



TECHNICAL ASSISTANCE REPORT

REPUBLIC OF AZERBAIJAN MODERNIZING CENTRAL BANK COMMUNICATION

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Glossary

CBA	Central Bank of the Republic of Azerbaijan
CBT	Central Bank Transparency Code
CD	Communications Division
FPAS	Forecasting and Policy Analysis System
FSAP	Financial Sector Assessment Program
FSR	Financial Stability Review
FX	Foreign Exchange
IMF	International Monetary Fund
IT	Inflation Targeting
MCM	Monetary and Capital Markets Department
MPD	Monetary Policy Department
MPFSC	Monetary Policy and Financial Stability Committee
MPR	Monetary Policy Review
RITM	Rules on Information Transmission to Media
Q&A	Questions and Answers

Preface

At the request of the Central Bank of the Republic of Azerbaijan (CBA), an IMF Monetary and Capital Markets (MCM) Department mission held virtual discussions with the authorities on June 10–14, 2024, and visited Baku, Azerbaijan, from June 20–28, 2024, to assist the CBA in modernizing its communication framework. The mission team was led by Dmytro Solohub (MCM) and comprised Olga Stankova (COM), Altynai Aidarova (CCAMTAC), and Olena Sniezhko (External Expert).

The purpose of the mission was to assist the CBA in strengthening its communications by carrying out a diagnostic of the current framework and providing recommendations aimed at enhancing the institutional communication framework, including operationalization of a comprehensive communication strategy, strengthening the role of the communication unit, and reviewing communication tools and channels. The mission was also focused on enhancing monetary policy communications, providing advice on the structure and content of key policy documents, as well as on streamlining the monetary policy communication cycle.

The mission met with CBA officials: Mr. Vugar Ahmadov, Executive Director; Mr. Ulvin Aliyev, Head of the Governor's Office; Mr. Azer Alasgarov, Head of the Monetary Policy Department; Mr. Elrad Seydiyev, Head of the Financial Markets Operations Department; and key staff from the Communication Division, Monetary Policy Department, Department of Research, Statistics Department, and Financial Stability Department. The mission also met with representatives from the Baku Stock Exchange, several commercial banks, and local think tanks, as well as journalists and economic experts. The mission would like to thank Mr. Tariyel Mirzayev, CBA International Cooperation Department, for his excellent coordination efforts.

Executive Summary

The Central Bank of the Republic of Azerbaijan (CBA) fully recognizes and understands the role of communications in modern central banking. The CBA has made significant progress in its external communications in the last few years, in line with the gradual transition to an Inflation Targeting (IT) regime and strong commitment by the new CBA management to openness and transparency.

CBA's communication efforts are widely recognized by external stakeholders. The journalists and financial market players indicated a notable improvement in CBA's communication practices in the last few years and praised the central bank for the regular and open dialogue with key stakeholder groups. In particular, they noted CBA's willingness not only to engage with the key audiences, but also to listen to them and adjust its communications accordingly.

Key elements of the framework for communications are in place. Despite its limited resources, the Communications Division (CD) plays a central role in organizing and coordinating the flow of information for external communications. Communication with external audiences is guided by well-developed internal documents, while the internal processes for developing and releasing communication messages are well established but not formalized. The communication strategy has been updated recently, while the CD manages a Questions and Answers (Q&A) file and has a monthly communication plan.

The CBA uses various tools and channels for communications. CBA's website is a key communication channel and contains much information, while a further upgrade is also being planned. The Monetary Policy Review (MPR) and Financial Stability Review (FSR) are flagship policy publications of the CBA, supplemented by the press releases, working papers, and other publications. The CBA engages with key stakeholder groups via regular meetings (with the banking community and analysts), ad-hoc events, and training seminars and workshops.

CBA's monetary policy communication cycle is relatively well established. Despite the ongoing transition to the IT regime, CBA's monetary policy communications are already very much in line with an IT central bank's communication framework. The calendar of interest rate press releases is published in advance, four monetary policy press conferences are held annually, and a quarterly MPR is published. Following the transition to a new monetary policy operational framework, the CBA published detailed guidelines on the new system. The role of the (fixed) exchange rate regime in the monetary policy framework is fully disclosed.

The progress to date risks reaching its limits due to both internal and external factors, especially limited market development and a low level of financial literacy. While no central bank has a direct influence on such external constraints, a swift adoption of the mission's recommendations would allow the CBA to lay the foundations for a comprehensive approach to communications. With time, this will contribute to fully elevating communications to the role of policy tool, which could play a crucial role in achieving the mandated goals of price and financial stability.

The mission identified several areas for improvement:

- **The role and capacity of the Communications Division need to be strengthened.** The CBA should increase the resources of the Communications Division to enable a stronger presentation of policy content and visual materials, and to strengthen its role in supporting CBA's proactive messaging and one-voice policy. The CD should be integrated more closely with policy departments and decision-making processes—i.e., it is important to give it a “seat at the table” as a key advisor, including on how

messages are likely to be received. The introduction of message boxes, authored and disseminated by the CD, would allow it to strengthen its role as the owner of the message management process.

- **There is room for further formalization of CBA's communication framework.** While the CBA already has in place several documents regulating its communication processes, such as the Communication Strategy and the Rules on Information Transmission to Media (RITM), the development of a Communication Policy, Social Media Strategy, and Annual Plan of Communications will further streamline the CBA's communication framework. In particular, the CBA's Rules on Information Transmission to Media could be updated and transformed into a Communication Policy, containing the outline of communication processes, rules for CD's interactions with other departments, and speaker management.
- **The well-rounded, regular communication planning, along with robust internal message management and reporting processes will facilitate the transition to a proactive external communication policy.** The CBA has substantially boosted the quantity of its communications in recent years, which is recognized by external stakeholders. At the same time, a complete and comprehensive shift from a backward-looking and reactive stance to a proactive and forward-looking policy communications—which the CBA has already embarked on recently—would require an upgrade in communication planning, reporting, and message management and should be championed by the CBA Communications Division.
- **The CBA will benefit from establishing the framework for the regular assessment of the effectiveness of its communications.** This would include expanding data collection in monitoring the media, launching periodic surveys of CBA stakeholders, and using advanced methods for evaluating the effectiveness of central bank communications.
- **Communications around monetary policy decisions could be enhanced further.** MPR publication should be synchronized with the interest rate decision cycle, emphasizing its forward-looking content, including the regular publication of macroeconomic projections. The communication cycle on monetary policy decisions should be streamlined by setting a specific day of the week as a release date and scheduling regular meetings with the stakeholders in the period right after interest rate decisions. The CBA may also benefit from strengthening the process of drafting monetary policy messages and ensuring the stronger participation of the CD in this process.

Further steps in strengthening the CBA communication framework and enhancing transparency might be warranted. While this report mostly deals with streamlining the institutional communication framework and enhancing monetary policy communications, the CBA might benefit from the IMF's advice in dealing with other important aspects of its communication policies. It could include further work on measuring the effectiveness of CBA policy communications and enhancing the framework for communication on financial stability issues. The CBA could also consider requesting the IMF Central Bank Transparency (CBT) Review as a tool to review its transparency arrangements, enhance accountability, and facilitate dialogue with external stakeholders.

Recommendations

Table 1. Key Recommendations

Communication Framework and Organization		
Update and expand CBA Rules on Information Transmission to Media to transform it into Communication Policy (¶14–15).	High	Medium-term
Increase the resources of the Communications Division and upgrade its skills mix (¶20).	High	Near-term
Integrate the Communications Division more closely with other departments and decision-making processes (¶21).	High	Near-term
Ensure well-rounded short-, medium- and long-term communications planning (¶26–28).	Medium	Near-term
Accelerate the shift from a reactive to a proactive external communication policy, supported by an internal message management process (¶36–39).	Medium	Medium-term
Establish a framework for the regular assessment of the effectiveness of its communications (¶43–46).	Medium	Medium-term
Monetary Policy Communications		
Elevate the Monetary Policy Review to the role of a flagship publication (¶67–68).	High	Near-term
Expand outreach on monetary policy communications and promote the use of tiered communication practices (¶75–76).	Medium	Medium-term
Streamline the monetary policy communication cycle (¶81–84).	High	Near-term

1/ Near-term < 12 months; Medium-term 12 to 24 months.

Introduction

1. **The CBA pursues the legislative mandate of price stability operationalized by the inflation target of 4±2 percent.** The CBA maintains a (de facto) fixed exchange rate to the U.S. dollar and considers it effective in keeping inflation under control in Azerbaijan's undiversified economic setting, where the exchange rate is the main channel for the transmission of inflationary shocks. Despite the peg to the U.S. dollar, the low level of financial integration, due to less developed domestic financial markets, has allowed Azerbaijan to pursue a relatively independent monetary policy. The authorities have been considering a strategy that puts more emphasis on interest rates rather than monetary aggregates as the intermediate target, and increased exchange rate flexibility in the long run. In line with this objective, the CBA has made a successful overhaul of its operational framework in the last few years, introducing standing facility tools and redesigning open market operations instruments.¹
2. **Following the post-pandemic surge inflation has returned to the target band.** After increasing sharply to 14.4 percent (year-one-year) in December 2022, inflation declined to 3.5 percent in September 2024, driven by a broad-based decline in food, nonfood, and services prices. Core inflation declined from 14 percent in December 2022 to 2.9 percent (year-one-year) in September. As inflation has been returning to the target band and the real policy rate turning positive, the CBA embarked on the policy easing path, reducing the policy rate 175 basis points in the last eighteen months. At the same time, the CBA has also significantly increased reserve requirements to mop up excess liquidity from the banking sector.
3. **After the manat devaluation and the bailout of an ailing large state-owned bank in 2015, the financial stability risk to the banking system was at a peak in Azerbaijan but has been declining ever since.** The Azerbaijan financial sector gradually recovered after the 2015 crisis and currently demonstrates improving performance. Capital adequacy has been improving, liquidity and credit risks are contained, and financial dollarization has been on a declining track since 2017. Following the dissolution of the Financial Markets Supervisory Authority in 2019, the CBA became the main regulator of the financial sector—regulating and supervising banks, non-bank credit organizations, insurance companies, capital markets/investment companies, and payment systems. In 2022, the CBA was given an official financial stability mandate. The regulatory consolidation and stable macroeconomic performance contributed to the increasing resilience of the financial sector to shocks. The ongoing Financial Sector Assessment Program (FSAP) should be used by the authorities to further strengthen their regulatory framework to ensure the stability of the financial sector, which should also assume a more pivotal role in supporting economic growth and diversification.
4. **The CBA has made significant efforts recently to enhance its communication framework, which is recognized by external stakeholders.** The CBA has substantially extended its external outreach in the last few years, following the managerial changes. The CBA's media presence increased substantially, and external stakeholders (representatives of banks, experts, and journalists) widely praise the CBA for the regular engagement.
5. **The CBA has been modernizing its monetary policy communication framework.** It regularly publishes a Monetary Policy Review (quarterly) and press releases on interest rate decisions (made according to the preannounced calendar). "The Main Directions of Monetary Policy for 2024," the

¹ The CBA's efforts to overhaul the operational framework have been supported by a number of IMF technical assistance projects over the last years, focusing on modernizing the policy framework and enhancing monetary operations and foreign exchange reserve management and operations.

