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# What should we say, when we talk about financial stability with the public?

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**Abstract**

This paper discusses communication with the general public about financial stability. The paper first draws parallels with the literature on monetary policy communication. Next, it outlines additional challenges facing communication on financial stability. In particular, a broad concept such as financial stability may be difficult to make concrete. In contrast, illustrating financial *instability* is straightforward. Building on that notion, the paper closes with three focal points for policy communication. First, that financial instability is the exception. Second, that such instability is, however, a very costly exception. Third, that it is, therefore, important to remain vigilant and build financial resilience–even at times when volatility is low. Focusing on these three focal points can help central banks build public awareness of the relevance of financial stability. These points can also be a basis for further empirical research on financial stability communication.

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## 1. Introduction

When teaching, it is never difficult to illustrate financial *instability*. Showing a black-and-white photo of people queuing outside a bank during the Great Depression to students will normally do. Providing a clear and concise explanation of financial *stability* turns out to be less straightforward. Doing that usually requires, at least for the author of this paper, more than a few slides–often with longish sentences and some complicated diagrams representing analytical frameworks (*mea culpa*). Even though this approach might still work for an audience with an above-average amount of training in economics, what can reasonably be expected when communicating about financial stability with the public at large?

In discussing the public's understanding of financial stability, this paper closely relates to the literature on financial literacy (Lusardi and Mitchell, 2014). As discussed by Buch (2018), a lack of financial literacy is an important channel through which instability can arise. A lack of financial literacy makes households less well prepared to deal with adverse shocks (Wiersma et al, 2025). Vice versa, financial literacy produces better investment outcomes (Lusardi and Mitchell, 2023). Also, financial literacy can help people form better-aligned expectations (Bruine de Bruin et al., 2010). Financial literacy also helps build trust in the financial system (Van der Cruijsen et al., 2021).

In light of their financial stability mandate, therefore, building financial literacy is important for central banks. To build literacy, clear and concise communication matters. Various papers have studied financial stability communication with experts (Born et al., 2014; Londono et al., 2024). So far, the literature has paid little attention to central bank communication with the public on financial stability.[1]

To further the debate, this paper discusses a few challenges that are likely to surface when central banks communicate to the public about financial stability (sections 2 and 3). Next, it argues that providing clear communication is worth the effort, before highlighting avenues for future research (section 4). The paper ends with suggestions on what ideally the general public (as well as the student) knows about financial stability (section 5).

[1] One exception is Beutel et al. (2021) who find that, in an experimental setting, participants perceived higher risks to financial stability after a central bank warning.

## 2. Insights from monetary policy communication

We start with three challenges suggested by the experience with monetary policy communication (Blinder et al., 2024). It is quite likely that similar challenges will surface when communicating on financial stability with the general public.

First, reaching the general public will be difficult to begin with, especially in settings where inflation is close to target. Even though a central bank may be very active in terms of communication, there can still be a low interest from the public, in particular from the side of households. Van der Cruijsen et al. (2015) estimate that (during a period of low and stable inflation) more than a quarter of Dutch households were quite comfortable with not being that well informed about the ins and outs of monetary policy.

Second, reaching the public does not ensure that the message gets across. Various studies show that public knowledge about monetary policy is, at best, fragmentary. This holds for basic facts, such as the question who is heading the central bank (Binder, 2017; Afrouzi et al., 2015). It also holds for more conceptual points, such as the intended effect of raising policy rates on inflation (Andre et al., 2022).

Third, even if the message on monetary policy somehow does get across, the public's beliefs or behaviour may still not change. Blinder et al. (2024) focus on two important objectives of monetary policy communication: building trust and steering the public's inflation expectations. On both counts, the news is not unequivocally positive. In some cases, communication seems to build trust (Bholat et al., 2019); In other cases, trust remains impervious to central bank talk (Brouwer and De Haan, 2022). There is evidence that communication moves inflation expectations, but mainly in the context of controlled experiments (Coibion et al., 2022). Outside of the laboratory, communication is not certain to move inflation expectations (De Fiore et al., 2021; Enders et al. 2019).

## 3. Additional challenges for financial stability communication

Communicating about financial stability with the public faces three additional challenges.

First, as suggested above, financial stability is a broad concept. A short description would be: '*making sure that the financial system can continue to serve the real economy*'. But this phrase remains abstract. Would it be clear to a member of the public what the *real economy* is? Would people be aware of what the various components of the financial system are? Or, for that matter, how exactly the financial system serves this thing called the *real economy*? In addition to expanding upon such points, it may well be necessary to say something about shocks, vulnerabilities, or resilience. Most likely, that will not be a trivial task.

Again, making a comparison to monetary policy helps. For monetary policy, one can often still do a fairly good job by boiling everything down to one or two key objectives (inflation, growth) and one instrument (the interest rate)–even though the increased use of unconventional monetary policies has certainly not made communication with the public easier. No such luck for financial stability.

