volatile periods. Ensuring that forward-looking statements are understood by the wider public, and not just economists, might involve publishing frequently asked questions (FAQs) or explainer documents alongside MPC statements, especially when introducing new policy directions.

Monitor and evaluate communication effectiveness: SARB could benefit from formally monitoring how well its messages are understood. This could include running periodic surveys or focus groups

to gauge public comprehension of its announcements. In addition, analysing media coverage (how newspapers or online media report on the MPC decisions) could provide insight into whether the intended message is getting through or being distorted. If misunderstandings are detected, SARB could adjust its communication strategy or issue clarifications. Over time, building a feedback loop would help to calibrate the level of detail and complexity appropriate for communications.

Leverage multimedia and translation: South Africa has a diverse populace with multiple languages. To truly reach a broad audience, SARB might consider providing key parts of its communications in other widely spoken languages (perhaps in summary form) and using multimedia (visuals, charts, short videos) to illustrate policy points. Our findings highlight literacy (in terms of reading level) as a barrier; using visual communication could transcend some language and education barriers. Many central banks now produce short explainer videos for social media. This could be a useful complement to written statements for SARB.

By adopting these strategies, SARB could further enhance the clarity and reach of its communications. The end goal is to ensure that all segments of the public understand the central bank's objectives and outlook, which fosters informed expectations and reduces the likelihood of misinterpretation that could lead to unwarranted volatility or scepticism.

CONCLUSION

The evolution of SARB's communication practices reflects broader trends in modern central banking towards greater transparency, public engagement and accountability. As Kganyago (2017) articulated in a notable address, effective communication has become as fundamental as traditional policy tools in sustaining monetary policy credibility. This has been particularly evident under South Africa's inflation-targeting regime, where clear communication is essential for anchoring inflation expectations and ensuring policy decisions are well understood and trusted by the public. SARB's experience underscores that transparency and openness, when combined with clarity, help foster public trust and strengthen the impact of monetary policy on the economy.

Our study contributes to this understanding by providing empirical evidence that the clarity of SARB communications has a tangible effect on economic outcomes. In summary, we found a significant inverse long-run relationship between the readability of SARB's MPC statements and inflation expectations in South Africa. This implies that the clearer and more accessible SARB's messages have become, the more firmly inflation expectations have been anchored to the target, all else equal. Such a finding affirms the critical role of clear and transparent communication in modern central banking. It aligns with recent international evidence and offers a concrete data point from an emerging market economy to support the notion that central banks can enhance policy effectiveness through better communication practices.

SARB's journey towards more effective communication has included increasing the frequency of its announcements, diversifying the channels of communication, including embracing social media, and improving the readability of its messages. These efforts have helped bridge the gap between the central bank and the public, thereby bolstering the bank's credibility and accountability. Moving forward, as SARB and other central banks continue to refine their communication strategies in an ever more complex and information-rich environment, a key lesson stands out: clarity is not optional – it is fundamental. Clear, plain language communication about policy decisions and their rationale fosters greater public understanding, which, in turn, makes monetary policy more predictable and effective.

In conclusion, the case of South Africa demonstrates that evolving a central bank's communication approach can yield meaningful benefits. By speaking in a language that people can understand, SARB has improved the alignment of expectations with its policy goals. As other central banks, especially in emerging markets, contemplate their own communication strategies, the South African experience offers a valuable example of how transparency and clarity can serve as powerful tools for enhancing monetary policy outcomes. The ongoing challenge will be to maintain this clarity and adapt to new communication platforms and audience needs, ensuring that the public remains not only informed about but also engaged with monetary policy issues. The evidence presented here provides a strong argument that doing so is well worth the effort.

REFERENCES

Aaker, D.A. & Moorman, C. (2023). *Strategic market management*. John Wiley & Sons.

Amato, J. D. & Shin, H.S. (2003). Public and private information in monetary policy models.

Anderes, M., Rathke, A., Streicher, S. & Sturm, J.E. (2021). The role of ECB communication in guiding markets. *Public Choice*, 186(3):351–383.

Bholat, D., Broughton, N., Parker, A., Ter Meer, J. & Walczak, E. (2018). *Enhancing central bank communications with behavioural insights*. Bank of England Working Paper No. 750.

Blinder, A.S., Ehrmann, M., De Haan, J. & Jansen, D.J. (2024). Central bank communication with the general public: promise or false hope? *Journal of Economic Literature*, 62(2):425–457.

Bulíř, A., Čihák, M. & Jansen, D.J. (2013). What drives clarity of central bank communication about inflation? *Open Economies Review*, 24(1):125–145.

Carotta, G., Mello, M. & Ponce, J. (2023). Monetary policy communication and inflation expectations: new evidence about tone and readability. *Latin American Journal of Central Banking*, 4(3):100088.

Collingro, F. & Frenkel, M. (2020). On the financial market impact of euro area monetary policy: a comparative study before and after the Global Financial Crisis. *Global Finance Journal*, 45:100480.

Castañeda, J.E. (2021). A rule-based monetary strategy for the European Central Bank: a call for monetary stability. In *New challenges for the Eurozone governance: Joint solutions for common threats?* Springer International Publishing, 91–113.