CBA's annual policy document reiterates the central bank's commitment to open and transparent communication on monetary policy. The CBA plans to expand the scope of monetary policy communications and make them more effective by broadening the focus and enhancing communication tools and channels.

6. **This report presents an assessment of CBA communications and proposes recommendations that would bring it closer to international best practices.** The mission focused on two different but closely interconnected areas: (i) the communications framework and organization; and (ii) monetary policy communications. The rest of the report discusses the key findings of the mission and possible actions that would further strengthen CBA communications.

I. Institutional Communications Framework

A. Importance of Formalized Institutional Communications Framework

7. **Implementing a sound institutional framework for communications can help central banks to better achieve their objectives.** International experience has shown that the key elements of such a framework include the following:
 - **Principles** for effective communications, such as clarity, timeliness, precision, consistency, predictability, transparency, and equal access to information.
 - **Communications framework** that covers objectives, principles, spokespersons, messages, audiences, channels, tools, and formats, and an effectiveness assessment. This framework provides a basis for developing more effective communication strategies, tactics, and products.
 - **Internal organization of the communications function**, including the organization of the flow of information, procedures, guidelines and processes, and structure and staffing.
 - **Communications products**, including a calendar of policy decisions, press releases, press conferences to further explain the decisions, periodic monetary policy and financial stability reports, minutes of policy discussions, speeches, social media publications, and interviews.
8. **All these elements support the delivery of a compelling narrative on how the central bank is achieving its policy objectives.** Having these elements in place would be beneficial in both normal circumstances and in periods of stress. CBA's communications will be assessed against these elements, which will also help to guide the recommendations.

Current Situation

9. **Communications have been an important part of CBA operations**, with numerous reports, articles, statements, and speeches published on the CBA website and various social media platforms. The intensity of communications on social media platforms has been on the rise in recent years, helping to enhance the public profile of the institution. This recent increase in the volume of communications was also accomplished by publicizing various events, meetings, and trips by CBA management.
10. **The current approach to communications has been successful but may be reaching its limits.** The CBA's target audiences are increasingly interested in seeing more policy content, analysis, and data in social media posts, whenever possible and appropriate. Media, experts, and market participants would like CBA communications "to grow its policy muscle," building on the recent increase in the *volume* of communications on meetings and trips. They believe CBA has the capacity to bring its communications to the next level; and they praised the responsiveness and professional qualifications of the CBA communications staff.
11. **A strong foundation for CBA institutional communications is provided by the Rules on Information Transmission to Media.** This is a comprehensive document covering many aspects of CBA operations related to external communications. The document was developed in 2013 and was amended in 2017. In the CBA Communications Strategy for 2024–2026, it is described as a key foundational element of the CBA operating framework for communications. The document, however, has some gaps and needs updating, including reflecting the recent relocation of the Communications Division to the Governor's Office.

12. **The CBA has made significant progress in implementing sound principles for communications in the main areas in which communications take place:** the policy framework and objectives, policy decisions, analytical underpinnings (including models), implementation of monetary and foreign exchange (FX) tools and operations, and statistics. The principles have not been formally established in the CBA strategy documents, and there are also some gaps in their implementation. Notably, communications on the process for monetary policy decisions are not yet fully consistent with the principles of *predictability*, *precision*, and *equal access to information* (see Paragraph 65). Also, *clarity* and *accessibility* of communications could be enhanced by using more accessible language and by providing explanations of CBA policy and operational decisions.
13. **Many elements of the institutional communication framework were established in the RITM and the CBA Communications Strategy for 2024–2026:**
- **Objectives** of communications have been established: (i) enhance the effectiveness of monetary policy by strengthening public understanding and trust; and (ii) help shape expectations, both of market participants and the broader public.
 - **Spokespersons** include the Governor, Board Members, Executive Directors, Department Directors, and the press secretary of the Communications Division. The areas of responsibility among the spokespersons have not been delineated, and it would be useful to address this matter. The RITM includes guidelines on public speaking and CBA spokespersons' operations during the time of crisis.
 - **Messages.** CBA has put in place internal processes for the formulation of messages on monetary and financial stability policies. Responsibility for articulating policy messages ultimately rests with the Management Board, with inputs from the monetary policy and financial stability departments. The Communications Division is not currently involved in policy deliberations and formulation of policy messages. The CD maintains and occasionally updates, with inputs from other departments, the Questions and Answers document, used by the CBA spokespersons in preparation for press conferences and interviews. The procedures related to the formulation and dissemination of messages, including to staff, should be included in the RITM with a view to increasing their efficiency and timeliness.²
 - **Audiences.** The key audiences for communications are well defined. Target audiences comprise financial market participants, media, economists and finance experts, real sector corporates, government, academia, and the public. Such segmentation is fully in line with best international practices. The targeting of the communications might be improved because, according to some stakeholders, CBA communications sometimes are too technical and lack explanations. Hence, defined targeting, through more effective management of key policy messages and advanced communications techniques could be used for reaching a broader audience.
 - **Channels, tools, and formats.** The CBA has made significant strides in developing communication *channels and formats*. It has actively built its presence on social media platforms and is using broadcast and online media to rebroadcast its messages to a wider audience. The CBA's website is a vital intermediary-free channel to communicate with the public. It provides a comprehensive overview of the policy objectives and frameworks, decisions, monetary and FX instruments and operations, financial stability policy, and statistics. CBA policy communications would be further strengthened by posting complete transcripts and video files of the press conferences on its website. Additionally, the content is currently geared primarily to economists and analysts. Posting more infographics and video materials accessible to non-technical audiences would increase the popularity of the website. There

² See Section I.D for the detailed discussion and recommendations on message management.

is no defined concept of corporate identity. Publications produced by the different departments are in a variety of colors, fonts, and graphics styles. This lack of a uniform recognizable “look” is not helpful to the CBA’s image. The CBA is currently working on upgrading its website and plans to launch a new version in the coming months. The attributes of an effective central bank website are outlined in Annex I.

- **Communications products.** A range of products on policy communications has been established, including a calendar of policy decisions, press releases, press conferences to further explain the decisions, periodic monetary policy and financial stability reports, and speeches and interviews.³
- **Assessment of the impact** of communications lies with the Communications Division. The assessments across a selected range of indicators are implemented on a semiannual basis, but tools, and techniques used can be further strengthened. A number of techniques to deepen the analytical approach to impact assessment are discussed in subsequent sections of the report, and recommendations are made.⁴

Recommendations

Recommendation 1: Update and expand CBA Rules on Information Transmission to Media to transform it into Communication Policy.

14. **The CBA would benefit from expanding the Rules on Information Transmission to Media to cover all key outreach products and procedures to enhance their efficiency (Figure 1):**
 - **These would include currently missing elements such as principles for effective communications;** interdepartmental processes and procedures on developing proactive messages, responses to the press, and maintenance of the Q&A file; approaches to planning and assessing the impact of communications; guidelines on using in external communications information proposed by other departments for outreach; guidance for staff on their presence on social media platforms, and others. The updated version approved by the CBA Management Board can become the CBA Communications Policy document.
 - **The explicit definition of principles for communication in the strategic document** would help CBA to focus on strengthening their implementation and enable the institution to use the principles as an analytical tool for identifying gaps and weaknesses in processes and products with a view to eliminating those drawbacks.
 - **As a higher-level document, the RITM should continue to focus on longer-term institutional and interdepartmental matters** that are not likely to require changes for some time. In this regard, the CBA had the correct approach from the start: since the RITM were approved in 2013, they have been amended only once, in 2017, while continuing to provide valid guidance. In the organizational structure of the institutional framework, it is important to distinguish (1) *strategic issues*, such as goals and principles, along with stable institution wide procedures, including those for interdepartmental cooperation, from (2) *operational issues* managed by departments and divisions on a day-to-day basis. Operational issues should be kept out of strategic documents to preserve *operational flexibility and adaptability*, thus enabling *efficiency of operations, including by adapting new technologies and techniques*.

³ See Section II.A for the detailed discussion on monetary policy communication products.

⁴ See Section I.E.

Figure 1. Updating and Expanding the RITM

CURRENT STRUCTURE	RECOMMENDED STRUCTURE	
<ul style="list-style-type: none"> • General provisions • Target audiences • CBA spokespersons • Collection of information from CBA departments • Confidential information • Channels and formats • Press release • Press conference • Social media and website • Professional publications by staff • Crisis communications • Final provisions 	<ul style="list-style-type: none"> • General provisions • Communications principles • Target audiences • Channels and format (in more details) • CB spokespersons (including areas of responsibilities) • Interdepartmental procedure on the flow of information to DC (including deadlines) • Confidential information • Messages creation, management, and dissemination • Procedure on the Q&A • Planning and reporting on communications • Assessing the impact of communications (including key areas of analysis) • Guidance for staff on contacts with the press (including processing of media requests and database maintenance) 	<ul style="list-style-type: none"> • Guidance for staff on social media presence • Guidelines on using in external communications information proposed by other departments for outreach • Press conference and other public events (including for non-media stakeholders) • Press release and other publications (including CD support for analytical reports) • Participation in third parties' events (including the purpose, selection criteria, approval process, and coordination) • Interview • Speeches • Website • Visual Materials (production and use, including stock material) • Professional publications by staff • Crisis communications • Final provisions

Source: Central Bank of the Republic of Azerbaijan, mission's elaborations.

