Monetary and Capital Markets Department
TECHNICAL ASSISTANCE HANDBOOK

Monetary Policy Frameworks

Central Bank Communications

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THIS ONLINE HANDBOOK

This handbook aims to distill, document, and make widely available, the lessons learnt from Monetary and Capital Markets Department (MCM) technical assistance (TA) over a long period while also incorporating lessons learnt globally. It covers a wide range of central banking topics pertaining to governance and risk management, monetary policy, monetary and foreign exchange operations, and financial market development and infrastructures, while highlighting, where relevant, specific issues for low-income resource-rich countries. It is intended to document and promote good practices and support the consistency of advice over time. It is, however, stressed that one size solutions cannot fit all, and all advice therefore needs to be tailored to country-specific circumstances. The handbook comprises self-contained, issue-specific chapters with cross-references on overlapping issues where needed. It is targeted at those who provide TA (both IMF and non-IMF personnel), and practitioners in central banks and other relevant institutions.

THIS CHAPTER: CENTRAL BANK COMMUNICATIONS

Nowadays, communications represent a key policy instrument in central banks' toolbox. This chapter explains the reasons why communicating is crucial and reviews international best practices regarding what, to whom, and how to communicate. The chapter also provide detailed suggestions on the use of specific tools, how to structure the Communications Department, and to effectively assess the impact of central bank communications. The adoption of these best practices would help central banks increase the effectiveness of monetary policy by improving predictability and strengthening the transmission mechanism.

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Contents Page

Glossary

BoE	Bank of England
CPI	Consumer Price Index
ECB	European Central Bank
FOMC	Federal Reserve Open Market Committee
GFC	Global Financial Crisis
IMF	International Monetary Fund
MCM	Monetary and Capital Markets Department
MPC	Monetary Policy Committee
MPR	Monetary Policy Report
TA	Technical Assistance

Executive Summary

Good and effective central bank communication has become a critical component of monetary policy. Several factors have contributed to this trend. First, central banks have been increasingly recognizing the power of communication in affecting market expectations. Second, the demand by experts and the general public for detailed information about their objectives, decisions, and actions has increased. Third, central bankers have come to realize and appreciate that communication improves the effectiveness of monetary policy and helps to build public support for central-bank independence. Finally, enhanced and transparent communications play a key role in supporting central banks' accountability and, ultimately, their independence.

Communication challenges significantly vary across countries, reflecting different economic and institutional environments. As many advanced economies came close to exhausting conventional policy space in the aftermath of the Global Financial Crisis, communication in the form of forward-guidance, to directly affect the expectations of the public, became a powerful tool. In emerging market and developing economies, other communication challenges emerged, such as the need for communications to support transitions to a different monetary policy regime, or to adequately explain policy decisions in the presence of multiple objectives.

The presence of natural resource wealth in some developing countries brings specific issues and generally amplifies the importance of good communication. Given the frequency and importance of terms-of-trade shocks in such countries, monetary policy often faces tradeoffs stemming from the opposite effects that these shocks have on inflation and output. While these tradeoffs may require the central bank to let inflation drift away from the target temporarily, such a strategy is viable only if inflation expectations are well anchored—which requires effective communication policies that enhance central bank credibility.

In response to the challenges and opportunities, central banks in advanced, emerging and developing economies have been improving their communication. Greater attention has been devoted to understanding what, to whom, and how to communicate. The evolution in communication strategies and instruments has been accompanied by efforts to track the impact of communication and the results obtained.

Before considering *how* to best communicate, central banks need to determine the contents and the target audiences of their communication. With respect to the messages that monetary policy should deliver, three essential elements can be identified: (i) the policy regime, (ii) the objectives, and (iii) the decisions with the associated explanations. In inflation targeting frameworks, this implies communicating the central bank mandate of price stability, the numerical inflation objective, and the adjustments in monetary policy instruments together with the reasons behind them.

With respect *to whom* the central should communicate, all relevant stakeholders should be considered. Key target audiences of monetary policy communication include, but are not limited to, the general public, media, government, parliament, financial market participants, and central bank "watchers." By addressing these different groups, central banks reinforce the transmission mechanism of monetary policy, meet the demand for accountability, promote financial literacy, and facilitate coordination with other policy-making authorities.

A broad consensus has emerged on the building blocks of *how* monetary policy communication should be implemented. Specifically, five key principles are identified. First, communication should be clear and transparent, explaining the policy objective and framework, and the central bank's reaction function. Second, messages must be tiered to target different audiences, aiming to reach all relevant segments of the population. Third, communication should be delivered regularly. Forth, relevant information should be made equally accessible to all target audiences in a timely manner. Fifth, while there can be merit in allowing for divergent perspectives across officials, central bank communications should not deliver contradictory or confusing messages and should be associated with the institution.

With these guidelines, recommendations can be made for the design of communication tools. The monetary policy committee statement should aim to retain broadly the same structure across releases and focus on the policy deliberations and the economic analysis underpinning them. Ideally, the statement is accompanied by a short presentation to the media. Press conferences should be held by the governor, speaking in plain language and stressing key messages. A Monetary Policy Report (MPR) should be published at quarterly frequency and complement the information provided by the statements and press conferences, and present an in-depth analysis of economic developments, the rationale for policy actions, and alternative scenarios.

An essential ingredient for improving monetary policy communication is the design and formalization of its institutional framework. The central bank should develop a communication policy and a strategy document, which guides how to address stakeholders by detailing the objectives, target audience, messages, channels, and tools of communication. By assigning specific responsibilities, setting the budget, and outlining an implementation plan, this document also helps define the structure of the communication departments. Appropriate financial and human resources should be allocated to this unit, which ideally consist of specialized teams, supporting the different functional areas of the central bank.

Similar to other policy instruments, central banks need to monitor the performance of their communication. This requires extracting information from several sources, using various methodologies. To estimate the effects of monetary policy announcements on financial markets and the real economy, central banks often rely on high-frequency event studies, looking at the change in key variables over a short time interval. A measure of central bank credibility can be obtained by studying inflation expectations—in particular long-term expectations—since they play a pivotal role in central banks' pursuit of price stability. When measuring the effectiveness of communication, it is important to consider figures relating to both media coverage and tonality. The latter should be measured objectively on a consistent and regular basis. Central banks can also use surveys to evaluate the impact of their communications on different stakeholders and learn their opinions on monetary policy.

I. Context and Issue

For a long time, central banks used to be secretive institutions. Central bankers believed that the effectiveness of monetary policy depended on the ability to surprise markets. Some likely also sought protection from political pressures. Monetary policy communication was summarized well by Montagu Norman, former governor of the Bank of England (BoE, 1920–1944): “never explain, never excuse.”

This view started to change during the 1990s with the adoption of inflation targeting by New Zealand, followed by many other central banks. The widespread adoption of inflation targeting resulted in an increased attention to monetary policy communication (Bernanke and others, 1999). Indeed, communication is a central feature of this type of regime, aiming to make monetary policy more predictable through speeches, press conferences, and published documents. The goal is to clearly explain the goals of monetary policy, a strategy to achieve these, specific decisions regarding target interest rates, the expected evolution of economic conditions, as well as limitations of, and risks to, policy (Mishkin, 2004). In a survey of central banks, Geraats (2009) confirms that central banks targeting inflation become significantly more transparent as compared to central banks targeting monetary aggregates or the exchange rate. Moreover, they show that countries with higher monetary policy transparency tend to experience lower inflation.

During the same period, several other, and often related, factors emerged in favor of an increased role of central bank communications. First, transparency and active communication with the government, the public, and markets were increasingly recognized as an important tool for monetary policy (Blinder and others, 2008). Second, the shift towards transparency facilitated the operational independence of central banks (Heenan and others, 2006). Finally, public accountability by central banks was a way to enable policy decisions to remain insulated from short-term political pressures (Levin, 2014).