Dale, S., Orphanides, A. & Österholm, P. (2018). Imperfect central bank communication: information versus distraction. *International Journal of Central Banking*.

Davig, T., & Foerster, A. (2023). Communicating monetary policy rules. *European Economic Review*, 151:104290.

Ferrara, F.M. & Angino, S. (2022). Does clarity make central banks more engaging? Lessons from ECB communications. *European Journal of Political Economy*, 74:102146.

Grunig, J. (2001). Two-way symmetrical public relations: past, present, and future. In R.L. Heath (ed.). *Handbook of public relations*. Sage, 11–30).

Grunig, J.E. & Hunt, T. (1984). *Managing public relations*. Holt, Rinehart and Winston.

Haldane, A. & McMahon, M. (2018). Central bank communications and the general public. In *AEA papers and proceedings*, 108:578–583.

Hartmann, P., & Smets, F. (2018). The European Central Bank's monetary policy during its first 20 years. *Brookings Papers on Economic Activity*, 2018(2):1–146.

Jansen, D.J. & De Haan, J. (2005). Talking heads: the effects of ECB statements on the euro–dollar exchange rate. *Journal of International Money and Finance*, 24(2):343–361.

Kganyago, L. (2017). Address at the SANEF Nat Nakasa Awards Ceremony. Durban, South Africa. Available from: https://www.resbank.co.za/en/home/publications/publication-detail-pages/speeches/speeches-by-governors/2017/496

Kiley, M. & Mishkin, F.S. (2024). *Central banking post crises* (No. w32237). National Bureau of Economic Research.

Kohn, D.L & Sack, B.P. (2003). *Central bank talk: does it matter and why?* Available at SSRN 483524.

Kostarella, I. & Palla, Z. (2024). Sensationalism versus substance: exploring "viral" and "quality" journalism in the Greek public sphere. *Journalism and Media*, 5(3):1173–1193.

Lehtimäki, J. & Palmu, M. (2022). Who should you listen to in a crisis? Differences in communication of central bank policymakers 1. *Journal of Central Banking Theory and Practice*, 11(3):33–57.

Lima, G.T., Setterfield, M. & da Silveira, J.J. (2025). Achieving two policy targets with one policy instrument: heterogeneous expectations, countercyclical fiscal policy, and macroeconomic stabilization at the effective lower bound. *Review of Evolutionary Political Economy*, 6(1):135–155.

Livingston, J. (1989). *Origins of the federal reserve system: money, class, and corporate capitalism*, 1890–1913. Cornell University Press.

Loughran, T., & McDonald, B. (2011). When is a liability not a liability? Textual analysis, dictionaries, and 10-Ks. *The Journal of Finance*, 66(1):35–65.

McCombs, M.E. & Shaw, D.L. (1972). The agenda-setting function of mass media. *Public Opinion Quarterly*, 36(2):176–187.

Morris, S. & Shin, H.S. (2002). Social value of public information. *American Economic Review*, 92(5):1521–1534.

Morris, S. & Shin, H.S. (2005). Central bank transparency and the signal value of prices. *Brookings Papers on Economic Activity*, 2:1–66.

Neuenkirch, M. (2012). Managing financial market expectations: the role of central bank transparency and central bank communication. *European Journal of Political Economy*, 28(1), 1–13.

Nosike, C.J. & Ojobor, O.S.N. (2024). Effects of government policies on recessions: fiscal and monetary policy impact on unemployment, poverty, and inequality. *Interdisciplinary Journal of African and Asian Studies*, 10:1–12.

Poole, W. (2006). The fed's monetary policy rule. *Review-Federal Reserve Bank of Saint Louis*, 88(1), 1.

Reid, M.B. (2011). Communication as a strategic monetary policy tool: an evaluation of the effectiveness of the South African Reserve Bank's communication. Doctoral dissertation. Stellenbosch: Stellenbosch University.

Segawa, A. (2021). Causality analysis of South Africa Reserve Bank's monetary policy statements and communication. *International Journal of Finance & Banking Studies*, 10(4):55–74.

Sturm, J.E. & De Haan, J. (2011). Does central bank communication really lead to better forecasts of policy decisions? New evidence based on a Taylor rule model for the ECB. *Review of World Economics*, 147(1):41–58.

Wadood, M.R. (2025). Monetary policy transmission in Bangladesh: evaluating the most effective channels. *Journal of Business and Economic Options*, 8(1):15–27.

Walsh, C.E. (2009). Inflation targeting: what have we learned? *International Finance*, 12(2):195–233.

Walsh, C.E. (2015). Goals and rules in central bank design. *International Journal of Central Banking*, 11(4):295–352.

Warjiyo, P. & Juhro, S.M. (2019). Monetary policy transmission mechanism. In *Central bank policy: theory and practice*. Emerald Publishing Limited, 115–158.

Yulianto, H. (2025). Central banks as catalysts for economic literacy: a framework for building smart citizens. *Interdisciplinary Journal of Global and Multidisciplinary*, 1(2):88–110.