15. Divisional operation and management issues would be dealt with in separate documents (Figure 2), namely:

- **To provide stronger support for the implementation of the RITM and to clarify and reinforce its role in the institution, the CD could update the *terms of reference* for the division**, to also reflect the relocation of the division to the Office of the Governor and the new line of reporting. The ***terms of reference*** would include the ***goals, responsibilities, and the main functions*** of the division. At the same time, divisional management (in consultation with the immediate supervisor if needed) would have the authority and flexibility to define and adjust operations at any time to *enhance their efficiency, including by adopting new technologies and techniques*.
- **At the operational level, the CD would benefit from developing *divisional level guidelines or a division manual***. Key ***divisional functions and operations*** would be formalized there, including media and social media monitoring and analysis; maintenance of the registry of media requests and CBA's responses; a conceptual approach to visual materials, including their production and storage and the use of stock photos; and others. The divisional guidelines would help to strengthen the consistency of operations and help with more efficient and faster onboarding of new staff members. Work on formalizing divisional procedures would enable the CD to identify any existing weaknesses and gaps, with a view to eliminating them and further strengthening CBA communications.

Figure 2. Structure of Documents on Institutional Policies and Procedures

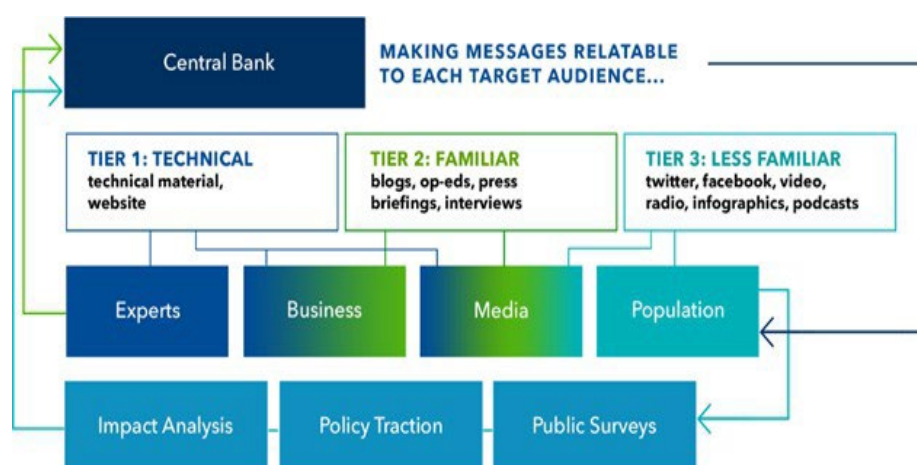
Institutional Management	Departments / Divisions Terms of Reference	Departments / Divisions Manuals
Strategies, policies, and strategic issues, such as <i>goals</i> and <i>principles</i> , along with stable institutional-wide procedures, including those for interdepartmental cooperation.	These include the <i>goals</i> , <i>responsibilities</i> , and the main <i>functions</i> of the departments and divisions.	Manuals (or guidelines) for staff describe the implementation of key <i>functions</i> , <i>operations</i> , and <i>procedures</i> of the departments and divisions.

Source: Mission 's elaborations

Recommendation 2: To further refine CBA communication channels, tools, and formats.

16. **The CBA should work on simplifying its policy messages, establishing a uniform corporate identity, and adopting more advanced communications techniques to reach a broader audience.** As mentioned above, the CBA would benefit from making its communications more accessible to non-technical audiences (see Figure 3 and Annex II). Additionally, the development and introduction of a brand book would be an important step in further improving CBA's image as an established professional institution. Finally, to reduce the time spent on “translating” technical terms into more accessible language, the Communications Division can work jointly with other relevant departments to produce a Glossary of Technical Terms and Their Less Technical Equivalents for use in communications to non-technical audiences.

Figure 3. Tiering Communications by Content and Channels



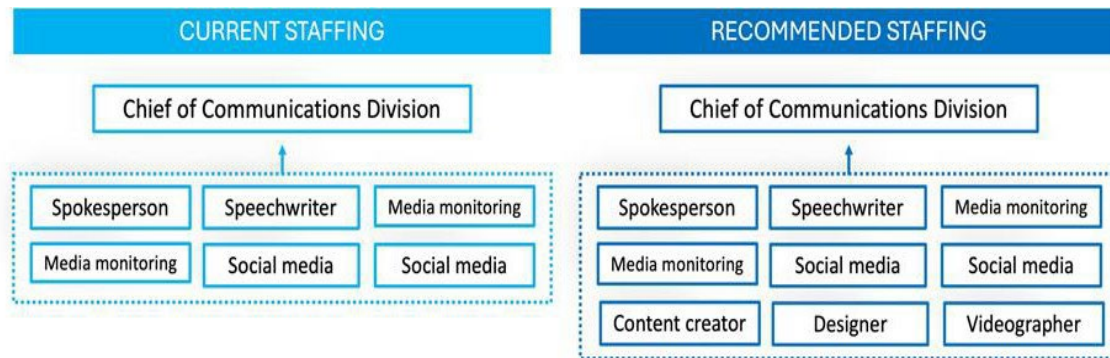
Source: “[Frontiers of Economic Policy Communications](#),” IMF Communications Department Paper No. 19/08, 2019.

B. Organizational Structure

Current Situation

17. **The Communications Division of the CBA plays an important role in organizing and coordinating the internal flow of information for external communications.** The CD currently has six employees, while the position of Division Head is vacant. Until recently, the CD was a part of the International Cooperation and Communications Department, but was subsequently relocated to the Governor's Office. The division works with other departments to collate needed information and draft and finetune both proactive communications and responses to the press. These interdepartmental work processes have not been formalized in internal guidelines with established deadlines for responsible departments to provide information and other inputs to the communications division. Information from departments often comes in technical language not accessible to the media and the public. The needed redrafting and finetuning are time-consuming and risky delays, potentially undermining the key principle of *timeliness*. A key risk is that delayed external communications will allow misinformation to spread unchecked.
18. **Communications staff are not involved in the development or review of major policy products.** Senior communications staff are generally not present, even as observers, in policy deliberations and decision making. Communications staff, therefore, are not aware of upcoming decisions and cannot assess at early stages how they will be received by the public. They are not in a position to advise policymakers on communications issues which might arise as a result of particular decisions, or on whether preparatory educational work is required to enable better reception and understanding. The engagement of the communications staff in policy deliberations is a common practice in many central banks and would improve the reception of CBA messages. It would also strengthen the Communications Division's standing within the institution and enable it to take a more proactive role in leading other departments in outreach.
19. **It would be beneficial to revise or introduce formal internal procedures to enhance the efficiency of operations and limit reputational risks.** In particular, it is recommended to introduce internal guidance on how the Communications Division handles proposals from other departments for publicizing their products or events. This guidance would cover, for example, which products or events are suitable for press releases, for social media posts, or for internal communication only. Moreover, there is a need to provide guidance to staff on their presence on social media platforms. Without such guidance, staff may inadvertently post public comments (whether related to the area of work of the central bank or on entirely different matters) that raise operational or reputational risks for the CBA. Effective communications and risk management require that staff have a clear understanding of these issues.

Figure 4. Staffing of the Communications Division



Source: Central Bank of the Republic of Azerbaijan, mission 's elaborations.

Recommendations

Recommendation 3: Increase the resources of the Communications Division and upgrade its skills mix.

20. **To further strengthen CBA policy communications, the staffing of the Communications Division should be increased, and the skills mix should be enhanced.** This would enable CBA to better align its communications capacity with established international practices. In addition to the Division Chief position (currently vacant), the division has six professional staff already fully occupied with handling media requests, press conferences, and interviews; drafting speeches; doing media monitoring and analysis; and handling CBA outreach on social media. The division's capacity and skills mix should be strengthened. The priority at this time is to add three staff positions dedicated to: (i) *content creation*; (ii) *graphic design*; and (iii) *creation of video materials*. The increased staffing pattern would enable the division to integrate more closely with the policy process and be more proactive in leading other departments on outreach; strengthen policy content in communications, including by using more accessible language; and expand its reach to a broader audience with more graphics and video materials.⁵

Recommendation 4: Integrate the Communications Division more closely with other departments and decision-making processes.

21. **The Communications Division should play a central role in the institutional communication framework.** In particular, CD management and staff should be routinely included in the policy discussions and participate in the drafting of the policy messages. The CD, therefore, should be given a "seat at the table" as a key advisor, including on how messages are likely to be received. Additionally, the development of internal guidelines on the cooperation between the CD and policy departments in the communication process and on staff's presence on social media platforms will help to streamline the CBA communication framework and mitigate reputational risks.

⁵ In the medium-term the CBA may consider further increasing both the number of staff and skills set of the Communications Division, to enhance its capacity in dealing with communication challenges and contributing to policy communications.

