CONTINENTAL SEMINAR OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS ON THE THEME "CREDIBLE COMMUNICATION STRATEGIES FOR CENTRAL BANKS IN THE FRAMEWORK OF MONETARY POLICY AND FINANCIAL STABILITY"

Accra, Ghana, 3 - 5 May 2017

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CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

The 2017 Continental Seminar of the Association of African Central Banks (AACB) was held on 3 - 5 May 2017 in Accra, Ghana, on the theme "*Credible Communication Strategies for Central Banks in the Framework of Monetary Policy and Financial Stability*". Sixty (60) delegates from twenty-five (25) member central banks and four (4) regional and international institutions attended the seminar.

The opening ceremony was chaired by Dr. Johnson P. Asiama, Deputy Governor of Bank of Ghana, in the presence of Dr. Natalia A. Koliadina, IMF Resident Representative.

In his opening remarks, Mr. Papa Lamine Diop, Executive Secretary of the Association of African Central Banks, on behalf of the President of the AACB, Mr. Godwin I. Emefiele, Governor of the Central Bank of Nigeria (CBN), expressed deep gratitude to the Governor of the Bank of Ghana (BOG) for agreeing to host this important event of the Association and making such excellent arrangements to ensure its success.

After giving a special motion of thanks to Experts for accepting to share their knowledge on the topic covered at the seminar, as well as to regional and international institutions, the Executive Secretary saluted the remarkable presence of member central banks, which is a testimony of their strong determination to contribute decisively in tackling the challenges of monetary integration in the continent.

He added that, recognizing the importance of communication in the conduct of an effective monetary policy and the stability of the financial system, AACB Governors approved at their 39th ordinary meeting in Abuja, Nigeria, the organization of the 2017 Continental Seminar on the theme "Credible Communication Strategies in the Framework of Monetary Policy and Financial Stability".

He pointed out that communication had become today one of the priorities of monetary Authorities. It has taken on a special significance since the 2007 international financial crisis and currently considered as a monetary policy instrument.

However, he stressed that the implementation of an effective and credible communication strategy in the field of monetary policy presents some challenges, notably the ability of central banks to explain the uncertainty surrounding the economic outlook in a context where the economies are increasingly exposed to unforeseen shocks. Moreover, central banks were given new responsibility, particularly a financial mandate, in view of the effectiveness of their actions during the recent international financial crisis. He added that a cautious approach was therefore needed to avoid undermining the credibility of central banks, given the challenges posed by their communication.

In this regard, the Executive Secretary indicated that the seminar was mainly aimed at contributing to understanding the increased importance of central bank communication in achieving the objectives of monetary policy and financial stability; conducting in-depth reflections on the implementation of central bank communication strategies; analyzing various central banks communication strategies and drawing lessons for African central banks, as well as highlighting the new challenges of adopting communication as an instrument of monetary policy and financial stability by central banks.

The Executive Secretary expressed gratitude to His Excellency, President Nana Addo Dankwah Akufo-Addo, to the Government and the people of the Republic of Ghana for the warm and friendly welcome extended to the participants.

1. OPENING CEREMONY

Dr. Johnson P. Asiama, Deputy Governor of the Bank of Ghana, chaired the ceremony and delivered the opening speech. In his speech, he considered that the theme of the seminar "*Credible Communication Strategies for Central Banks in the Framework of Monetary Policy and Financial Stability*", was timely because of the emerging role of communication as a tool to shape expectations towards achieving the core mandate of price stability. His remarks touched on monetary policy formulation in Africa and the move towards incorporating communication in the monetary policy formulation process.

With regard to monetary policy in Africa, he indicated that in the recent past, most African central banks assumed developmental roles by directly intervening in the real sector of the economy. With this role, monetary policy formulation in the early 1970s was directed at financing large fiscal deficits incurred in the pursuit of accelerated growth and development resulting in severe financial repression. In this context, central bank communication was limited to regulatory and supervisory guidelines issued periodically to financial institutions under its control. Economic agents seeking information had to depend on ex-post publications to conjecture the stance of monetary policy pursued during the course of the year.

With paradigm shifts on monetary policy making in the global economy, it became imperative for African central banks to pursue forward-looking monetary policy to tackle price stability which is a necessary condition for sustainable growth. In so doing, some central banks adopted the Inflation Targeting monetary policy framework, while other central banks de-emphasized the role of monetary aggregates and started incorporating elements of forward-looking monetary policy framework. In this context, communication and transparency helps shape and anchor inflation expectations as well as build policy credibility towards delivering the core mandate of the central bank.