The Global Financial Crisis (GFC) represented an enormous challenge for monetary policy generally, including for communications. Policymakers found themselves obliged to further advance the frontier on the topic to gain traction. A key example is the use of communications as an active policy tool once conventional monetary policy space was exhausted: forward guidance became progressively more refined and effective in providing monetary accommodation to support the economic recovery after the GFC. Two other high-profile events characterize this experimentation period: Mario Draghi’s “whatever it takes” statement in 2012, and the Federal Reserve triggering the “taper tantrum” in 2013. The first raised confidence in monetary policy action and became the turning point of the European debt crisis. The second, following a suggestion that the pace of bond purchases would be reduced, unintentionally raised uncertainty about the course of U.S. monetary policy, bringing about significant market volatility.

This chapter covers best practices regarding monetary policy communication, building on the experience of central banks on the frontier, as well as recommendations provided by IMF technical assistance missions. The chapter is aimed at TA providers and country authorities, and the overarching goal is to provide concrete advice that helps central banks fully reap the benefits from transparent, clear, and effective communications. Such effective communication allows central banks to meet the demand for accountability and improve the effectiveness of monetary policy. Accountability and independence represent two sides of the same coin. By letting stakeholders understand and evaluate its work, the central bank protects itself from political interference. However, accountability is not achievable without transparency, and transparency requires clear communication.

Another key advantage of clear and forward-looking communication is a more predictable monetary policy, which in turn is more effective in influencing interest rates. While central banks can control short-term interest rates thorough traditional tools, the transmission to long-term rates highly depends on the predictability of future monetary policy decisions. By effectively and clearly communicating to its stakeholders, the central bank can strengthen the transmission mechanism. In particular, good communication increases the predictability of monetary policy, reduces uncertainty, and influences long-term rates, which matter the most for a broad set of economic transactions.

The advice in this chapter is relevant for most countries, although recommendations need to be tailored to specific needs and challenges of each central bank. In the past decade, the conduct of monetary policy has become more challenging for emerging markets and developing economies. In a context of very accommodative monetary policy stance followed by steps towards normalization in advanced economies, the exposure to large swings in capital flows, exchange rates, and commodity prices has intensified since the GFC. Importantly, many central banks have been given broader roles in financial stability and regulation. The ever-evolving interplay of monetary policy with other policy issues within an integrated policy framework characterizes an environment which poses new challenges for central bank communication.

The remainder of the chapter is structured as follows: Section II presents theoretical arguments and some evidence on the benefits of transparency and communication to the effectiveness of monetary policy; Section III elaborates on *what to* communicate; Section IV describes *to whom to communicate,* emphasizing the diversity of stakeholders; Section V suggests *how to communicate* through a set of basic principles to be adapted to countries' circumstances; Section VI describes the most common monetary policy communication tools; Section VII elaborates on peculiarities of communication in low-income resource-rich countries; Section VIII focuses on designing effective communication departments within central banks; and finally Section IX describe ways to assess the impact of monetary policy communication.

II. Why Communicate?

The changing role of communication in monetary policy has been the subject of academic discussion. The early literature was based on rational expectations developed models, in which the effects of monetary policy on the real economy were amplified by, if not completely reliant on, on unanticipated shocks.[1] Woodford (2001), however, considers the effectiveness of monetary policy in the face of the significant improvements in information processing technology and communications, which would limit the ability of central banks to surprise the markets. Even though the classical hypothesis would suggest a reduced effect of monetary policy, they claim that monetary policy can be even more

[1] See Lucas (1972, 1973) and Barro (1976).

effective if central banks explore the provision of information and use signals of future policy intentions as an additional instrument of policy.

The benefits of transparency for monetary policy have raised the interest and dedication of central bank policymakers as well. Those benefits are mainly on two fronts. First, transparency helps provide public accountability, which should be the indispensable counterpart of a central bank's operational independence. As described by Dincer and Eichengreen (2014), the rise of central bank transparency is part of a broader trend, responding to popular pressure to make government and public institutions in general more responsive to the public.

Second, transparency contributes to policy effectiveness by improving the predictability of monetary policy through clear communication and a forward-looking approach.[2] This argument has been widely accepted by central bank policymakers, who have promoted well-designed communication strategies. The consequence is described by Blinder (1998) as a virtuous cycle in which monetary policy decisions become more predictable to the markets and, in turn, market reactions to monetary policy become more predictable to the central bank, which can do a better job of managing the economy.

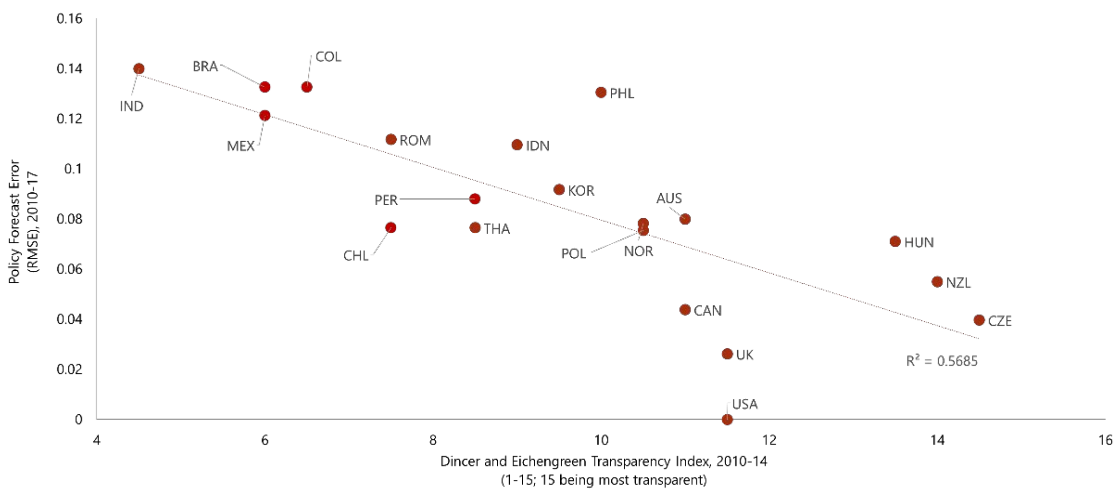
The great advantage of a predictable forward-looking policy is its capacity to influence private sector expectations. The macroeconomic effects of a change in the current value of the monetary policy instrument, say the overnight interest rate, largely depend on the impact on medium- and long-term rates, which tend to affect agents' hiring, consumption, and investment decisions more directly. For this reason, the provision of signals regarding the behavior of that instrument in the future plays a crucial role as it enhances the transmission of adjustments in the operational instrument to the entire term-structure of interest rates. Predictability implies improving that signaling by strengthening the desired link between the daily overnight rate under direct control of the central bank and longer-term rates.[3]

Cross-country evidence presented in Figure 1 points in this direction. It strongly suggests that the private sector's error in forecasting policy rates (vertical axis) decreases with transparency (horizontal axis) as measured by Dincer and Eichengreen (2014). Calculations based on the results of that paper suggest that moving from a level of transparency equivalent to that of the Reserve Bank of India—which in 2010 (before the adoption of the inflation targeting framework) was near the bottom of the pack—to that of Sweden, at the top of the pack, reduces inflation variability by 3 p.p. and inflation by 11 p.p., all else being equal.

[2] A large empirical literature has shown the advantages of monetary policy transparency: better anchored inflation expectations, lower and less persistent inflation, improved output-inflation tradeoffs, more aligned expectations of the private sector, lower risk premia and market volatility, and more efficient open market operations. Surveys are available in Blinder and others (2008), Geraats (2009, 2014), Mishkin (2004), Rudebusch and Williams (2008), and Woodford (2005).

[3] Gürkaynak and others (2005) find that 75 to 90 percent of the explainable variation in five- and ten-year Treasury yields in response to monetary policy announcements is due to signal on future policy intentions (what the authors call the path factor) rather than to changes in the federal funds rate target.

Figure 1. Policy Forecast Errors and Central Bank Transparency



Source: IMF Staff calculations, IMF (2018a).

An additional consequence of more predictable policies is to make the response of private sector expectations work as automatic stabilizers. Once households and firms are able to anticipate the central bank's reactions and respond by changing their consumption and investment decisions in a coordinated way as economic and financial shocks unfold, the stabilization process will start even before any proper action of the central bank.[4] This dynamic contributes to smooth economic cycles, reducing uncertainty and thus avoiding undue volatility following monetary policy decisions.

