

Concluding Remarks at Regional Seminar on Central Bank Communications

by

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It is not easy to summarize the discussions we have had—they have been so rich and diverse: so many interesting observations have been made about the various situations facing your central banks and how you are handling them. But perhaps four main points stand out.

First, it is striking how *central bank communications have been developing so rapidly in your countries and across the region*. This is part of a global phenomenon. There was general recognition in our discussions that communication by monetary authorities is not just a matter of transparency, but also of education, guidance, persuasion, and dialogue. There was also general recognition of the need for any central bank to formulate a communications strategy, and to communicate not only on matters relating to monetary policy, but also on their approach and operations relating to financial stability. I think there was also general agreement on the need, at times, for what Governor Reddy called ‘open eyes and ears only’ operations, as opposed to ‘open mouth operations’.

Second, although the development of central bank communications has been a widespread phenomenon, we have heard a lot about why, as Richard Lambert said, *it is not the case that ‘one size fits all’*. Thus we have heard how the nature of central bank communications must depend on the *monetary policy regime*. In Singapore, the BBC (basket, band, and crawl) exchange rate-centered monetary policy system makes it important to have what Edward Robinson called a “calibrated” approach toward communications, in which, although the policy framework, including instrument and objective, are explicit, some degree of “constructive ambiguity” is applied to aspects of exchange rate management. This contrasts with countries with inflation targeting frameworks that necessarily involve more open communication. We have also heard how the nature of a central bank’s communications will depend on its *governance structure*, so that, for example, the central banks of the Philippines and the United Kingdom, which both have inflation targeting frameworks, communicate quite differently to their publics about their monetary policy decisions, with the open diversity of views in the Bank of England’s Monetary Policy Committee contrasting with the emphasis on consensus at the Bangko Sentral ng Pilipinas, referred to by Deputy Governor Guinigundo. We have also heard about how optimal transparency and communication are likely to vary over time. Deputy Governor Muto summed all this up when he said that the way a central bank communicates must depend on its environment.

Third, we have heard a lot about why *communication needs to be two-way*, including with financial markets, as Deputy Governor Bandid emphasized. Central banks have to let markets be markets, listen to markets, take note of the information they are providing, and not dominate their behavior by providing, through their communication, what Deputy Governor Mohan referred to as too much guidance. Governor Reddy, referring to current levels of

global interest rates and spreads, asked whether central bank communications had led to an under-pricing of risk. And Deputy Governor Muto asked if central banks' apparent success in anchoring inflation expectations might have made it more difficult for them to influence long-term interest rates—one way of looking at the current 'conundrum' of sticky and historically low bond yields.

Fourth, and finally, we have discussed the *communications challenges* facing central banks now and in the period ahead.

- The level of *economic literacy* in the population at large was referred to by Diwa Guinigondo as a particular problem for central banks in developing countries, but the problem is surely quite general.
- *Credibility* is an attribute needed by all central banks, and establishing it is a particular challenge when there is a recent history of inflation, as Deputy Governor Guinigondo said. And as Deputy Governor Miranda Goeltom reminded us, no central bank can establish or maintain credibility through communications alone. It is what you do, much more than what you say, that is important in this regard.
- Many here have referred to the importance of central bank communication as a means of *bolstering central bank independence through broader accountability*. Richard Lambert and Deputy Governor Mohan have reminded us that in recent years increased central bank independence has coincided with economic and financial conditions in which monetary policy has not really had to test its potential unpopularity. Interest rates generally have been low. If and when the tide turns, respect for the independence of central banks may be more severely tested—particularly respect among politicians—and central bank communications may need to move into higher gear. But the difficulty you will face is likely to depend on the communication work you do now, while conditions remain benign, which is one of the reasons why this work is so important.
- We have discussed how *internal communications* increase in importance with external communications, and how various challenges arise in this connection. In many central banks, as in the IMF, external communications are widely delegated among staff, who therefore need to be well informed on what they communicate. But at the same time, there is need for clarity about who the central bank's spokesperson is, especially on sensitive topics, and on when staff are speaking for themselves and not the institution, for example on their research work. We did not have a session on internal communications during the Seminar, but we probably could have done, given the interest expressed in the challenges that arise in this area.

This was the first seminar on communications that we have organized in the Asia-Pacific region. I believe that we have all found it very interesting and productive, although we shall be seeking your feed-back more formally. In fact, I think more time would have been useful, which probably says that we should follow up in the near future with further discussion on a number of the issues we have been considering. Many thanks to you all for your participation.