C. Communications Management: From Planning to Reporting

Current Situation

22. **Established communications planning is a foundation of effective proactive communication policy.** In the case of the CBA, neither the 2024–2026 Communication Strategy nor RITM establish a cyclical communication planning process as a necessary prerequisite for conducting the central bank's communications.
23. **CBA communication activities are planned on a monthly calendar basis.** Developed by the CD, the plan is based on the calendars of CBA officials' public engagements, the schedule for periodic analytical publications and statistics releases, and plans of other structural units for press releases. Therefore, the plan allows the CD to foresee the need for publications on CBA's communication channels. However, all the calendars, schedules, and plans are decided in the responsible structural units with no involvement of the CD. The CD only collects information about decisions made and does not have a chance to check them for their alignment with the communication objectives or to ensure better coordination between the activities. Also, the plan does not include media engagements, such as interviews or op-eds, thus missing an opportunity to use them as one of the tools of proactive communications.
24. **The monthly communication plan is supplemented with the 2024–2026 Communication Strategy Activity Plan.** Rather than the plan for upcoming CBA's communication activities, it is in reality an action plan for CD on how to enhance the performance of CBA's communication function (e.g., to ensure the timeliness of scheduled publications on the website or the comprehensiveness of responses to media requests). While it is beneficial for enhancing the central bank's communication function, it does not provide any strategic-level view of upcoming CBA's communications.
25. **CBA's internal reporting is limited only to two communication reports, which are not enough to inform the communication planning and support performance-based communication management.** First, the CD develops a media monitoring report that lists the media publications mentioning CBA and does not have any additional analytical input. The CD disseminates the report twice a day among CBA's leadership and communication coordinators in each department. Second, the CD develops a semiannual report for implementing the 2024–2026 Communication Strategy Activity Plan, which, similar to the plan itself, covers the actions aimed at enhancing the communication function. Therefore, there is no periodic reporting on the volume or effectiveness of CBA's communication activities.

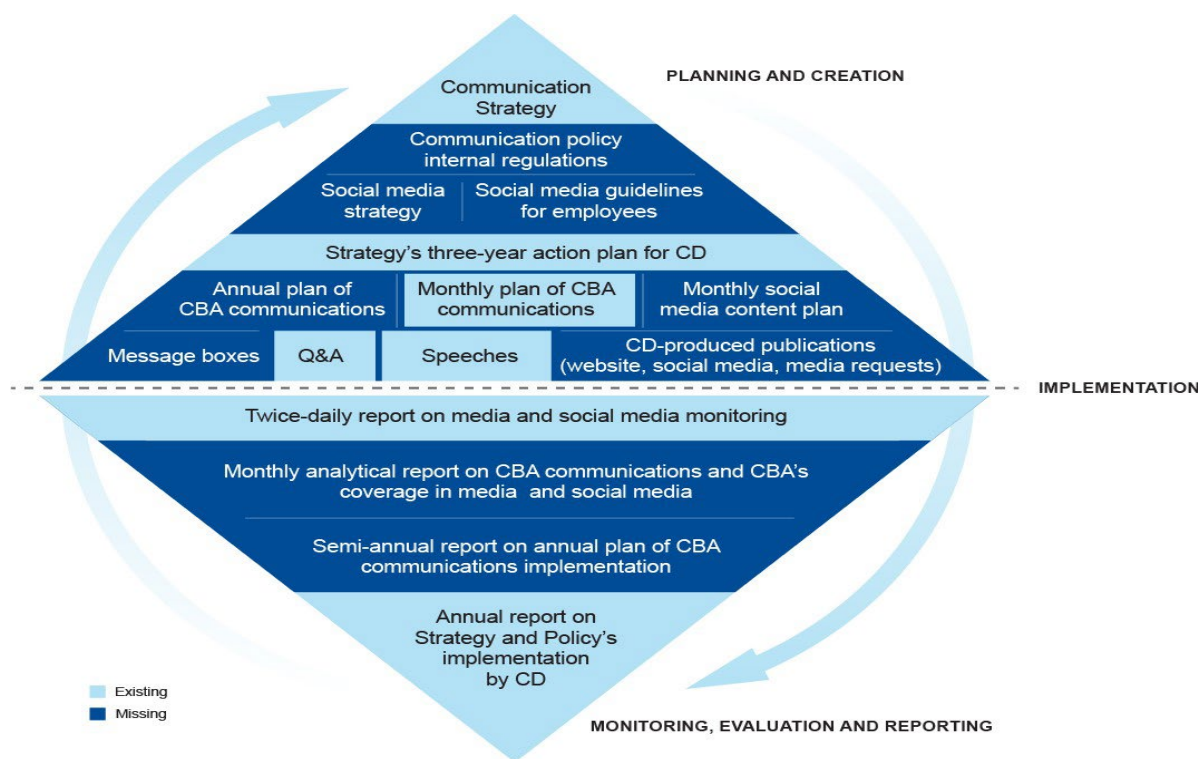
Recommendations

Recommendation 5: CBA should ensure well-rounded short-, medium- and long-term communications planning.

26. **The CBA should aim to create an ecosystem for managing the central bank's communication processes,** which should include the following elements (see Figure 5):
 - **Monthly plan of CBA communications.** The CBA should enhance its monthly plan of CBA communication activities by including expected media engagements and switching from a calendar monthly plan to a rolling monthly plan that would undergo updates at least biweekly. The CD should not only collect the inputs for the plan and disseminate it among CBA's leadership but also participate in discussions about the need for and the timing of the communication activities.

- **Monthly social media content plan.** To ensure there is a differentiated, well-coordinated approach to the content across CBA's social media platforms, CBA should introduce an additional detailed, monthly, social media content plan.
 - **Annual plan of CBA communications.** CBA's planning of strategic-level communication activities, such as monetary policy and financial stability communication cycles and communication campaigns, should be conducted on an annual basis with semiannual updates.
27. **For each communication plan, there should be a communication report covering the respective analysis period.** The daily media monitoring reports should be supplemented with in-depth analytical reports on a weekly, biweekly, and/or monthly basis to report on the communication activities planned in the rolling monthly plans. The reporting on the implementation of the annual plan of CBA communications should be conducted semiannually to inform the updates of the plan. Meanwhile, the reporting period for the implementation of the 2024–2026 Communication Strategy Activity Plan can be extended from a semiannual to an annual basis due to the long-term planning horizon of the document.
28. **The planning and reporting processes should be formalized in CBA's Communication Policy and become an integral part of the CBA's communication decision-making process.** The results of communication reports should be discussed internally in the CD and the Governor's Office, as well as the management of other functional departments, so that they are considered in both day-to-day decisions on communication activities and when developing or updating the communication plans. Together, the forward-looking communication plans and the backward-looking communication reports should also serve as a basis for CD's regular check-ins with the CBA's leadership, to ensure the communication plans match the central bank's current policy priorities.

Figure 5. Ecosystem for Managing CBA's Communication Processes



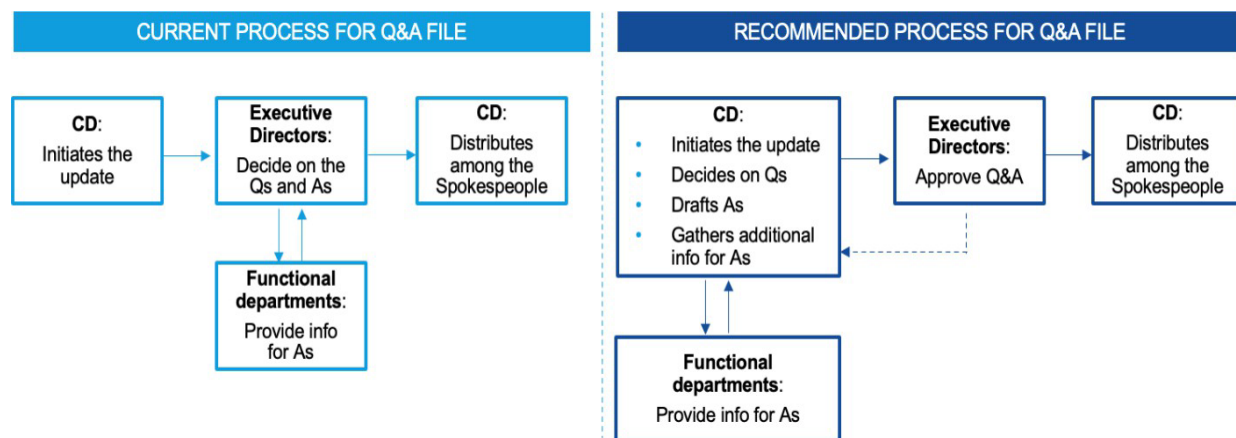
Source: Central Bank of the Republic of Azerbaijan, mission's elaborations.

D. Message Management and Content Development

Current Situation

29. **CBA's system of spokesperson management warrants significant improvement.** CBA's Communication Strategy 2024–2026 and RITM establish a group of 28 spokespersons, who are authorized to address the public and media on behalf of the CBA. It includes the Governor, Board members, and Executive Directors as primary spokespeople, and directors of respective departments and the CD's press secretary as secondary spokespeople. Although there is a clear order and area of communication for all the spokespeople, there are no internal guidelines on how the institutional position presented in one voice should be documented and transferred to the spokespersons. Furthermore, CBA's spokespersons do not receive regular training on external communications and media relations. Such a situation challenges the central bank's ability to maintain one voice and, moreover, to ensure the clarity and consistency of its communication.
30. **The central bank's current communication system serves well for one-voice, reactive communications.** The Q&A file, comprising a list of possible questions, with suggested answers, and managed by the CD, lies at the core of CBA's ability to ensure one voice in responding to the media's questions. With occasion-based updates before each press conference, the document is distributed to the central bank's leadership and functional departments with potential questions and answers for them (talking points), on a wide range of topics. CD disseminates the document among the Governor, Deputy Governors, Executive Directors, and directors of departments (see Figure 5). Similarly, the one-voice approach in CBA's answers to media requests is ensured by the central bank's leadership and functional departments' participation in developing the answers, while CD is responsible for collecting media requests and providing responses to journalists (see Figure 6).