Agents face two kinds of uncertainty when trying to understand how central banks set interest rates: *policy* and *economic uncertainty*. So far, the emphasis in central bank transparency has been on minimizing *policy uncertainty*, which is the one they have control over because it arises from uncertainty about the objectives of policy and their relative weights[5], the models and information available to central bankers, their perception of monetary policy transmission, risks, and accuracy of models, as well as their biases. In other words, policy uncertainty is dependent on policymakers, who can reduce it by communicating better. Policy uncertainty is minimized by enshrining objectives into law, announcing and explaining decisions, and giving at least some indication of future policy intentions.

***Economic uncertainty*, on the other hand, stems from shocks hitting the economy, data quality and revisions, and changes in the fundamental relationships between economic variables—due to technological advances, for instance.** Even though this uncertainty affects monetary policy decisions, a

[4] As an additional collateral effect, greater stability and predictability in interest rates will induce markets to develop faster, and the public to better grasp the monetary policy transmission mechanism. Thus, transparency also enhances market development and economic literacy.

[5] Though discussing weights on output fluctuations is delicate, as Mishkin (2004) points out.

main scenario is often emphasized to facilitate communication. But many central banks have started to experiment with different methods for illustrating uncertainty about future economic developments (e.g., through the use of fan charts and scenario analyses), and, in some cases, for what alternative developments might imply for the future course of policy. Understanding how to communicate economic uncertainty is the frontier of communications policy.

When studying the reasons why central banks should communicate, it is important to stress the importance of credibility. All the above considerations implicitly assume that the central bank is credible, otherwise communication could not successfully meet the demand for accountability and affect market expectations. However, building credibility may be a long and complicated process, in which communication plays a key role. By acting consistently with its announcements, the central bank can progressively increase the weight that different audiences assign to its words. As the central bank's reputation improves, monetary policy communication will become more powerful. At that point, central banks should not believe that words can replace actions, since the power of communication depends on credibility, which in turn rests on a consistent monetary policy strategy and implementation.

III. What to Communicate?

A key message of central bank communication is its *policy regime*. The information associated with the policy regime should be enough to reveal the logic behind policy decisions.[6] The policy regime will even define the role of further communication associated with the policy conduct. The importance of communication increases with the flexibility allowed by the regime. Certain regimes do not leave much room to maneuver for the policymaker since they are based on a simple automatic rule, as in the case of a currency board. At the other extreme, a central bank with multiple mandates must communicate very effectively, otherwise it will leave a high degree of uncertainty which will significantly harm the real economy.

In the last decades, many central banks have adopted inflation targeting. Inflation targeting typically provides a balance between a well-defined medium-term objective of price stability together with some flexibility to consider secondary objectives in the short term. However, the degree of short-term flexibility varies across countries and is directly associated with the credibility earned by the central bank, a result of effective communication and consistent policy actions (Gaspar and others, 2016).

Given its chosen policy regime, the central bank must be clear about defining and quantifying the *objectives* implied by the specific regime. For instance, inflation targeting can be translated into definitions of price stability that vary significantly in terms of numerical target, the relevant time horizon, and several other aspects. Central banks may also have multiple objectives, which naturally complicates communication. In that case, the central bank should be very clear about how it weighs the different objectives, and whether any objectives are prioritized over others. Moreover, for a clear policy conduct, the central bank should also reveal its *methods*. The communication of methods usually follows the evolution of the analytical framework and the degree of confidence that policymakers deposit on them.

[6] Blinder and others (2001).

Finally, central banks must communicate monetary policy *decisions*. Decisions must be publicly and immediately announced in order to avoid information asymmetries among economic agents. In addition to decisions already taken, central banks should also complement their communication with indications of their current plans regarding future decisions. It has to be made clear, however, that these plans are conditional on the evolution of the economy and are likely to change as new information becomes available.

In terms of specifying the elements of monetary policy communication in the context of the inflation targeting framework, Adrian and others (2018) provide a hierarchy of required content. First, the most essential information, which must be repeated at the start of each MPR: the central bank's mandate, the numerical inflation objective, and the general strategy that guides central bank decisions.

Second, information that must be constantly updated describing the events of the recent period. This must include the most recent monetary policy decisions but cannot be limited to reporting them. The reasons behind those decisions must be made clear, which requires an explanation of the context in which they were made, including the policymakers' assessment of current economic conditions. Monetary policy decisions are supposed to respond to the evolution of domestic aggregate demand as compared to the state of domestic aggregate supply, for which estimates of the output gap have been useful in quantifying the resulting inflationary pressures. But other factors must also be taken into account, given their significant role in generating inflation pressures. Those include the evolution of certain costs and prices, as well as developments in the international macroeconomic environment and financial markets.

To enhance predictability and help coordinate expectations with the objective of influencing longer-term interest rates and asset prices, policy interest rate decisions must be sufficiently forward-looking, and typically consider a horizon of at least a couple of years. Expectations of the future path of the policy interest rate will strengthen the effects on spending, given that firms and households largely borrow and invest at longer terms. According to Woodford (2008), since the private sector understanding about the likely forward path of the policy rate is certainly relevant to a central bank's stabilization objectives, when the central bank perceives that the private sector has not reached a correct understanding on its own, there is reason for it to seek to clarify matters.

To provide an analysis focused on the future is the most challenging element of monetary policy communication. A forward-looking analysis must consider what can be expected from the evolution of the economy given the most likely scenarios. The quality of this analysis is highly dependent on the technical capacity of the central bank. The evolution of the forward-looking component of monetary policy communication usually starts with a qualitative assessment of expected future inflation pressures and, as analytical capacity is built, it starts to resort to quantitative forecasts of output and inflation. The analysis must convey the associated degree of uncertainty by enumerating the main risks around the forecasts and their distribution, which can be, for example, weighted to one side or balanced.[7]

[7] According to Mishkin (2004), the publication of forecasts increases central bank accountability and allows the public and the markets to understand central bank actions and assess whether the central bank is serious about achieving its inflation goal. They also enable the public to evaluate the quality of central bank forecasts, which will enhance central bank credibility if these forecasts are viewed as constructed using best practice. As a result, they increase the incentives for the central bank to produce good forecasts.

To further guide policy expectations, some central banks publish an endogenous path for the policy rate, consistent with the forecasts for inflation and output. Others prefer to report just a qualitative description of the most likely path for the policy rate.[8] Central banks that choose not to describe likely future policy rates usually condition the forecasts of output and inflation on a predetermined path for the policy rate—assuming that rates remain at current levels—or, alternatively, on market forecasts. The approach followed by some advanced economy central banks of publishing their own forecast for the policy rate is subject to a significant caveat: the public may misunderstand the forecast as a commitment and interpret any future deviation of the actual policy rate from the forecasted path as an admission of a mistake.[9] This line of practice is still evolving, even in well-advanced central banks, as there is an ongoing discussion regarding the communication of likely future policy decisions.[10]

Central banks in advanced economies vary in terms of how explicit they are regarding the discussion of future policy intentions. The European Central Bank (ECB), for example, has been providing verbal hints about future interest rate moves, whereas the Swedish Riksbank publishes the optimal interest rate path consistent with its medium-term objective. The Federal Reserve follows a different approach by publishing plots of the U.S. Federal Open Market Committee (FOMC) based on the expectations of individual committee members about the path of appropriate policy. In any case, discussions of future policy intentions should clearly be conditional on the central bank's macroeconomic forecast, to ensure they are not mistakenly understood as commitments.

Since the GFC, the term *forward guidance* has been used to describe central banks' practice of revealing future policy intentions. The regular publication of quantitative projections for the future policy rate path is named *conventional forward guidance*. Those projections are conditional on what is known at the time of the forecast. It is vital to convey the uncertainty underlying the policy rate projection, which is most effectively done in a fan chart, to avoid the impression of a commitment. The central banks of New Zealand, Norway, Sweden, and Czech Republic currently follow this practice.

Other central banks prefer to resort to forward guidance only on occasion, when deemed necessary, rather than systematically. This is called *unconventional forward guidance* and it is used irregularly in a somewhat opportunistic way, whenever policymakers feel a stronger need to influence markets. For instance, this approach was extensively adopted by major central banks in the aftermath of the GFC in order to provide further monetary stimulus, when the official rates were at the effective lower bound. By communicating future policy actions in advance, central banks aimed to lower long-term rates and in turn, sustain economic growth and inflation.