Second, and continuing with that comparison, the increasingly close interactions between the two policy areas may make it even harder for the public to follow the discussion. More and more, when central bankers talk about monetary policy, they also refer to financial stability–and vice versa. For instance, Wischnewsky et al. (2021) find that the Federal Reserve Chair often pointed to financial stability considerations in discussing the monetary policy stance with members of Congress. Moreover, it appears such considerations filtered through into the Fed's monetary policy decisions.

Interactions also surface in a more fundamental discussion on central bank mandates. A 2016 survey found that a majority of central bank governors had considered changing the monetary policy mandate after the global financial crisis, often by adding a financial stability perspective (Blinder et al., 2017). In some cases, for instance Norway or New Zealand, the mandate for monetary policy has indeed been broadened in recent years. One interesting question is to what extent the public at large is able to digest central bank talk that sometimes refers to monetary policy, at other times refers to financial stability, and even sometimes refers to both.

Third, as financial stability often focuses on tail risks, communicating nuances becomes particularly important. The attention for the financial stability implications of climate change is a good illustration. Various authorities have used scenario analysis to understand the implications of climate-related shocks, such as extreme weather events. Modelling the implications of such shocks requires thinking out loud about scenarios that may seem unlikely from today's perspective, but not completely unthinkable in the long run. For instance, Caloia et al. (2025) analyse the effects of uninsured flood-related property damages for credit risk of Dutch lenders. They calculate the level of capital depletion in 38 hypothetical flood scenarios of various degrees of severity–and often low levels of probability. Describing what such depletion numbers in tail risk scenarios imply requires careful drafting indeed.

## 4. Thoughts on the road ahead

Most likely, communicating to the public will remain challenging, regardless of whether monetary policy or financial stability is the topic. In that light, it is good to be realistic in terms of what communication–however intense or well designed–can achieve. Here, it is worth quoting Blinder et al. (2024) who argue that "*No country will ever become a nation of monetary policy experts*." But, as Blinder et al. (2024) also outline, there are major potential benefits of clear central bank communication. Above all, communication is a natural way to provide accountability and build trust. Such benefits are likely to make the journey worth the effort.

What that journey will look like in the context of macroprudential policy is not easy to say. As a starting point, the suggestion of Haldane et al. (2021) that central banks invest in explanation, engagement and education is a useful one. And, layered communication on financial stability looks promising. This implies that central bankers always tailor the message to the audience. Members of the public would have the information available in simple terms, while experts would have more complex material available. In the context of monetary policy, there is some evidence that such a tailored approach can help to attract attention and build trust (Haldane and McMahon, 2018; Bholat et al., 2019). As indicated in the introduction, it should not be that difficult for central banks to visualize concerns on financial *in*stability in an intuitive way. Signalling concerns on tail risks in a simple way may be more challenging, though. Binder (2025) suggests that, in this context, insights from educational psychology can also inform central bank communication, for instance by presenting information in both visual and verbal forms.

A second point concerns trust when central banks have multiple mandates. Even among experts, there is debate on the extent to which monetary policy and financial stability should interact (Adrian & Liang, 2018; Smets, 2014; Svensson, 2017). Whether the public would need to be aware of all the possible nuances in that debate remains to be seen. But, at the very least the hope would be that central banks can make clear to the public that sometimes their actions are motivated by very different sets of objectives.

By the way, and to further complicate matters, yet another mandate of central banks can relate to microprudential supervision. There is, luckily, some evidence that communicating about supervisory activities helps. For instance, Van der Cruijsen et al. (2024) report a positive correlation between respondents' knowledge of supervision (including macroprudential objectives) and their trust in supervisory authorities. Still, only 36% of the survey respondents correctly indicate that financial stability is a supervisory responsibility. In all, it would be interesting to see further research that tries to partial out to what extent overall trust in central banks can be affected by the fact these institutions may operate under a diverse set of mandates indeed. In addition, it would be welcome to see specific studies of macroprudential communication towards the general public.

**5. So, what is there to say about financial stability?**

All things considered, what would be the ideal for the public's knowledge about financial stability? As illustrating financial *instability* is straightforward[2], policymakers can make three follow-up points:

1. Financial stability is the rule–and instability the exception.
2. However, any episode of financial instability is a very costly exception.
3. Therefore, it is important to remain vigilant and build financial resilience–even at times when volatility is low.

Comparable to the "Big Three" questions used to study financial literacy (Lusardi and Mitchell, 2023), these three focal points can also be a basis for further empirical work on macroprudential communication with the public.

Making the case that resilience matters is where macroprudential communication with the public can add value in particular. Resilience may sound good on paper. But, in practice, building resilience entails measures with implications for households and firms alike. To name one example, borrower-based measures may interact with the extent to which first-time buyers can acquire a property. Carefully crafted communication may then help clarify some of the trade-offs in building financial resilience. In addition, emphasizing the cost of instability can help create public support for financial stability mandates. In all of this, therefore, the emphasis would be on democratic accountability and building trust–rather than also aiming for enhanced policy effectiveness, as has been the case for monetary policy communication with the public (cf. Blinder et al., 2024).

[2] For an early discussion along similar lines, see also Allen and Wood (2006). They argue that " [...] the best approach is to define the characteristics of an episode of financial instability, and to define financial stability as a state of affairs in which episodes of instability are unlikely to occur."

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