Figure 6. CBA's Internal Process for Supporting Messaging in External Reactive Communications: Q&A File

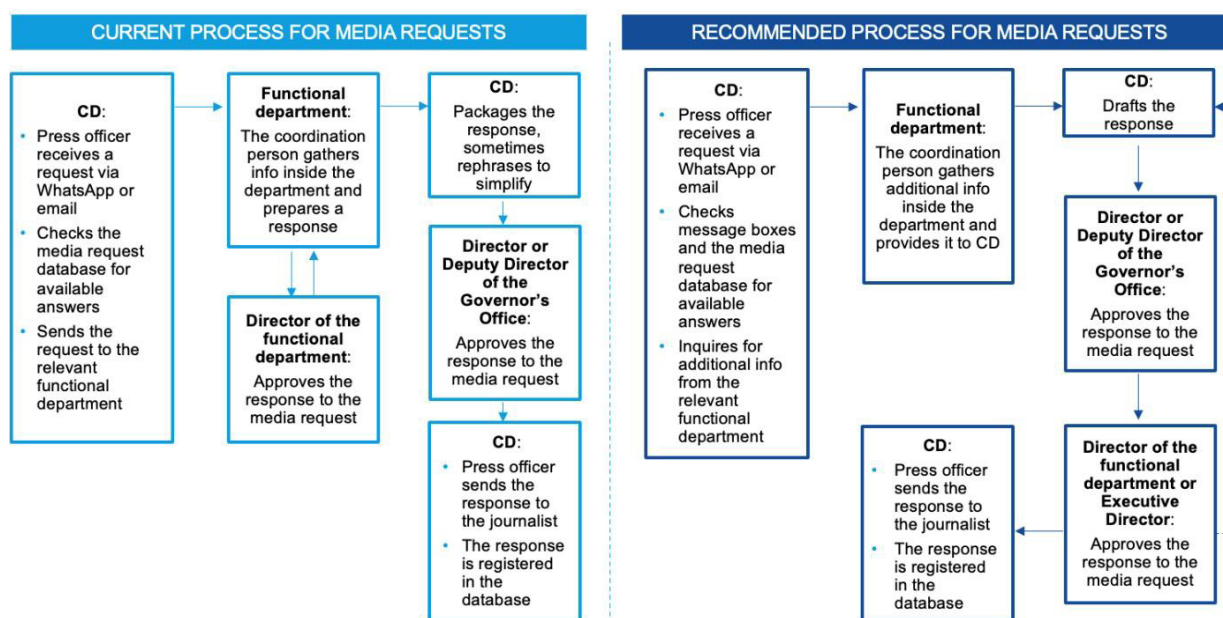


Source: Central Bank of the Republic of Azerbaijan, mission's elaborations.

31. **The current system is ill suited for CBA's intention to take a proactive stance in public communication with its stakeholders, and to shape the public agenda and the narrative around the central bank and its policy.** Neither the Q&A file nor responses to media requests help the central bank shape its proactive communications because both largely depend on the externally imposed agenda and topics of interest to the media.

32. **CBA does not have a practice of determining messages for proactive communications**, i.e., what it aims to convey to its target audiences in order to reach its own communication and policy objectives. The only exception is the strategic-level core messages in the three-year Communication Strategy. Meanwhile, the CBA's main products for day-to-day proactive communications—press releases about CBA's policy, regulations, or operations—are focused on the facts of what happened and are not intentionally structured to convey any substantive information on the CBA's rationale, objectives, expected outcomes, potential risks, or future policy path. Similarly, press releases about the events focus on the facts of what happened and miss an opportunity to provide subject-specific information on the topic of the event. Remaining content, e.g., on CBA's social media, is the derived from CBA's website publications.
33. **The central bank is widely covered in the local media and faces no external obstacles in transmitting its messages to domestic target audiences.** Yet, as the local media representatives have confirmed, such a lack of proactive communications undermines the substantiveness of the media's coverage of CBA. Therefore, the lack affects CBA's ability to impact the knowledge, awareness, expectations, and behaviors of its target audiences through the media channel.

Figure 7. CBA's Internal Process for Supporting Messaging in External Reactive Communications: Media Requests



Source: Central Bank of the Republic of Azerbaijan, mission's elaborations.

34. **While the formation and determination of talking points are quite centralized in the hands of CBA's top management, the ownership of the content development process is decentralized and fragmented among CBA's structural units.** The development of press releases is initiated and conducted by functional departments, with the involvement of CD limited to proofreading the text, sending it to the department for publication on the website, and disseminating it among the journalists. The development of analytical reports is entirely conducted on the side of the functional departments, with no involvement from CD. The content for social media is initiated, developed, and published entirely by CD. This leaves the CBA without centralized and institutionalized control over the communication priorities and messages the central bank simultaneously delivers across its communication channels. This also has a risk of affecting the clarity and strength of the policy signals the central bank needs to send to increase the effectiveness of its policy.

35. **The limited role of CD in message formation and determination, as well as content development, also affects the accessibility of CBA's content and its ability to customize the content for different audiences.** As the current content development process is conducted almost entirely on the side of the functional departments, the CD is involved at a stage that does not leave it enough time to restructure the text into more readable form or to tailor the language and the messages to different target audiences of the publication. As a result, CBA's communications are either generic or suffer from quite complicated language suitable for professional audiences.

Recommendations

Recommendation 6: The CBA needs to accelerate a shift from a reactive to a proactive external communication policy, supported by an internal message management process.

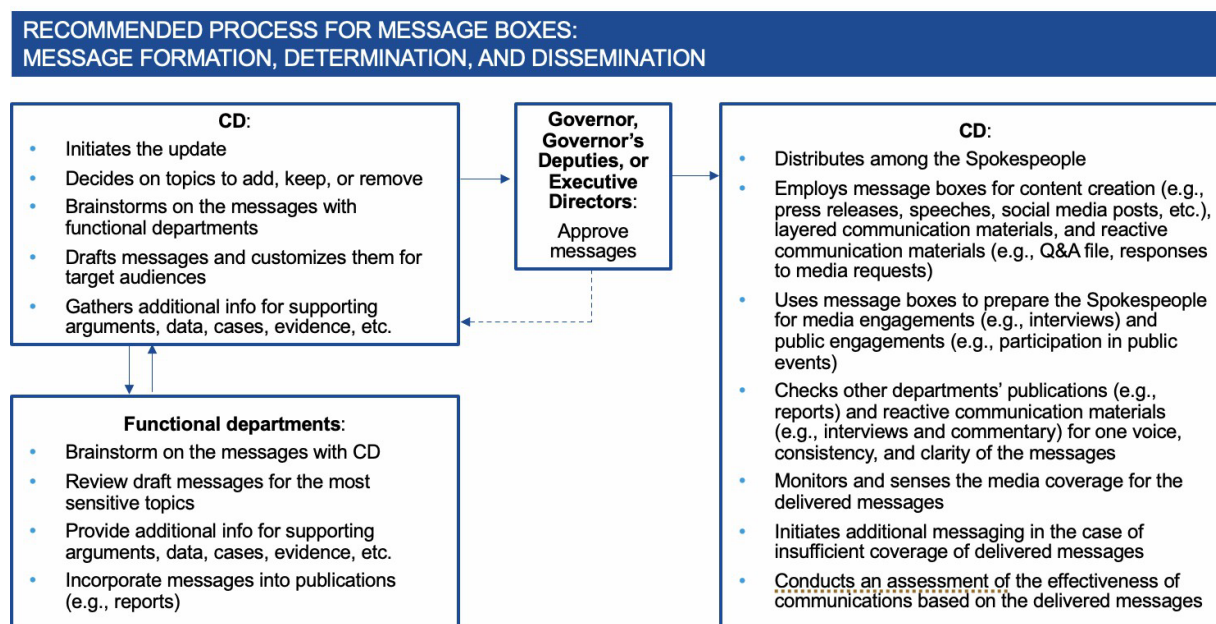
36. **The transition to a proactive communication policy should be at the core of CBA's efforts to enhance the communication framework.** The shift from reactive communications (i.e., “we answer the questions determined by stakeholders”) to proactive communications (i.e., “we determine the key information—messages—we want to deliver to stakeholders”) would require a move from an ad-hoc formation of talking points, delivered on an if-asked basis, to the message formation and determination conducted in advance and on a regular basis (e.g., weekly), independent of upcoming public engagements of the central bank's speakers. Unlike the talking points from the Q&A file, the messages should be delivered proactively whenever the central bank sees the need to do so to reach its policy and communication objectives, e.g., in line with the predictable communication cycle, in case of monetary policy decisions, or on an ad-hoc basis, in case of FX communications.
37. **An expanded internal toolkit for supporting external messaging should be at the core of the message management process.** Such a toolkit would include the following materials for internal use:
- **Key policy messages.** The formed and determined messages should align with the current policy and communication objectives and priorities of the central bank and answer the question: What key information does the central bank want to convey to its selected target audience through the specific communication activity (e.g., press release, op-ed, speech at a public event, etc.)?
 - **Message boxes.** No matter what techniques and formats (e.g., message boxes, message houses, etc.)⁶ are applied to developing them, the messages should always be supported with additional arguments, data, cases, and evidence that would help the central bank's content developers and speakers convey the message to the target audience. Altogether, the messages and the supporting arguments and data points should be packaged into a standard document that the CBA's spokespeople and CD could use to inform their public messaging and content development.
 - **Q&A file.** The Q&A document should be updated not only before press conferences but also before interviews and public appearances of the central bank's leadership, even if the officials do not have a speaking role at the event. While the universal Q&A file on all potential topics should be saved for

⁶ While messages can be presented in a variety of ways, message boxes and message houses are some of the most effective techniques and formats for organizing messages in internal materials for informing external communications. Message boxes are traditionally built around the issue, its negative impact on the target audience, the offered solution, and the expected outcomes. Therefore, they are most suitable for communicating changes and offering solutions to a problem. Meanwhile, message houses consist of an overarching key message, three supporting messages, and a foundation of supporting numbers, facts, anecdotal evidence, examples, etc. Such a structure makes message houses most suitable for communicating policy decisions and developing communication campaigns.

cases of public appearances, there should also be a customized version for topical communication occasions such as the press briefing on monetary policy.

38. **Establishing the internal toolkit for external messaging should coincide with strengthening CD's role in the message management and content development processes.** The CD should become formally responsible for the message management process, i.e., responsible for collecting the inputs and delivering the outputs of the process. For this, it should: be more involved in message formation and determination, in close cooperation with relevant functional departments as early as possible; produce and disseminate internal materials for reactive communications (see Figures 6 and 7) and proactive communications (see Figure 8); oversee the clarity and consistency of messages across CBA's publications and communications; be responsible for content development, including press releases; and customize the messages and the content to different target audiences.
39. **It is essential that the CBA formalizes and institutionalizes the message management process in its Communication Policy.** This applies to defining the streamlined internal toolkit supporting the external messaging, the role of CD, structural units, and the central bank's leadership in the formation, determination, and dissemination of messages (see Figure 8), the frequency of regular updates and reasons for occasional updates, and the list of internal recipients of messages, message boxes, and a Q&A file. To ensure CBA's one voice, CBA's communication policy internal regulations should also require all spokespeople to follow messages, message boxes, and talking points in external communication. Regular training on external communications for CBA management and senior staff could also be an effective tool to enhance spokesperson management at the CBA.