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[8] Most inflation-targeting central banks publish forecasts of inflation and GDP growth and estimates of the output gap in their MPRs. Only a small avant-garde group publishes interest rate forecasts. Moessner and others (2017) provide a survey on the issue.

[9] The communication of the projected policy path poses an important challenge unlike other macroeconomic forecasts. Since the policy rate is directly controlled by the central bank, the projected path could be confused for a commitment. This would make it even more difficult for central bankers to resist the temptation to focus on short-term policy predictability (Geraats, 2009).

[10] A review of the literature can be found in Phan (2013).

Whether conventional or unconventional, forward guidance can be classified into two categories: "Delphic" and "Odyssean."[11] The former consists of announcing the expected future path of official interest rates; the latter also involves a conditional commitment to the announced monetary policy stance. The main argument in favor of the Delphic approach is that the policy rate must be free to respond to all possible contingencies without risking the central bank's reputation by having its previous plan interpreted as a mistake. At the same time, by refusing to commit to predetermined actions, Delphic forward guidance may be less effective in moving inflation expectations and asset prices.

IV. To Whom to Communicate?

The amount of resources dedicated to communication tends to increase with the degree of heterogeneity of the desired audience. Different levels of economy literacy among the public or even the particular interest in the central bank's messages will result in the need of specifically tailored messages. This raises the question of whether the central bank should target some specific groups. The answer should consider that, whereas a deep understanding of monetary policy instruments and strategies may matter only for the financial community, the average citizen is certainly worried about inflation and in most cases, the exchange rate. Left on their own, they often believe in and propagate distorted views on the evolution of those variables and how they influence their lives. In the end, it is a matter of availability of resources to be dedicated for drafting messages tailored to different groups.

Freedman and Laxton (2009) claim that monetary policy, like all public policies, benefits from increased public support and understanding. Consider an illustrative scenario in which there is the need to take tightening actions to prevent the economy from overheating. That situation would generate considerable criticism if the public did not understand the reasons behind those policy actions. In the medium term, the independence of the central bank, *de jure* or *de facto*, is highly dependent on its acceptance by the society.

Blinder and others (2001) split the central bank's audience in four groups to better identify their particular roles in the monetary policy process and explain the importance of central bank communication with each of them. Those groups are (i) general public and media, (ii) government and parliament, (iii) financial market participants, and (iv) expert central bank "watchers". Addressing the general public and the media is important to keep the central bank accountable for its policies and promote awareness of the financial system, and thus help contribute to increase financial literacy. The media is an important channel to help the central bank to disseminate information. The media's understanding of the central bank's activities and policies is therefore essential to ensure that the public is accurately informed.

The government and the parliament represent the public and may indeed act on their behalf according to their sentiment regarding the central bank. Moreover, politicians are concerned about how monetary policy affects economic conditions. Central bank communication to this group should be based on accountability, as a way to balance its independence with democratic control, and policy

[11] The classification into Delphic and Odyssean forward guidance was introduced by Campbell and others (2012).

coordination, since central bank policies need to be taken into account when designing general government policies.

Financial markets constitute the main channel through which monetary policy actions are transmitted to the economy, consequently the ability of convincing the markets is an important part of monetary policymaking. Freedman and Laxton (2009) reinforce that when markets understand and anticipate the actions of the central bank, the first steps in the transmission mechanism between policy actions and economic activity and inflation work more smoothly.

Central bank watchers have the necessary technical background and expertise to interpret central bank communication and actions, acting as an additional channel to bring central bank messages to the general public. They can be found in financial institutions, media, or academia and, unlike the direct central bank channels to the public, they are not under the control of the central banks. Their independence allows them to either help to clarify and justify the central bank's actions or even potentially add volatility to markets by propagating distorted views or guesses about monetary policy underlying intentions. Therefore, central banks must establish good relationships with these watchers and keep them close.

An additional and strategically important communication target could be added to the abovementioned groups. Central bank communication policies must explore the particular role of the internal staff in transmitting monetary policy messages. They are important ambassadors for the central bank, helping spread awareness and building understanding about its mandate and role in the economy.

In an increasingly integrated world, with increasing and volatile capital flows, central bank communication cannot underestimate the importance of the international audience. To help mitigate the potentially adverse effects of international monetary policy spillovers and increase the attractiveness of its domestic financial market to foreign investors, a proper engagement with the international audience must be part of the framework. In both cases, the central bank must share relevant information with the international community, building understanding of the central bank's activities and policies.

V. How to Communicate?

Recommendations on how to perform most activities conducted by a central bank are generally based on adapting universal best practices to the idiosyncratic characteristics of the specific country or region. In the case of communication, due to the nature of the process, country characteristics weigh more than usual. It is hard to establish universal best practices when not only the financial and economic literacy of the population, but also factors such as culture, habits, and history play a key role in the way messages are interpreted and absorbed. Those factors must be taken into consideration during the learning process of choosing the right tools as well as crafting and delivering messages.

Independently of those characteristics, the design and implementation of monetary policy communication should be guided by a set of principles that enjoy a broad consensus. Importantly, these principles should not be interpreted as strict prescriptions, but as building blocks on which an effective central bank communication framework should be developed. These guidelines can be summarized as follows.

First, communication should be clear, candid, and transparent. Clarity involves explaining the policy objective, the policy framework, the central bank's reaction function, as well as the outlook of monetary policy and the risks associated to such outlook, in an understandable manner. Sincere communication is critical to bolster credibility and predictability, and fundamental in terms of the accountability required for central banks. In an inflation targeting regime, transparency is optimized as the policy objective is specified as a numerical value that can be easily monitored by households and firms. Such a numerical value can also help keep inflation expectations anchored. While this numerical objective should not be cast in stone, it should only be changed infrequently and for compelling economic or technical reasons, which should be clearly and widely explained, and not in response to short-term external pressures.

Second, central bank communication should reach all segments of the population. To achieve legitimacy as the monetary policymaker, the central bank must explain that the objectives of monetary policy are compatible with the objectives of the society as a whole. Therefore, messages must be crafted to target different audiences, ranging from financial markets and opinion-makers to politicians and the public at large. To this end, the style and form of communication must be tiered accordingly to inform all stakeholders about policy decisions, the reasons behind them, and the economic prospects and associated risks, and delivered through various channels.

Third, communication should take place regularly. This implies that the central bank addresses its audiences in a systematic manner—i.e., on regular dates and, on occasions, at specific hours, and through established and known channels. Regularity of communication serves as a disciplinary mechanism for monetary authorities, to the extent that it requires preparing in advance the information to be delivered. For market participants, the provision of information on a given and pre-announced calendar allows them to monitor and analyze monetary policy achievements in an organized and systematic fashion, and to take economic decisions based on a flow of information periodically delivered.

Fourth, all economic agents should have equal access to the same information. Making all relevant data and analysis about the formulation of monetary policy and policy decisions equally accessible to all target audiences in a timely manner is a necessary condition for preserving the reputation of the central bank as an institution working without favoring any particular group or individual. Not abiding by this principle could erode public support and put central bank independence at risk because the conduct of monetary policy is expected to be exercised for the benefit of the entire society, rather than for a few specific segments.

Finally, communication should be consistent across central bank officials and should be associated with the institution. While there is room to account for different views and opinions that emerged during the monetary policy decision-making process, this should be done via an institutionalized channel and never through unauthorized channels. It is paramount that at the end of the day, the central bank's decision and future actions be communicated in a coherent and uniform manner. Substantially diverging messages will confuse economic agents and undermine efforts to guide inflation expectations. Contradictory messages will, in addition, hinder the build-up of credibility, thus weakening the effectiveness of monetary policy.

Starting from these principles, the actual communication process should then be adjusted to the peculiarities of the society. Experience should be able to reveal certain issues that can be dealt with during a transition process, in which the central bank's counterparties will be adapting to a new communication paradigm, and some others that are more structurally rooted in social and cultural factors.