In the case of financial stability, central bank communication strategy should be developed with utmost care in order not to incite unnecessary and unintended reaction from the market.

Regarding communication in the monetary policy formulation process, the Deputy Governor emphasized that transparency and policy credibility that underpin forward-looking monetary policies and market-based prudential regulations call for effective central bank communication. Therefore, central bank communication strategies must be underscored by accountability and transparency. This involves deepening understanding of economic relationships and their ultimate impact on inflation, and signaling monetary policy actions which provide forward guidance to market participants. It is for these reasons that communication has become an additional tool in the kitty of the central bankers.

However, communication in some African countries faces some challenges. As democratic processes take root alongside media pluralism and the explosion of social media, there is a potential for central bank actions and inactions to be misrepresented and in the process, erode the central bank's reputation and lower market and public confidence in monetary policy decisions.

Therefore, central banks must appreciate new communication trends and develop communication strategies to leverage existing media technology to build confidence of market players. African central banks should also develop a framework for comprehensive education packages to improve financial literacy across all the sectors of the economy.

Moreover, the Deputy Governor underscored that monetary policy credibility is crucial for attaining monetary policy objectives, particularly, in a rational expectations environment where economic agents have full information on how the economy works.

He ended his speech by urging participants to note the important take-away points from the seminar. For example, how does effective communication enhance central bank credibility and effectiveness of monetary policy? How should communication be managed in times of crisis? And what lessons should be learned from cross-country experiences in central bank communications?

2. KEYNOTE ADDRESS

In her remarks, Dr. Natalia Koliadina, IMF Resident Representative in Ghana, recalled the economic outlook in Africa and the need for country authorities to introduce measures to support a return to strong and durable growth involving all stakeholders. In this regard, central banks have a role to play, including through shaping expectations of economic agents which is needed to re-establish macroeconomic stability. This makes the topic for the seminar very relevant. Indeed, communication has become very critical as countries in the region begin to increasingly observe the relevance of the expectations in monetary policy transmission.

This underlines a new paradigm in which anchoring expectations has become critical for central banks to achieve their objectives in monetary policy and financial stability. Credible communication has become important, particularly for countries where the financial sector depth is generally limited and vulnerable to significant volatility and noise that may cloud judgments. Moreover, credible communication also strengthens the ability of outside agents to hold the central bank accountable for its actions and performance. With communication as a strong commitment tool, it contributes to building trust, reinforcing the effectiveness of monetary policy, and in turn reinforce the legitimacy and independence of the central bank.

Beyond monetary policy, credible communication also affects financial stability, a mandate assigned to many central banks. Besides, an emerging consensus is that for a communication strategy to be credible, it should be clear, open, and timely. This typically requires an appropriate combination of content, tools, and timing. Clear communication ensures that various communication tools deliver simple and consistent signals to a broad audience. Open communication provides the public with the right amount of information on the past development and future policy directions. Timely communication delivers the right signal with minimal delay while covering the appropriate time horizon to anchor the expectations.

Recent experiences have shown that central bank communication is becoming part and parcel of central bank functions for monetary policy and financial stability actions. Building sufficient capacity in this area requires commensurate human capital investment and learning, including new training and hiring to achieve the required skill mix. In addition, coordinating external and internal communication may require a re-thinking of the central bank's organizational structure, functions, and procedures.

Dr. Koliadina ended her opening remarks by underscoring that the monetary policy frameworks in African countries continue to evolve, and thus credible communication strategies need to adapt to country context as there is no "one size fits all". In this regard, the Continental Seminar provides a precious opportunity to exchange experiences in different country context and discuss what worked well, what worked less well, and why.

3. STRUCTURE OF THE SEMINAR

The Seminar was structured as follows. Eminent Speakers were called upon to address delegates on three sub-themes. Afterwards, selected central banks shared their experiences with respect to the central theme of the seminar. Finally, three break-out sessions were organized to discuss on selected topics in order to take stock of central banks communication strategies and their effectiveness and make recommendations on the way forward for the consideration of Governors. The closing ceremony of the seminar was chaired by Mr. Millison Narh, Deputy Governor of the Bank of Ghana. In his speech, the Deputy Governor recalled the objectives of the seminar and the important results achieved.