Figure 8. CBA's Internal Process for Supporting Messaging in External Proactive Communications: Message Boxes



Source: Mission 's elaborations.

E. Monitoring and Assessment of Communications Effectiveness

Current Situation

40. **CBA's CD has a well-established media monitoring function that allows it to track the media for CBA-related publications.** Communication staff manually monitor approximately 50 local and 10 international media sources daily. Packaged into a media monitoring report twice a day, the results of media monitoring allow CD, in close cooperation with relevant departments, to track and address any misconceptions spread in the media quickly.
41. **However, the possibilities offered by continuous monitoring are not used to their fullest potential due to the lack of further analysis and assessment of central bank communication effectiveness.** The raw data is not analyzed to derive conclusions that could inform decision making in central bank communications, in general, and monetary policy communications, in particular, i.e., to calibrate the messages and plans or amplify the message on additional communication channels. This limits CBA's ability to timely adjust its communication approach to the observed quality and volume of media and social media conversation containing monetary policy or other central bank-related narratives, which could have a spillover effect on the credibility of CBA as an institution and its policy.
42. **Furthermore, CBA's analysis is limited to reviewing media coverage and ignores other valuable sources of information.** Even though CBA can access raw data about its own communication activities and publications, a database of media requests, CBA's website analytics, and social media analytics of CBA's accounts, as well as a survey it conducts of households and experts on their inflation expectations, such information is not researched enough or considered in the decision-making process regarding communications.

Recommendations

Recommendation 7: The CBA needs to establish a framework for the regular assessment of the effectiveness of its communications.

43. **Expanding data collection will help the CBA to see a comprehensive picture of the conversations about the central bank, its policy, and its officials.** Such an approach will require the CBA to increase the number of monitored media outlets and to start monitoring social media. Given that it will likely lead to an increase in the volume of monitored publications, it is advisable to shift from manual monitoring to securing the help of specialized software by procuring access to such software from a specialized third-party vendor or outsourcing the entire monitoring activity to a specialized contractor. Additionally, the CBA should maintain a database tracking the numbers of its own communication activities and the statistics of the owned communication channels—the central bank's website and pages on social media.
44. **The media and social media monitoring should be supplemented with periodic surveys.** The surveys will help assess the level of trust in the central bank, awareness of its mandate, monetary policy objective, inflation target, confidence in the central bank's ability to reach its objectives, etc. To evaluate, specifically, the effectiveness of the monetary policy communication over time, the CBA would also need to survey a wider range of stakeholders regarding their inflation expectations, including firms.
45. **With an increase in the volume of observed data, the CBA should start assessing the effectiveness of the central bank communications.** Such analysis should be conducted across a wide spectrum of qualitative and quantitative indicators (see Annex III). The timeframe of the analysis

should be tied to the planning and reporting periods so that its results feed into in-depth analytical reports and inform both the day-to-day communication activities as well as the development of communication plans and the communication strategy.

46. **It is important that CBA enhances the internal capacity of CD staff to conduct such analysis through capacity-building training and cross-departmental rotation.** Simultaneously, the CD should cooperate closely with the Research Department, Statistics Department, and Monetary Policy Department (MPD) on studying of the impact of the level of trust in the central bank and its monetary policy communications on inflation expectations, and on testing the central bank's publications for readability using computational linguistics.

F. Crisis Communications

Current Situation

47. **Numerous countries have experienced economic crises, which may stem from fiscal, financial sector, or balance of payments vulnerabilities, or from a combination of factors.** Although economic policies will generally aim to avoid crises, the risk of a crisis can only be reduced and not eliminated. Knowing what *to say* when a crisis strikes can be just as important as knowing what *to do*.
48. **Each crisis is, and will be, different.** Crises have different origins and unfold differently, and there are no silver bullets on communications. Still, some general good practices on crisis communications have emerged, and key principles for crisis communications have been established (see Annex IV). More effective communications, based on an *ex-ante* protocol on *who* speaks *when* and about *what*, can reduce the severity of the crisis and allow for more rapid recovery, thus reducing the overall costs of the crisis.
49. **The CBA Rules of Information Transmission to Media provide clear guidance on the communications protocol at the time of crisis.** The document lists possible early warning indicators of a crisis; describes conditions for forming a crisis communications group, which will include all spokespersons and will make decisions on all matters related to external communications (if necessary, some CBA staff may be included in the group); the group will review the crisis communications plan and possible crisis scenarios and will make assessment of the risks, including public perceptions; if warranted, a 24/7 hot line and a special operational mode for the CBA website will be activated; the crisis communications group will conduct a postcrisis assessment after the crisis is over.
50. **The CBA would benefit from holding a crisis simulation exercise.** This would allow the CBA to test the protocol while also trying to follow the recommended key principles for crisis communications. The exercise would help prepare the crisis communications group to “think on their feet” better and to speak with one voice in a real crisis. The lessons learned from the simulation exercise and the postexercise analysis would help the CBA to further adjust and fine-tune the protocol for crisis communications.
51. **While the crisis communications protocol is crucial for facing the “unknown unknown” crisis, it is also recommended that a crisis communication plan be developed for the “known unknown” crisis.** If there are several scenarios of how the foreseeable crisis can unfold and what crisis response measures the central bank can take, the crisis communication plan should cover the baseline and the most likely alternative scenarios. For each scenario, the plan should include different messages and communication activities on different communication channels. The plan should also distribute the speaking roles among the central bank's spokespeople.

52. **For the foreseeable crisis, it is also helpful to employ communications to mitigate the crisis at the precrisis stage.** This would require carefully crafted yet proactive messaging on high-probability risks, what might cause them to materialize, and the policy and operations toolkit available to the central bank for mitigating and resolving the crisis. As the crisis unfolds, the messaging should be replaced with another one focused on why crisis happens and what the central bank does to resolve it, gradually evolving from describing the available toolkit, to emphasizing the pending measures, to eventually focusing on the measures already taken and their results (see Annex IV).

Recommendations

Recommendation 8: The CBA would benefit from holding a crisis simulation exercise.

53. **It would enable the CBA to be better prepared for unexpected adverse developments,** test its crisis communications protocol, and further fine-tune crisis communications procedures and plans.

II. Monetary Policy Communication

A. Monetary Policy Communication Product Lineup

Current Situation

54. **Effective communication is crucial for central banks⁷ to successfully implement monetary policy and build public trust.** Central banks seek to clearly articulate monetary policy objectives, the strategy for achieving those objectives, specific decisions regarding policy interest rates, expected developments in economic conditions, and the constraints and risks associated with these policies. Clear and timely communication of policy decisions helps the public and market participants understand the central bank's goals and actions. It enhances transparency, shapes expectations, builds credibility, aids in crisis management, engages stakeholders, ensures accountability, and serves an educational purpose. By explaining the rationale behind policy decisions, the central bank can reduce uncertainty and enhance the effectiveness of its policies.
55. **Since the recent start of the monetary policy modernization, the CBA has been revising and improving communication practices.** The CBA's commitment to transparency and accountability is embedded in its core mission and key principles, aimed at supporting the central bank credibility. Moreover, the expected transition to IT in the medium-term will necessitate a further improvement of monetary communication practices and approaches. In general, the stakeholders positively assess the evolution and effectiveness of monetary policy communication, but they express the need for simplification of the information.
56. **The main elements of the CBA's monetary policy communications are comparable to those in other central banks in the region.** At the same time, most of the available information, with very few exceptions, is descriptive and backward-looking and is typically used for reporting purposes, rather than providing meaningful guidance for stakeholders. The official CBA website serves as the primary communication tool, where all information related to the monetary policy strategy, policies, and operations is posted. The key monetary policy communications documents are listed in Figure 9.
57. **CBA's monetary policy strategy is embedded in two high-level documents.** "Socio-economic development Strategy of the Republic of Azerbaijan for 2022–2026" defines numerical inflation target for the CBA. In addition, "Main Directions of Monetary policy" is produced by the CBA annually in line with the legislative requirements and conveyed to the Office of the President and Parliament. It outlines the goals, strategy, policy tools and risks affecting monetary policy implementation for the upcoming year, offering guidance to stakeholders on anticipated policy measures. This document also features a calendar of policy decision announcements regarding the refinancing rate for the upcoming calendar year. It is common practice among IT banks to disclose this calendar as a separate document/tab on the official webpage, ensuring proper coverage of this important message. The mission recommends the CBA to follow this practice and publish the calendar on the designated tab of the official webpage.

⁷ [Monetary and Capital Markets Department: Technical Assistance Handbook \(imf.org\)](https://www.imf.org/).

Figure 9. Documents on Monetary Policy Communication



Source: Central Bank of the Republic of Azerbaijan.

58. **The Annual Report and the Report on the Accomplishment of the Main Goals and Functions are prepared annually in accordance with the Central Bank Law.** Both documents aim to provide information on the CBA's achievements and results from the previous year, serving as an accountability tool. At the same time, the mission emphasized that the Annual Report in its current form is substantially different from similar publications in other central banks. Hence, the publication would benefit from (i) streamlining the content and (ii) incorporating visual information, including schemes, graphs, and tables (see Annex V).
59. **The Monetary Policy Review is produced quarterly.** The MPR follows its own preparation procedures that are not synchronized with the policy rate decision-making cycle. The MPR contains a relatively broad set of information, mostly descriptive, on global and domestic macroeconomic developments, monetary policy measures, and their impact on the economy. The CBA has been working on improving the content of the MPR to make it more forward-looking. In particular, the set of key macroeconomic forecasts has been recently disclosed in the MPR for the first time. The description of the operational framework of monetary policy is provided by a standalone explanatory document (Manual on Operational Framework), which describes monetary policy implementation, available tools/instruments, their purpose, and use.
60. **The press release on the Board's decision regarding the key policy rate follows each Board meeting on monetary policy.** The quality of the press release has substantially improved compared to earlier versions. Updated, shortened, and structured content provide succinct key messages related to the Board decision. It is prepared by the Monetary Policy Department (MPD), and the English version of the press release is produced in-house and posted simultaneously. The CD is not involved in preparing the content of the press release. Minutes of the Board policy meetings are currently not published.
61. **Four times a year, the Board decisions are followed by press conferences.** The Governor delivers a speech announcing a policy decision, and it is followed by a Q&A session. The CBA strives to center discussions solely on the policy rate-related issues, though the participating media do not often stick to this rule. The CBA is considering certain improvements in current arrangements, such as posting the Governor's speeches on the website, incorporating the link for press conferences on

the CBA website to broaden the coverage, etc. Providing simultaneous translation or English subtitles for the press conference would expand the audience to include foreign stakeholders as well.