Central bank communication should promote a public outreach program aimed at raising awareness of monetary policy issues and central bank objectives among key target audiences, via a range of media opportunities and public events, such as speeches and lectures. The communication approach of a central bank should aspire to be clear, transparent, timely, and use plain language to convey simple messages accessible to the general public. This specifically means avoiding technical terms or explaining them whenever necessary. This approach will help the central bank achieve its communication objectives, build credibility, and contribute to raising financial literacy among the public.

To be effective, monetary policy communication depends on a well-defined policy framework, with its objectives clearly defined and prioritized as well as the corresponding instruments and operational procedures. The public understanding of the central bank's actions will depend not only on a well conducted communication process but also on a consistent conduct of monetary policy, in which the decisions are aligned with medium- and long-term objectives.[12] Importantly, central banks should always be aware that the process of delivering effective communication starts well before the communications staff get involved. Defective internal communication and poorly conducted internal procedures would hinder the design and delivery of clear and effective messages.

VI. Monetary Policy Communication Tools

The central bank must be prepared to use the diverse communication tools available today. The success of the communications policy will depend on understanding the relative merits of each tool so as to ensure that the right content will reach the right audience with due impact. Table 1 provides a summary of the main communication channels and their most typical uses. Ideally, the central bank needs to tier its messages, translating them considering varied degrees of technicality, and leaving its counterparties free to choose the format best suited for them.[13] Messages must fit different channels—such as written, video, online, social, and print media—as appropriate to reach all tiers of addressees.

All publications should have a clear message and purpose. Some factors contribute to increase the readability and accessibility of written communications. They should as a rule contain facts relevant for the target audience and have a clear chain of thought running through the entire document. Regarding the form, the documents must have a structure that highlights the most important parts—the key messages—so that they can be easily spotted. It is also helpful to have section headings emphasizing informative content, rather than only referring to thematic areas.

[12] "Clarity about the monetary policy framework bolsters the effectiveness of the monetary transmission mechanism by enhancing the private sector's understanding of how the stance of policy is likely to evolve in response to changes in economic and financial conditions." (Levin, 2014, p. 52).

[13] The BoE, for instance, has adopted such a strategy for its Inflation Report, and has seen a very significant jump in readership of its website.

As a rule, publications should neither be too heavy in presenting economic data nor too light in providing appropriate justification for recent policy decisions as well as forward-looking information. The advances in communications need to, over time, remain in sync with both the current policy regime and the current stage of development of the analytical framework that supports the central bank's policy-making process, such as its modeling and forecasting system.

The central bank should publish decisions on monetary policy on the same day Monetary Policy Committee (MPC) meetings are concluded, without any unnecessary delay and as soon as possible once decisions have been taken. Central banks should aspire to have their press releases and publications made available on their websites in local languages as well as in English (for international audiences), simultaneously if possible.

Table 1. Communication Channels

Press release	Communicate any policy decisions, new regulations, and comment on relevant data.
Press conference	Following the above, bringing more information in the form of a presentation. Usually followed by a Q&A session.
Website	Main source of information for the public in general, including tiered content for different audiences. Must include more stable content referring to the institutional background, mission, and objectives, as well as frequently updated material related to recent developments, including links to the other communication channels.
Social media	A way to provide quick messages with reference to more complete information on the website.[1]
Interviews with media	Some central bank officials rely heavily on this channel, which must be dealt with care. Need to stick with the institutional messages to avoid generating noise.
Regular op-ed pieces and columns in media	A way for central bank authorities and assigned staff to propagate institutional messages to a wider audience.
Meetings with analysts/experts	Important channel, with two-way objectives. Used to clarify previous messages and, at the same time, get feedback from market participants. Due to the exclusivity of access, this channel cannot be used to provide new information.
Background briefings/seminars for journalists	Important tool for uniformizing and framing the messages provided by the press to society in order to avoid misconceptions.
Public speeches, lectures	Channel for communicating with a selected audience. To promote uniform access to information, content must be made available on the website.
Newsletter	A direct way to provide tailored messages for specific audiences.

[1] The experience of early social media adopters among central banks has shown that operating social media accounts puts a strain on both human and financial resources. The recipe for success is to prepare the right content, presented in a simple and visual form, build the capacity to feed the news and information online in a timely manner, and also put proper internal rules in place to govern the use of social media.

The primary vehicles for sharing policy decisions and views with target audiences are the Monetary Policy Statement, the press conference, and the MPR. The Statement should be published on a standard pre-set time to raise public attention, and as soon as technically possible to limit the scope of potential information leakages. The press conference and the Report publication should follow a regular schedule to be shared with the media and the wider public as part of the calendar of the MPC meetings. The time lag between a decision announcement and the press conference should be fixed in terms of a specific number of calendar days, ideally no later than one week from a decision announcement.

To complement the communication schedule mentioned above, a communications blackout period should be observed. During this period, which should start at least one week before the MPC meeting, public speakers from the central bank should refrain from providing any public commentary on issues related to monetary and foreign exchange policy and the outlook for the economy.

In the following subsections, the main monetary policy communication tools are described, highlighting their main objectives and characteristics and with suggestions for their structure.

A. MONETARY POLICY STATEMENT

The publication of a written statement has been the standard practice for every monetary policy committee following the conclusion of each meeting. It is a timely and effective way of disseminating information about monetary policy decisions and key considerations that led to them. It must elaborate on the main messages that resulted from the processes of economic analysis, policy deliberations, and macroeconomic forecasting.

Being the first channel for communicating an awaited decision, it must keep a rigid structure across releases, to facilitate the quick understanding of the messages by members of the media, market participants, and other observers and avoid misinterpretation. The document should follow a template structure such as the one suggested in Table 2.

Although the statement generally includes a summary of recent economic developments, it is not a vehicle for providing information about past economic data. It should focus on telling a story rather than providing numbers, which can be made available in a separate statistical appendix available at the website. Past developments are included insofar as they are needed to support the justification of the particular course of action taken.

The document must elaborate on the desired impact of policy decisions on markets and the economy as a whole, with the objective of guiding expectations about future policy developments, enhancing policy predictability. It must also speak clearly about envisaged policy responses to the factors shaping the inflation outlook to satisfy the primary objective over the medium term. The central bank must adopt a standard formula to regularly provide forward-looking communication signals about the outlook for inflation and policy. The usual formula consists of a general opening sentence, followed by a note on current inflation and a verbal description of the near-term expectations for future inflation and price pressures, and concluding with a reference to the adopted policy decision and an inflation projection.

The statement may be accompanied by a short presentation—10 to 15 minutes—to be delivered to members of the media. The presentation should gradually build the story and to the extent possible, mirror the structure of the statement to allow for consistency in the messages provided. The presentation should be part of a press conference and include some extra content to be shown to illustrate responses to some anticipated questions from journalists. A discussion on press conferences is presented in the next subsection.

Table 2. Suggested Structure for the Monetary Policy Statement

Headline	Start the document with the most awaited news, clearly stating the monetary policy decision.
Key messages	Summarizing paragraph or bullet points to help the reader to quickly digest the new information and reach the desired conclusions.
Summary of inflation developments	Tell a story about the near history and the outlook for inflation, mentioning the main factors driving them.
Summary of economic developments	Domestic and global, to the extent that they are relevant for the conduction of monetary policy.
Summary of key considerations	Include reasons for the recent decision, the main current issues driving the future evolution of policy, as well as the risks and potential policy responses.

B. PRESS CONFERENCES

Central banks use press conferences as a way to directly address the media to clarify specific issues that are relevant for understanding the policy strategy and to correct possible misconceptions. The information provided will ultimately reach the financial markets, economic analysts, and the general public. The frequency of press conferences varies across central banks.

Since monetary policy is a core central bank function, related communication should ideally be performed by the top representative of the central bank—i.e., the governor. However, in some cases, other members of the MPC could also take that role. The speaker should start the conference providing some opening remarks and then engage in a Q&A session. The central bank's main policy messages should be stated in plain language and include "sound bites"—i.e., short powerful sentences suitable for audio broadcasting.

Blinder (2004) emphasizes the risk of "cacophony problem" when monetary policy decisions are taken and subsequently explained by a committee rather than by a single individual. There is a danger that too many disparate voices might confuse rather than enlighten the public, especially if messages appear to conflict. The appropriate remedy for uncoordinated group communication is the discipline of having all committee members sticking to the policy messages as defined jointly by the committee.