3.1. Plenary session 1: Presentations on the objectives, information channels and information content communicated by central banks to ensure the strengthening of the effectiveness and credibility of monetary policy as well as the stability of the financial system

3.1.1. Prof. Peter Quartey, Director of the Department of Economics at the University of Ghana, Legon, gave a presentation on "*Central Bank Communication and Monetary Policy Credibility*". His presentation touched on effective communication strategies, central bank communication and monetary policy credibility in Ghana.

3.1.2. Introducing his presentation, Prof. Quartey stated that until a decade ago, conventional practice within central bank circles was been to say as little as possible and say it using technical jargons. However, he noted that effective communication was necessary for central banks because it provides democratic legitimacy to independent central banks, it enhances the effectiveness of monetary policy, and ensures efficient functioning of the economy.

3.1.3. With respect to effective communication, he highlighted that it was largely about developing a strategy for transmitting a specific message to financial market and public at large, in order to make them increasingly familiar with the way central banks think and operate. In this context, communication has become a necessary function of central banks. He added that central banks communication should provide to the public information on the objective of monetary policy, the monetary policy strategy, the economic outlook, and the outlook for future policy decisions. It also should be targeted to a defined audience.

3.1.4. Regarding central bank communication and monetary policy credibility, Prof. Quartey underscored that good communication enhance monetary policy effectiveness by influencing expectations and minimizing uncertainty. The communication should be comprehensive, timely announced and provide quality information. Comprehensive and timely information could be beneficial to policy makers and the private sector, as the private sector which is the engine of growth gets access to more information and no information asymmetries are registered between monetary policy makers and the private sector.

3.1.5. Moreover, Prof. Quartey presented the communication experience of Bank of Ghana, which overriding goal of monetary policy is price stability. BoG's communication strategies are mainly based on publications, website, press conferences, Monetary Policy Committee (MPC) meeting, media engagements, presentations and representations at meetings. He concluded by emphasizing the need for effective central bank communication to strengthen the credibility of monetary policy, which should help to promote macroeconomic stability, investment and growth. He stated that the credibility of central banks needs a number of requirements, including central bank autonomy, transparency, use of local language, non-complexity of press releases, so that they are accessible to the public and markets. He added that central banks should also be proactive in their communication policy.

3.1.6. Mr. Magnus Andersson of the European Central Bank, made a presentation on "Central Banks Communication and Financial Stability." He first noted that financial stability is a state whereby the build-up of systemic risk is prevented. Systemic risk on the other hand can best be described as the risk that provision of necessary financial products and services by the financial system will be impaired to a point where economic growth and welfare may be materially affected. His communication mainly centered around risk identification, resilience of the financial system and macroprudential policies.

3.1.7. In terms of risk identification, he indicated that identification of potential sources of systemic risk required an encompassing view of the financial sector. In this regard, for the assessment of the risks, tools are needed to take into account cross-sectoral and cross-border linkages and different propagation channels. As for the communication challenges in this process, they are relevant to the audience to reach, the timing, the frequency and the credibility of communication. In this regard, it is important to reduce asymmetric information and educate the public about complex issues. He noted that at the European Central Bank (ECB), the outcome is to identify and rank key risks that could unearth vulnerabilities in the financial system. Thus, he underscored some challenges, particularly the risks which may be overlooked, the unintended behavior of markets/institutions, and media reports that may not properly reflect the risks and vulnerabilities. He then commented the evolution of ECB and IMF Financial Stability Sentiment (FSS) indices between 2005 and 2015.

3.1.8. He added that the identification of risks should be based on the analysis of data and models in order to highlight the way in which the risks arise and said that the resilience of the financial system should be assessed quantitatively through fully fledged stress tests and macro-financial scenarios that map the main systemic risks.

3.1.9. With respect to macroprudential policies, Mr. Andersson, commented on what these policies could achieve. In this regard, he noted the need for instruments that could curb the financial cycle by preventing excessive asset price and credit fluctuations to avoid boom-bust episodes. Instruments are also needed to provide buffers to limit contagion or excessive spending adjustment to prevent prolonged recession. He also highlighted the importance of communication, even in times of crisis, through the experience of the ECB, showing the role played in strengthening the central bank's tools and consumer expectations. He indicated that at ECB, a recommendation is issued for remedial action when significant systemic risks are identified and when action is necessary to address these risks.