62. **The CBA regularly communicates on exchange rate-related issues.** “Main Directions of Monetary Policy” provides a broad overview of CBA’s FX strategy, explicitly stating that the exchange rate is the primary operating target of monetary policy. The key FX auction parameters are well known by the market, because the key supplier of FX to the market (State Oil Fund of Azerbaijan) projects annual volumes of FX sales/purchases and evenly distributes them within a year. The auctions are carried out at a fixed date and time on the Bloomberg Auction Platform (Platform) and communicated to the market by the Platform one hour before. The post-trading information is disclosed right after each auction by issuing a short press release with the results of auctions, including volumes and average price. (see **Figure 10**). Information on CBA FX interventions, however, is less openly available. Intervention dates are known in advance, volumes are market determined, and the interbank FX rates can be marginally different from the official fixed rate. Intervention volumes and FX reserves figures are published with some delay.

Figure 10. CBA Press Release on FX Auction Results

On FX auction
An FX auction was held at the Central Bank on 20 June 2024. \$88.5 M worth of demand was fully covered at the auction.
Average weighted exchange rate of the manat was 1,7000.
20.06.2024

Source: Central Bank of the Republic of Azerbaijan.

63. **Given high public interest in the exchange rate, the mission team recommended streamlining current FX communication practices.** Without attracting unnecessary attention to the exchange rate, and given the expected transition to IT, it is recommended that the CBA communicate FX-related issues through the prism of price stability. Current communication practices can be improved by providing more transparency on: (i) the overall exchange rate policy frameworks, objectives, principles, and instruments, while also highlighting how policy decisions are implemented (instrument, coverage, access); and (ii) outcomes, particular reporting to stakeholders to facilitate accountability. As a good practice, reporting could be implemented by including sufficiently detailed information on exchange rate developments, the FX market, and its functioning, in the MPR, to allow clarity and consistency of FX and monetary policy messages across communication products/channels. The CBA may also consider publishing timely information on FX interventions and reserves.
64. **CBA’s external stakeholders emphasized substantial improvements in monetary policy transparency and communication.** They noted much greater transparency and openness on key policy issues currently demonstrated by the CBA management. At the same time, there is still much room for improvement. There is a lack of regular analytical products on inflation, the banking system, monetary policy, and interbank market developments. As mentioned above, the MPR remains mostly descriptive and backward looking, though the MPD is currently working on reshaping the CBA flagship policy publication. Customizing the monetary policy products to different audiences can help to simplify the messages and improve understanding.
65. **Insufficient clarity and simplicity of monetary policy messages seem to be hindering the role of communication as a policy tool.** The CBA has made tremendous progress in making its communication more transparent via multiple channels and instruments, which was emphasized by stakeholders as well. However, clarity should not be confused with transparency. Stakeholders appear to demand more clarity through a simplified explanation of how the CBA expects to reach its

objective. This task would require more effort and time from the CBA. Clarity of communication on the transmission of the CBA signal to the economy starts from an internal understanding of this mechanism, institutionalizing a message management process at the CBA (see Paragraph 37), and educating the target groups, etc. Current challenges are related to improvements undertaken by the CBA in transitioning from quantity-based instruments to price-based instruments,

66. **Some elements of tiered communication have already been in place at the CBA, such as monetary policy messages being amplified across social media and other communication channels to engage the general public more effectively.** By adopting a multitiered framework, the central bank can enhance transparency, build trust, and effectively engage with its audiences. This strategy ensures that diverse stakeholders, from the general public to financial market experts, receive tailored and relevant updates on the central bank's decisions and economic analysis. A tiered communication strategy can be particularly effective during economic crises, ensuring that accurate and timely information reaches all stakeholders, thus maintaining stability and confidence.

Recommendations

Recommendation 9: Elevate the Monetary Policy Review to the role of flagship publication.

67. **The MPR should become the main vehicle for communicating monetary policy.** The MPR should provide not only an analysis of recent developments but also offer a comprehensive vision of future economic trends, focused on explaining the reaction function of monetary policy. Incorporating macroeconomic forecasts and scenarios, monetary analysis, and risk assessment would enhance the MPR's quality. Each MPR should begin by reiterating the policy objective of the CBA, followed by an "Executive or Non-technical Summary," which can be drafted together with the CD. The MPR should also include a section on previous monetary policy decisions, to show how the situation has changed over time. This is particularly relevant if the refinancing rate is changed at the intermittent Board meeting. The CBA has already been preparing analysis and forecasts within its Forecasting and Policy Analysis System (FPAS) framework⁸ which are quarterly presented to the Monetary Policy and Financial Stability Committee (MPFSC) for discussions. Incorporating these analytical and forward-looking materials into the MPR could be a good starting point.
68. **The publication of the MPR as the flagship document should be properly communicated to the target audience.** Usually, professional market participants and experts are the key consumers of the MPR. Following the principles of *predictability*, *precision*, and *equal access to information*, the publication should follow the announced calendar and be placed on the website at a fixed time. The new role of the MPR would, presumably, imply a clear delineation of products that carry key policy messages from those that provide detailed technical background and information.

Recommendation 10: Press releases should be considered as the main tool for immediate communication of policy decisions.

69. **The press release should be the first source of information on monetary policy decisions.** The CBA has already taken steps in this direction, including the publication of press releases simultaneously in all languages, announcing the calendar at the end of each year. Predictability in terms of time and place of the release is needed. On the scheduled day/time, the press release should be posted on the official website first. Publishing decisions on the CBA website would direct

⁸ "Methodological Guidelines for Forecasting and Policy Analysis System," approved in December 2022 by the Management Board.

the traffic there, and social media should be used to amplify the announcements to a broader audience.

70. **Monetary policy communication can be strengthened further by updating the calendar of policy announcements well in advance in the designated tab on the webpage.** Additionally, the calendar should include not only the dates of policy announcements but also the times of the Board meetings and press conferences as well as the dates of publication of the MPR in each language.
71. **The content of the press release should be further enhanced to make it more policy focused and forward looking, yet brief.** The titles of the press releases need to be changed to reflect the actual decisions rather than mentioning the corridor parameters. For example, the June 2024 CBA press release titled, “On interest rate corridor parameters,” would have been more informative and effective if titled, “The Central Bank of the Republic of Azerbaijan keeps the policy rate at 7.25 percent.”
72. **The CBA has substantially revised the content of the press release to ensure it is succinct and well structured.** The mission recommends further refining it by focusing on reasons for the decision, the economic outlook, and risks relevant to future policy settings (see Annex VI).

Recommendation 11: Following the best practices, the CBA should clearly communicate current monetary policy decision-making arrangement.

73. **The CBA discloses a substantial amount of information on the CBA legislation, governance, mission, principles, and organizational structure.** Clear overview of the organizational structure, allocation of responsibilities to its decision-making bodies (policy making, day-to-day management, internal oversight, composition) and links to relevant central bank legislation or charters/by-laws should be easily available on the CBA webpage.

Recommendation 12: Produce analytical notes/chartbooks about recent developments in inflation, banking and non-banking financial sectors.

74. **An abundance of statistical information is available on the CBA webpage.** However, there is a lack of timely analytical publications on CBA key areas. Producing a monthly analysis of recent developments in inflation, bank loans and deposits, interbank trading, etc., would support stakeholders’ understanding of economic dynamics and help communicate the rationale behind policy decisions following Board meetings.

Recommendation 13: Expand outreach on monetary policy communications.

75. **The mission team recommends expanding the outreach on monetary policy issues.** Explaining inflation dynamics and monetary policy will require broader outreach to the public and financial market participants. Regular quarterly meetings—to present and discuss the MPR, including CBA vision of future developments (macroeconomic forecasts and scenarios)—with external stakeholders (experts, media, Ministry of Finance, and other officials) will be a useful tool. During the active phase of monetary policy modernization, it is important for the CBA to increase dialogue with financial market participants and other counterparties. Exchanging views on any updates in the policy and operational framework and sharing expectations/risks from both sides would enhance the efficiency of monetary policy implementation and strengthen the interest rate transmission.

Recommendation 14: The CBA should intensify the use of tiered communication practices.

76. **The monetary policy messages could be tailored to the targeted audience and level of complexity needed.** Repeated communication of the same key monetary policy messages through

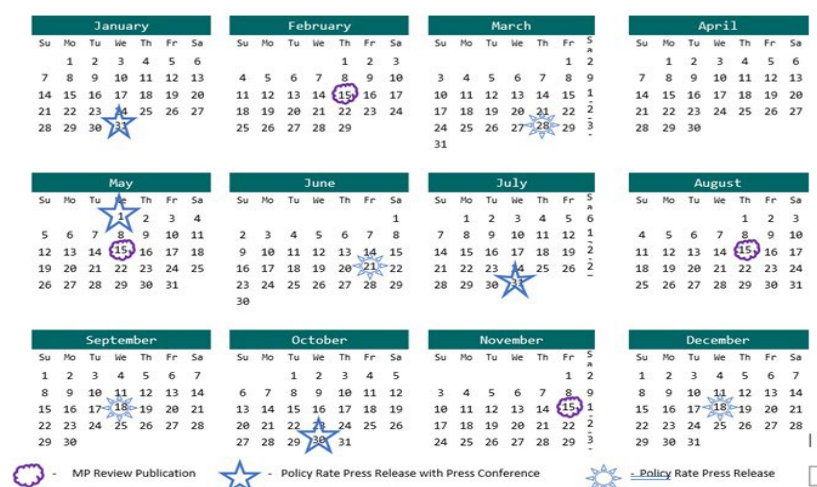
different channels, depending on the complexity of the content, makes it more likely that stakeholders receive and understand the message in one of the forms. Accepting messages in an understandable form would facilitate the learning process and eventually have an impact on people's expectations and behaviors.