Preparation is very important to directly deal with the public. The speaker must be able to provide consistent answers, in line with the institutional view. Therefore, before every press conference the central bank speaker must work closely with both economic and communication experts to rehearse. A list of questions likely to be asked by the media should be prepared by the staff, and ready-made answers should be drafted and discussed as part of the regular rehearsal. It is also particularly important that authorities agree in advance on how to deal with sensitive questions.

An internal strategy and tactics for handling the press conference and media relations during and after the press conference should be developed. Among other things, the strategy should determine how long the press conference should last, how to select questions from the audience, and whether off-topic questions will be accepted.

C. MONETARY POLICY REPORT

Monetary Policy Reports—also called Inflation Reports—are often the most complete documents related to the monetary policy framework. Such a report should clearly state its objectives, describe the decision-making process, elaborate on the recent monetary policy decisions—the ones made after the previous report—and provide a forward-looking analysis. It complements the information already provided in the Monetary Policy Statement with a detailed overview of economic developments and additional explanations about the policy course. In terms of the frequency of publications, they do not necessarily follow all monetary policy decisions. For some central banks, the MPR is a quarterly publication, regardless of the frequency of MPC meetings.

The structure of MPRs published by leading central banks share many common elements.[14] They include an introductory section containing the definition of the inflation target, the mission of the central bank, and the report's position in the context of monetary policy implementation. That section is supposed to remain unchanged in the absence of changes in the monetary policy framework. That section is followed by an executive summary, which is a condensed version of the full document, carrying the key messages. It must focus on a group of readers that must be targeted but is not likely to read the full document, such as managers, politicians, and decision makers in general.

An analysis of current economic developments should consider the domestic and global economy and concentrate on their influence on the monetary policy conduct. The level of detail of the explanations of recent developments on different sectors—e.g., fiscal, external, labor, and housing markets—should be a function of their role in driving the recent conduct of monetary policy and in supporting the forward-looking analysis. The text should aim at telling a story without excessive focus on numbers, which should be restricted to charts and tables. Excessive description of data could take the focus away from the main messages and even cause the readers to lose interest in the report.

Central banks with well-developed forecasting frameworks present the forecasts for inflation, output, and, eventually, other variables, and base their forward-looking analysis on those results. The discussion about the forecast should explain the reasons behind the changes with respect to the

[14] A survey published in 2015 identified five main common features of the structure of regular reports published by three leading central banks globally, ECB, the Federal Reserve, and the BoE, and a select number of inflation-targeting central banks—Sweden's Riksbank, the Hungarian National Bank, The National Bank of Poland, Norway's Norges Bank, the Swiss National Bank, and the Reserve Bank of New Zealand. See Czech National Bank (2015).

forecasts presented in the previous report. Furthermore, the analysis must elaborate on the risks to the forecast, eventually presenting alternative scenarios considering the realization of some of those risks.

Most central banks include thematic boxes in the report, with background studies covering the main relevant topics of the moment or providing analytical studies on relevant subjects—e.g., monetary policy transmission, exchange rate pass-through, and estimation of the output gap. It is also common to include evaluations of past forecasts and policy performance as well as statistical appendices.

D. WEBSITE

The central bank website works as a primary channel for reaching a wide and diverse variety of counterparties. A well-designed website must enable both the experts and the general public to find tailored content. It must be organized to bring the most relevant information at its initial point of entry, such as the current interest- and exchange rates. It should also bring well-placed links to information on monetary policy objectives, monetary policy decisions and related documents, as well as core economic analysis. The presentation must be clear, concise, and easily understandable not only to economic and financial professionals, but also to the broader public. Links to more in-depth content must be organized in a way to allow the reader to find tiered content. Historical information—which is of much use for economic and financial professionals, journalists, and students—must be organized in a way that allows it to be easily located.

Publishing answers to frequently asked questions (FAQ) about monetary policy is an effective way to provide tailored content. The FAQ section should include questions related to the monetary policy framework, policy objectives and instruments, and how the instruments are used to achieve policy objectives. In this context, a considerable number of resources can be exploited: visual explanations with video and infographics, statistical tools to allow for custom report generation, and data graphing and downloading.

All information must be clearly and correctly identified as official, which could be based on law or on a decision of the board or a committee, or alternatively an unofficial view of the staff. Sources of tables and figures must always be provided.

E. SOCIAL MEDIA

Social media has become an important tool to help central banks reach a broader audience. By delivering key monetary policy messages in a simple language, central banks make it easier for members of the general public to understand what policy is trying to accomplish. Central banks can also obtain valuable information from the public by monitoring social media trends and analyzing user comments.

Even though central banks have expanded their communications on social media, practices differ greatly across countries. It is important to ensure on social media, as elsewhere, that policy messages be conveyed clearly and consistently.

VII. Issues in Low-Income Resource-Rich Countries

The presence of substantial amounts of natural resources has potential benefits to a country's economy. Resource revenues create fiscal space for investment and for promoting social welfare. However, they also expose the country to external shocks, which call for a strengthened monetary and foreign exchange policy framework to help manage their impact on the economy.

Independently of the monetary policy regime in place, recurrent interventions in foreign exchange markets add more complexity to the economic environment. Policy communication must deal with unclear objectives, characterized by an insufficient coordination between interventions in foreign exchange markets and other operations. As a result, the stance of policy is influenced in unintended and undesired ways.

Many export-based economies decide to modernize their monetary policy frameworks by adopting a flexible exchange rate regime. For economies not encumbered by substantial unhedged foreign currency debt, changes in the exchange rate can work as shock absorbers, protecting the economy from excessive volatility. The inflation targeting regime provides the necessary nominal anchor to the economy in an environment of exchange rate flexibility. However, a history of heavy exchange rate management usually represents an important challenge for the central banks undertaking this process. It is usually hard to move the focus of the general population from the exchange rate to inflation. The challenge of the central bank is to convince the public that inflation can be kept under control over the medium term even in the presence of volatile exchange rates.

Resource-rich developing countries are often subject to terms-of-trade shocks that can cause trade-offs for monetary policy. A negative terms-of-trade shock, for example, will lead to high inflation and weak economic activity. In that case, monetary policy tightening would be appropriate to fight inflation but, on the other hand, it would worsen economic activity. The best way to work around this trade-off is to develop monetary policy credibility in such a way as to anchor inflation expectations. Anchored inflation expectations allow monetary policy to be flexible in the short term with a reduced risk of having short-term inflationary pressures propagating to medium-term inflation expectations. The central bank would allow inflation to drift away from the target temporarily, relying on a credible path for its return to the target in the medium-term. Transparency and well-conducted forward-looking communication are key to this strategy.

Effective communication by the central bank, by promoting anchoring of expectations, can thus help reduce the need for monetary policy tightening in the face of negative terms-of-trade shocks, allowing for a countercyclical policy response. Central banks that have not yet reached a well-developed inflation targeting framework, in which inflation expectations are still poorly anchored will be compelled to react to the inflationary pressures arising from the terms-of-trade shock.[15] Specifically, a large negative terms-of-trade shock—like a steep fall in export prices—induces a depreciation of the currency, leading to higher inflation, and simultaneously has an adverse effect on economic activity. It is not obvious how the central bank should respond to cope with this shock. Rising inflation could lead the central bank to elevate the policy rate whereas a widening output gap suggests to the central bank to cut

[15] IMF (2018a).

the policy rate. The central bank's decision, thus, needs to be well communicated to keep inflation expectations in check.

A credible central bank is in a better position to pursue a counter-cyclical policy, i.e., to reduce the policy rate despite rising inflation, with the expectation that inflation will converge to the target as the shock subsides. To help build this credibility, the central bank needs to develop an effective communication strategy.

The presence of significant resource revenues also magnifies the role of transparency and communication in generating political support for central bank actions. Monetary policy is likely to face political pressures for at least two reasons. First, the prospect of significant revenues is likely to generate pressures for increasing fiscal spending. Such an expansionary fiscal policy is likely to create inflation pressures that the central bank will need to confront by tightening monetary policy. Second, the significant amount of export revenues may result in real exchange rate appreciation, leading to the so-called "Dutch Disease". Under this condition, any need for monetary policy tightening to contain excessive demand will have to fight pressures to avoid a further real exchange rate appreciation. A well-designed communication strategy will be necessary to help the central bank explain its role in containing inflationary trends and potentially in mitigating financial stability risks.