3.1.10. Mr. Kanguya Mayondi, Head of Communications of the Bank of Zambia, made a presentation on "Cross Country Analysis on Central Bank Communications: Lessons for African Central Banks". The presentation centered around an overview of communication by selected central banks such as Riksbank and the Bank of Zambia, monetary policy decision cycle and monetary policy communication.

3.1.11. Introducing his presentation, Mr. Mayondi indicated that days when secrecy and opacity were the bywords of central banking were gone. He added that over the past tow decades, there has been a dramatic change in the way central banks view the role of transparency and communications in the conduct of monetary policy. In the past decades, central banks said little publicly to explain what they were up to and why. With multiple monetary policy objectives and instruments, policy actions were generally not predictable. So the view among central banks was that is was best not to talk about policy actions and let these actions speak for themselves. Furthermore, the conventional wisdom was that financial markets needed to be "surprised" if monetary policy was to be more effective. However, fundamental changes in the conduct of monetary policy under inflation Targeting regime provided the main impetus to the broad trend among central banks toward greater openness, transparency and accountability, which require proactive, well-planned communications.

3.1.12. He added that the general public is typically interested in what affects its day-to-day decision-making, including inflation, interest rate movements and external value of the currency. The financial markets, on the other hand, are interested and dissect central bank communication for clues about where monetary policy may be heading.

3.1.13. Presenting the case of Riksbank communications, he indicated that the bank was criticized for being unclear and for not communicating enough at a time it thought it was one of the more open central banks in the world. He added that if an organization is going to be clear, it needs to know its target groups, what they know and what king of communication channels works best in different situations and for different audiences. Moreover, that communication has to be open, comprehensive, clear, up to date, and domesticated.

3.1.14. He then focused on the following three main elements, namely when, where and how to communicate. Taking the example of Riksbank he stated that it is a statutory obligation for this central bank if an individual requests it, to supply data from a public document, provided that the data is not classified as confidential. It also has an obligation to provide information that relates to the banks sphere of activities and the choice of channel is determined by the target group and the type of information and message in each situation. Moreover, Riksbank believes that the website is the most important and quickest channel for external parties to find out information about the bank's activities, objectives and tasks.

3.1.15. To fulfill communication obligations, Mr. Mayondi noted that communication with the media is particularly relevant because it is a tool that is instrumental in determining the success of central bank communication. Thus, many central banks devote considerable resources to media relations. The media should therefore be well informed about monetary policy and its complexities and conditional nature.

3.1.16. Taking the example of Bank of Zambia, he indicated that it pursues a primary objective of price stability, which is empirically attained through the achievement and maintenance of inflation within the target range of 6% to 8% over the medium-term. After the financial and economic reforms of the 1990's, Bank of Zambia adopted monetary aggregate targeting as its monetary policy framework and reserve money was an operational target while broad money was the intermediate and inflation being the ultimate target. However, in April 2012, the Bank of Zambia started migrating to an inflation targeting framework and introduced a policy rate, where interbank rate is the operational target. The interbank rate is expected to lie within ±2% of the policy rate. In this new framework, transparency is cardinal in ensuring monetary policy effectiveness. Therefore, it is of prime importance that communication of Bank of Zambia's policy stance is clear to the public as its helps in anchoring and coordinating the inflation expectations of the markets players.

3.1.17. In this context, the MPC's decision on the policy rate and other policy related decisions are published immediately following the MPC meeting through print and electronic media. In particular, the Bank of Zambia releases a monetary policy statement which details the decision of the MPC as well as the information that guided their decision on the Bank of Zambia website.

3.2. Plenary session 2: Experiences of AACB Sub-regions' central banks

Nine Central Banks from different Sub-regions presented their experiences, related to the central theme of the seminar.

4. BREAK-OUT SESSIONS

Following the presentations of the central banks' experiences, the delegates were divided into three Break-out Sessions and exchanged views on the following topics:

- **Break-out session I:** Central banks communication in a crisis environment: lessons learned from the recent financial crisis
- **Break-out session II:** Central banks' communication strategies: dynamics, structure and measurement of the impact on monetary and financial stability
- **Break-out session III**: Central bank communication and effectiveness of monetary policy.

Break-Out Session I: Central Bank Communication in a Crisis Environment: Lessons Learned from the Recent Financial Crisis

Observations

1. The group observed that member countries experienced second round effects of the 2007/2008 global financial crisis through trade and services channels as well as remittances, culminating into currency depreciation.
2. Volatilities in the global financial conditions led to heightened risk in the banking sector.