The success of any communication strategy depends on a well-defined underlying framework in which the stance of policy is clearly identified and consistently set according to prioritized objectives. Countries with high import dependence or a high degree of dollarization are particularly sensitive to the exchange rate movements. The central bank faces a particular challenge in making statements on the exchange rate movements, which do not trigger pressures on the exchange rate and at the same time, do not give rise to a perception that it is managing the exchange rate.

The central bank should use its official documents, such as the MPR, to discuss recent movements in the exchange rate and indicate whether the movements are considered to be consistent with economic fundamentals. To avoid the perception of one-directional bias, the central bank should as a rule, talk about what certain degrees of both appreciation and depreciation could mean for the inflation forecast.

The high weight of food in the consumer price index (CPI) basket is an additional challenge to monetary policy communication, particularly in low-income countries. In addition to being highly susceptible to supply shocks, they are usually subject to government intervention. The high volatility of those prices results in noisy measures of headline inflation, which complicates the assessment of how close to the target is the underlying inflation. In terms of accountability, it is hard to convince the public about the effectiveness of monetary policy in attaining the objective of price stability.

Measures of core inflation that exclude food prices—among other volatile prices such as energy—are usually considered. The problem of core inflation measures is associated with structural changes in the economy, as part of the development process of low-income countries. Shifts in the composition of demand in India, for example, generated persistent deviations of food prices with respect to the headline CPI. As a consequence of the higher increase of relative food prices, core inflation measures were underestimating the average cost of living.

Given the frequency and type of shock that hit resource-rich countries, central banks could rely on alternative scenarios to convey how policy will react to economic developments that are not in the main scenario. With transparency about the assumptions made in constructing the scenarios, such exercises can convey to the public a sense of how the central bank will react to unexpected developments. For example, how would the central bank change its policy rate path if food prices increase more than expected? Or, if a negative terms-of-trade shock hits the economy, how will the central bank balance the adjustment between inflation and output? As such, alternative scenarios are a way to reveal to the public the reaction function of the central bank. Appropriately constructed and communicated, alternative scenarios can contribute to making monetary policy more predictable.

VIII. Institutional Aspects of Communication

Communication is a powerful policy instrument. As such, it must be taken seriously and considered an integral part of the central bank's functioning and decision-making. Central banks, over the medium-term, benefit from laying down proper institutional foundations for communicating monetary policy in an open and candid manner. The goal is to achieve a clear transmission of information on an ongoing basis, particularly aimed at building understanding among market participants and the general public as to how monetary policy is formulated and implemented, and how this policy contributes to achieve the central bank's mandate.

A. COMMUNICATION POLICY AND STRATEGY

While the terms "communications policy" and "communications strategy" are often used interchangeably, some institutions distinguish between "policy" (high-level principles such as transparency, equal access to information, clarity, consistency, precisions, and others) and "strategy" (operational aspects, decision making procedures, the hierarchy of spokespersons, and others). Some institutions develop a document that combines principles and operations, and they call it policy or strategy. Some institutions see benefits in having two different documents, as "policy" and "strategy" may not always be modified at the same time. See Box 1 for a possible structure and content of a central bank communications strategy.

Publishing a communications strategy (and/or policy) may be beneficial especially for central banks transitioning to a new framework. Increased transparency and a more systemic approach to communications may help to enhance the bank's credibility. Preparing a document may also help to think through and better organize internal processes and outreach.

Box 1. Communications Strategy Document

INTRODUCTION

- Mandate of the Central Bank
- Objectives of the Communication Strategy
- Principles of Communication

MONETARY POLICY

- Role of Communications in Monetary Policy
- The Inflation Mandate
- The Monetary Policy Decision-Making Process
- Who Makes Monetary Policy Decisions?
- When Are Monetary Policy Decisions Made?
- Forecasting and Policy Assessment System

MONETARY POLICY COMMUNICATIONS—PROCESS AND OPERATIONS

- Monetary Policy Spokespersons
- Preparation of Communications Documents
- General Monetary Policy Communication
- Monetary Policy Communication Practices
- The Calendar of Decisions and Announcements
- A Press Release on Each Monetary Policy Decision
- A Press Conference
- Quarterly Monetary Policy Reports
- Ongoing Monetary Policy Communication

FINANCIAL STABILITY COMMUNICATIONS

- Financial Stability Mandate
- Financial System Stability Committee
- Objectives
- Spokespersons on Financial Stability
- Strengthening Communications on Financial Stability and Macroprudential Policy
- Annual Press Conference on Financial System Stability
- Semi-Annual Press Release by the Financial System Stability Committee

KEY AUDIENCES AND METHODS OF ENGAGEMENT

- Bank Staff
- The Media
- The General Public
- The Financial Sector
- The Business Sector
- Government, Parliament, Municipalities
- Academia and Students

STRENGTHENING COMMUNICATIONS FUNCTION

ASSESSMENT OF COMMUNICATIONS

B. THE COMMUNICATIONS DEPARTMENT

There are different ways to organize a communications function at a central bank. Global best practices suggest that the central bank should appoint a communication manager reporting directly to the governor and then build a communications function to manage and coordinate overall external communications to effectively support all communications efforts. The communication manager should get a permanent seat as an observer in high-level strategy and policy meetings in order to remain informed about all of the central bank's policies and activities. It is a standard practice in leading central banks globally and is intended to facilitate coordination and internal information flow.

The structure of the central bank's communications function needs to be formalized. It should fit the institution's organogram as a department or division, with responsibilities and corresponding authority well specified, put into writing, and introduced as a rule. This would provide clear incentives for the heads of the other functional divisions to consult the communications specialists on matters concerning the communication of policy decisions and the publication of written material.

Good communication is difficult and requires specialized resources. Crafting, simplifying, targeting, and delivering content is challenging. Appropriate financial and human resources should be allocated to strengthen the department (or division). Some level of specialization is expected from the communications specialists as they must be prepared to provide support to the different functional areas of the central bank. They must have an active role in the processes related to the communication of policy decisions and the publication of written material, working alongside experts of each area on drafting publications. This should naturally be the responsibility of the communications division, while all functional areas have to provide relevant input and material. They must also contribute to developing the institutional messages related to the short- and medium to long-term objectives of the institution as a whole and each functional area (Table 3).

The communication department (or division) should seek to benefit from receiving regular feedback from the media. For that, it needs to regularly monitor media and occasionally survey public opinion. The communications department (or division) must go beyond analyzing the number of media reports where the central bank features after a given policy decision or report publication, and regularly follow up on media reactions to monetary policy decisions. Media analysis and surveys may help the central bank adjust the structure and content of its publications over time to reach out more effectively to and be better understood by the target audiences.

Table 3. Functions of a Central Bank Communications Department

Media Relations	Manages all interactions with media and fosters working relationships with journalists. It advises management and senior staff on their media interactions, and drafts, reviews, and issues press releases. It also organizes regular press briefings, monitors and disseminates news to management and staff, and provides analysis of news trends, including of the public reception of communications.
Public Affairs	Develops and fosters outreach to non-media counterparties, including legislators, academics, experts (including financial market participants), civil society, think tanks, and the general public.
Internal Communications	Helps foster staff engagement and community building through a range of tools, including by maintaining a vibrant intranet news space, and by facilitating internal events such as town halls, seminars, and meetings with management. It can play an important role specifically in communicating management decisions on organizational restructuring, or other such delicate issues.
Speech Writers	Draft and edit speeches for the governor and members of the board. In doing so, the speechwriters will normally draw on inputs from various departments and then shape these into a final product that is consistent with the overall policy messages of the institution, and with the personal style of the governor or board member.
Digital Communications	Manages the external website and digital platforms, such as Facebook and Twitter. The scope of work includes: web design; packaging and updating news and outreach content on websites and digital channels; social media messaging; live webcasting; and gathering and analyzing data.
Editorial	Drafts and edits periodicals, occasional publications, and publish documents, including on the website.

IX. Assessing the Impact of Communication

Central banks should regularly assess the effectiveness of their communication, as they typically do for other policy instruments. As discussed above, monetary policy communication is a powerful tool because it allows central banks to steer market expectations and improve the predictability of monetary policy. In this respect, former Federal Reserve Chairman Ben Bernanke once famously blogged that "monetary policy is 98 percent talk and only 2 percent actions."[16] Therefore, it would be inconsistent to focus on the effectiveness of other tools, such as policy rates, and not pay attention to communication.

Consistent and regular evaluation of communication outcomes can help the effective conduct of monetary policy. The results inform the policymakers of potential confusion about the policy framework and the central bank reaction function. For instance, if decisions seem to systematically surprise markets, this could signal lack of clarity about how the central bank interprets the links between macroeconomic developments, objectives, and actions. In that scenario, policymakers should aim at better explaining the rationale of their decisions, to improve the predictability and strengthen the effects of monetary policy.

Assessing impact can also help identify the best channels to deliver relevant information to different external stakeholders. By performing a thorough assessment of communication outcomes, central banks could learn not only about strengths and weaknesses of the various channels, but also about the preferences of numerous audiences. An example is the importance and outreach that audiences give to verbal forms of communication and written documents. This type of analysis is crucial to be able to calibrate the many communication tools that are available to central banks.

The assessment of monetary policy communication is challenging. While there is broad consensus on the necessity to evaluate monetary policy communication, there is less agreement on how this should be done. Both central banks and academics have been looking for improved approaches, and the search is still ongoing. Technological changes, such as the availability of big data and the advance in analytical tools, contribute to making the assessment of central bank communication a fast-evolving field.

The general guideline is that the evaluation of monetary policy communication cannot rely on a single index. Central banks should instead extract information from several sources, such as asset prices and surveys, to obtain the most comprehensive assessment possible. In this way, central banks would be able to evaluate communication outcomes from many perspectives, focusing on the different aspects that are deemed as most relevant.

The next sections provide an overview of modern approaches to assess the effectiveness of monetary policy communication. Specifically, they focus on how to collect relevant data and on methodologies to use the data and estimate the impact of monetary policy communication.

[16] Bernanke, Ben S. "Inaugurating a New Blog." *Brookings Institute*, March 30, 2015. Link: https://www.brookings.edu/blog/ben-bernanke/2015/03/30/inaugurating-a-new-blog/.

A. DATA

Since data availability affects the evaluation process, central banks need to be proactive, collecting data from several sources at the highest frequency possible. Any analytical assessment hinges on the quantity and quality of data available. For instance, the frequency at which financial data is recorded and even the very types of traded assets vary dramatically across countries. Such gaps could be particularly difficult to address, as this often depends on the degree of development of domestic financial markets.

An effective way to collect information is to run surveys, regularly and on an ad-hoc basis. Monitoring expectations on the macroeconomic outlook should always be a priority. For instance, inflation expectations play a pivotal role in the monetary policy making, as they represent the key nominal anchor for central banks that pursue price stability. As a result, proxy measures for the central bank's credibility and the clarity of the monetary policy reaction function could be obtained by studying these expectations (see Box 2).

Surveys play a key role in collecting information on expectations of professional forecasters, as well as businesses and households. Surveys should cover both policy rates and key macrofinancial variables: GDP growth, inflation, and the exchange rate. Even if another agency in the country runs the inflation expectations surveys, the central bank should play an active role, from formulating the questionnaire to selecting the sample respondents. In this respect, the "Survey of Consumer Expectations" conducted by the Federal Reserve Bank of New York represents an excellent benchmark on how to properly and effectively design the questionnaire on household inflation expectations (Bruine de Bruin and others, 2010).

Data collection should extend beyond surveys and also include macrofinancial data and news articles. At the same time, the authorities should resist the temptation to store an excessive amount of data, whose maintenance costs might exceed the benefits. While always considering this trade-off, central banks should at least track changes in asset prices at intraday frequency around key monetary policy communications and digitalize the news article related to the same announcements. These datasets represent an invaluable resource when evaluating the effectiveness of monetary policy communication.

The information collected from various sources would help the central banks understand whether its reaction function is clear to different stakeholders. By including as many stakeholders as possible in its analyses, the central bank would be in the best position to assess the degree of tiering that is necessary to successfully reach and engage various audiences. For instance, the distance between the path of policy rates projected internally and of those produced by external forecasters is a key measure of the effectiveness of the central bank communication regarding its policy rules and reaction function. Another example is diverging inflation expectations between domestic and foreign agents following a policy announcement, which could signal shortcomings in the communication towards one of these audiences. Thanks to inclusion of foreign recipients in the survey, it would also be possible, among other things, to discern if discrepancies stem from communication in English or domestic language.

Box 2. Evaluating the Anchoring of Inflation Expectations

Monitoring inflation expectations should always be a priority for central banks. In particular, it is crucial to determine whether the expectations are in line with the level targeted by the central bank. To fully assess the degree of anchoring, not only the level, but also the dispersion of expectations should be evaluated. Following IMF (2018b), the key metrics used to infer the degree of anchoring are:

(i) absolute deviations in inflation expectations from the central bank target;
(ii) variability of inflation expectations over time;
(iii) dispersion of inflation expectations across individual forecasters or stakeholders; and
(iv) sensitivity of inflation expectations to surprises about current inflation.

Higher values of these metrics indicate less well anchored inflations expectations.

B. EVENT STUDIES

Macrofinancial data allows for an estimation of the effects of monetary policy communication using event studies. The methodology consists of looking at the change in interest rates, market-based inflation expectations, the exchange rate, equity prices, and various other asset prices over a short time interval, for example 30 minutes, around key policy announcements. A relevant application of these methodologies to an emerging market is provided by McMahon and others (2018).

This approach presents at least two key advantages: it provides reliable estimates and is quite flexible. By considering a narrow time window, it is possible to better isolate the effects of monetary policy announcements on a vast set of variables, as movements in financial and economic variables are less likely to reflect the release of other economic news. Therefore, the narrower the time interval around the communication event, the smaller the expected bias caused by other confounding factors other than the monetary policy decision. This methodology also allows for an assessment of the effectiveness of different communication instruments by comparing the estimated impact of various tools, such as the monetary policy press release, the inflation report, and speeches by top central bank officials.

The inclusion of event studies in the assessment framework would facilitate the process of calibrating and improving monetary policy communication. The central bank should systematically compare the expected effects on key macroeconomic and financial variables with those estimated for the actual communication event. For instance, regularly monitoring the difference between the impact estimated via event studies and that warranted by the central bank would help guide refinements to the specific wording used.[17]

Moreover, potential differences in the reaction of specific asset prices and expectations would inform the central bank on how the various audiences respond to monetary policy communication. Given the fundamental role that the external sector plays for many low-income countries and emerging markets, and especially for resource-rich economies, the response of foreign

[17] Memos published by the Federal Reserve represent good examples of how this process could be undertaken and integrated in the monetary policy process. For instance, see the memo by Engen and others on "Using Thresholds to Clarify the Conditionality in the Committee's Forward Guidance for the Federal Funds Rate" (2012).

market participants needs to be carefully assessed. By looking at the co-movement between interest rates and a broad set of macroeconomic variables over various time horizons, the central bank could gather additional information on how foreign investors received specific communications (among others, see Jarociński and Karadi, 2018).

C. COMPUTERIZED TEXT-ANALYSIS TOOLS

Given their objectivity and quantifiability, computerized text-analysis tools have gradually gained popularity to measure the tone and effects of monetary policy. The measurement usually consists of constructing metrics from counting specific words used to distinguish between positive and negative language. These indicators are then used to estimate the impact of monetary policy communication on a set of variables, which are typically the same analyzed via event studies. There are many studies that follow this approach for both advanced and emerging or developing economies (see Mathur and Sengupta, 2019).

Computerized text-analysis is nowadays also used to evaluate the tone of the media coverage. This information not only allows the central bank to learn about the media opinions, but also to determine whether a specific message was effectively delivered. For instance, a positive tone in the press release or conference should be accompanied by a similar tone in the media articles covering the event. Should this not be the case, the discrepancy would signal the existence of some bottleneck in the central bank communication framework and modes.

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