3. Geopolitical and macroeconomic conditions in some countries worsened, leading to further deterioration of financial markets. Re-introduction of capital control was considered by some countries.
4. Central banks, globally, adopted forward looking monetary policy frameworks, thereby improving communication. Financial stability issues, in this regard, gained more prominence.
5. Some central banks introduced Strategy and Risk Management and Communications departments to improve risk assessment and enhance communication.

Recommendations

6. To prepare for crisis, central banks should:
   a. Train journalists and engage the media – sometimes in confidence – to discuss an emerging crisis, its implications and how it is being managed;
   b. Undertake regular updates and publications;
   c. Have a team of experts ready to be used in public engagement in times of crisis;
   d. Communication should be well coordinated both internally and externally – must decide on who, what, how and when to speak; and
   e. Communication departments should advise management on the implications of a chosen course of action.

7. Central banks should use the various media of communication at their disposal. But these must be used in line with the issue at stake, the mandate of the bank and the targeted audience.

8. To ensure that the message is not misconstrued in times of crisis:
   a. Central bank staff should get involved in drafting the message rather than simply giving facts to the media;
   b. Message should be clear, direct, consistent and internally well-coordinated such that the same message is given to the public irrespective of who speaks and the frequency of engagement;
   c. Use every opportunity available – before, during and after the crisis – to assess the situation in order to inform both current and future policies;
   d. Evaluate media coverage and related discussions.

Break-Out Session II: Central Bank Communication Strategies: Dynamics, Structure and Measurement of the Impact of Monetary and Financial Stability

Observations

1. The communication channels used by central banks are: Reports, journals, press conferences, press statements, corporate website, declarations, print and electronic media, newsletters, short message service (SMS), speeches, ad hoc interviews, and meetings with stakeholder groups.
2. It was noted that risks can be associated with different stages of the communication process – from the preparation of the content through to the actual delivery of information.
3. It was identified that risks to communication channels include: Reduced internet accessibility and connectivity; inadequate communication budget; low levels financial literacy, which may lead to misinterpretation or apathy; geopolitical situation and financial crisis.
4. It was observed that the best communication channel to use should be determined by the target audience.
5. It was identified that central bank communication should be clear and provide forward-looking guidance through its forecast, which should also reflect the risks and assumptions underpinning the forecast.
6. It was observed that central banks should work towards more openness and transparency, as the level of financial literacy is increased.
7. The meeting noted that measuring the impact of communication on monetary policy and financial stability requires innovation.

Recommendations

1. Central banks should have a full-fledged and functional communication department with adequate budget allocation to carry out their mandate.
2. There should be a definitive communication strategy for monetary policy and financial stability.
3. The communication officials should have adequate authorisation to execute the mandate of the department.
4. The communication team should have a blend of communication experts and subject matter experts where necessary, and must extensively collaborate with monetary policy and financial stability departments.

5. The central bank must measure the effectiveness of its communication regularly and review where necessary, and should be able to isolate factors that contribute to failure or success of communication.
6. The timetable/calendar of regular communications should be published. In addition, central banks should be flexible enough to communicate outside planned schedule in emergency situations and be available for ad hoc interviews when necessary.

Break-Out Session III: Central Bank communication and effectiveness of monetary policy

Observations

1. It was noted that the effects of central bank communication can be categorised as Positive, Negative or Neutral – communication is positive when the intended purpose is achieved, negative if it does not achieve its intended purpose, and neutral when there is no positive or negative impact.
2. It was noted that central banks use the following to communicate:
    a. Social media e.g Facebook, Twitter, etc.
    b. Diverse and appropriate local languages.
    c. Jingles, skits, competitions, drama, etc.
3. It was observed that the following are the common forms of central bank communication:
    a. Releases, Policy Statements, Press conferences, Interviews, Dinner Press, Publications in newspapers, magazines, production of booklets and billboard advertisements, etc.
    b. T.V and radio advertisements, debates, the use of personalities and celebrities.

Recommendations

1. Central banks should use surveys and independent poll, as tools to help measure the effectiveness of monetary policy communication.
2. Banks should use knowledgeable communicators.
3. Banks should endeavour to use the right words, be clear and concise about their messages.
4. Messages should be accurate and timely.
5. For effective and credible monetary policy and financial stability communication, the following should be used:
    a. Communication strategy which is fit-for-purpose
    b. A specialised communication department

Done in Accra, Ghana, 5 May 2017