B. Communication Cycle of Monetary Policy

Current Situation

77. **The CBA Management Board decides on the key policy rate eight times a year, four of which are followed by press conferences.** The decision-making arrangement is in line with conventional FPAS procedures with a five-week cycle. The last week is the one when the Board, based on the recommendation of (advisory) MPFSC, decides on the rate and makes an announcement. This week is considered as a "silence period" with no relevant communication on monetary and exchange rate policy allowed with the media or other stakeholders before the decision is announced. The day of the policy decision announcement is scheduled in advance but can vary within the week (typically from Wednesday to Friday, see Figure 11) and is not fixed at a specific time.

Figure 11. Calendar of Policy Meetings for 2024



Source: Central Bank of the Republic of Azerbaijan.

78. **The preparation of the Monetary Policy Review is not aligned with the policy rate cycle.** MPR publication follows its own procedures and publication cycle (see Figure 12). Upgrading MPR to the status of flagship publication will require aligning its drafting process with four Board Meetings. This will lead eventually to changing the schedule of the Board meetings devoted to the key policy rate and can be introduced starting next year.
79. **The time gap between the interest rate decision and its announcement would need to be shortened.** Given the high market sensitivity of the information related to interest rate decisions, central banks try to minimize the gap between the time of the decision and its announcement. In the case of the CBA, the Management Board decision is made at least two days before it is announced. There have been no issues with leakage of information so far, but risks still exist. According to the best practice, the announcement should come within a few hours (or the next morning at the latest), at a fixed time. Currently, the publication of the press release has no precise, established time; lately it has been scheduled at 11:00 AM. The same day, if scheduled, CBA management holds a press conference.

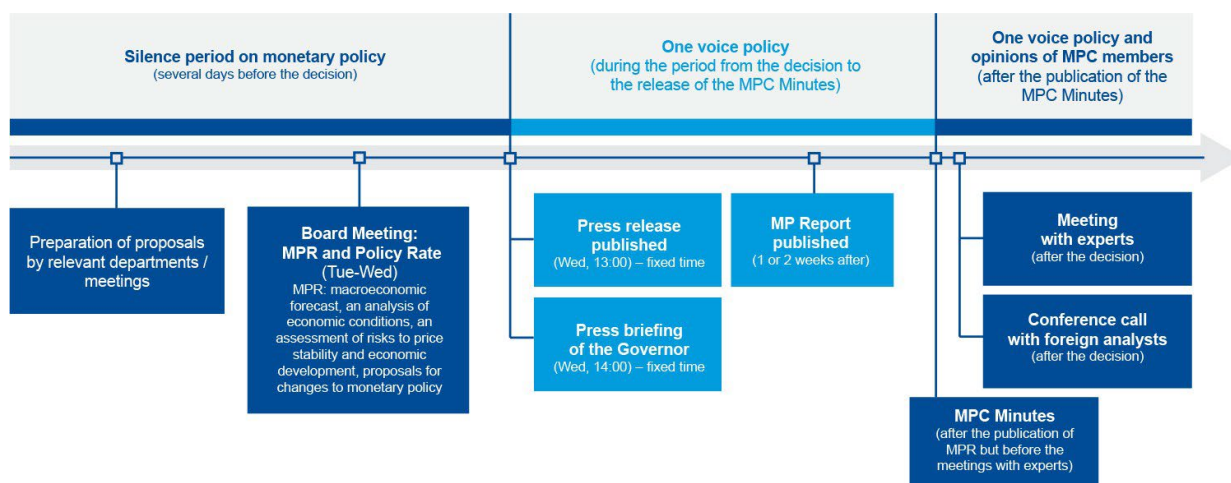
80. **Monetary policy communication processes are fragmented, especially in terms of internal communication arrangements.** The MPD leads in monetary policy communication, handling the content of materials in all languages. CD's role is limited to distributing and posting information through the main communication channels. Greater involvement of the CD could help the MPD simplify and visualize monetary policy concepts. The newly established Monetary Policy Communication Division within the MPD could be involved in addressing this issue as well.

Recommendations

Recommendation 15: Streamline the monetary policy communication cycle.

81. **The monetary policy communication cycle should be built around the MPR publication and have an established fixed-time routine.** Quarterly MPR should be positioned as the core document for the monetary policy decision-making cycle. The preparatory stage includes drafting of the report, internal deliberations, and the Board meeting itself, as well as the “silence period” before the announcement. Management Board interest rate-setting meetings should be fixed for a certain day of the week (normally, the central banks schedule decision-making meetings for Tuesdays/Wednesdays/Thursdays).⁹ The same or the following day at the preset time the press release should be published in two languages. Simultaneously (or with no more than one hour delay), the CBA should schedule the press conference of the Governor. One or two weeks later, the CBA publishes the Monetary Policy Review, if possible, in two languages. Once the MPR is published, the CBA should hold meetings with the expert community, foreign analysts, commercial bank treasurers, etc., to convey the key messages and explain the decision in greater detail.

Figure 12. Recommended CBA Communication Cycle on Monetary Policy



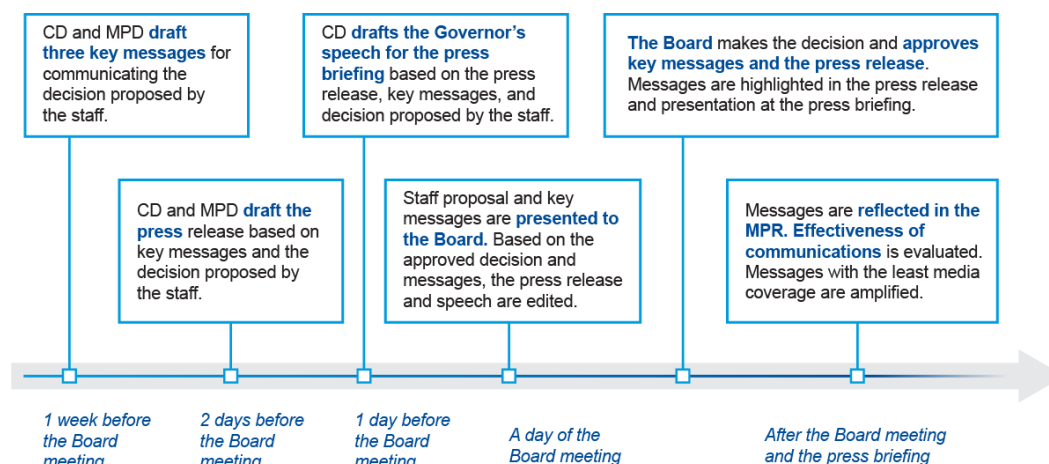
Source: Central Bank of the Republic of Azerbaijan, mission's elaborations.

82. **Greater involvement of CD experts in drafting policy messages would enhance the quality and simplicity of monetary policy communication.** One week prior to the Board meeting, the MPD, jointly with the CD, should form three or more key monetary policy messages, draft the press release and speech for the Governor (see Figure 13). These documents are to be included in the package

⁹ The central banks typically do not schedule rate-setting meetings for Mondays (since the monetary policy decision-making process normally takes a few days and ideally should not be interrupted by the weekend) or Fridays (since Friday is not the best day for key public announcements, and postponing an announcement to the following week might lead to information leakages).

with other materials for the Board's consideration and approval. Internal coordination between policy and communication units is important to deliver one-voice messages to the public and to provide help for tiering messages to different target groups. The participation of the CD Head in the Board meeting would be helpful in delivering information to the media later. Confidentiality of the monetary policy decision until its official announcement is crucial. Attendance at decision-making meetings of the Board should be limited to Board members and a few authorized staff members.

Figure 13. Recommended Process for Drafting Monetary Policy Messages



Source: Mission 's elaborations.

83. **The CBA might consider holding press conferences after each Board meeting.** More frequent engagements with the public through press conferences will build familiarity with monetary policy and support outreach to different groups. Press conferences when new forecasts are not available could be held in a shorter format and structured as press briefings. Press conferences should be focused solely on presenting and discussing issues related to the key policy rate. As practice shows, it takes time and effort to focus the media's attention on key policy deliberations and to leave other questions for other engagements with the media.
84. **Many IT central banks opt for publishing minutes of the interest rate-setting meetings.** Disclosing discussions that take place during the Board meetings would explain to the public how the decisions are made and what risks and judgments the central bank considers when deciding on the rate. Practices on the release of the monetary policy deliberations vary, with respect to the level of detail (specific discussion, attributed vs. non-attributed, voting outcomes) and time delay. Providing timely information about the discussions and the range of views of decision makers is an important insight for the experts. Minutes of the meeting signal the degree of uncertainty around the monetary policy decision. Releasing this information is considered the best practice and is extensively applied in IT central banks following transparency and accountability principles.

Conclusion

85. **If implemented, the recommendations discussed in this report would provide sound foundations on which to build a comprehensive and effective communication framework.** The recommendations presented here would help the CBA further align its communication with best practices by: upgrading key communication documents; strengthening the functions of the Communications Division; ensuring well-rounded, regular communication planning and robust internal message management and reporting processes; establishing the framework for the regular assessment of the effectiveness of its communications; and streamlining monetary policy communication. Follow-up missions would allow IMF staff not only to support CBA with the implementation of these recommendations, but also to closely review other key aspects of central bank communication.
86. **Follow-up technical assistance engagement and IMF's CBT review could further contribute to elevating communication to the role of a policy tool and enhance CBA accountability.** The mission identified several areas in which additional technical assistance engagement could be beneficial for the CBA. First, it could include further work on measuring the effectiveness of CBA policy communications. Second, while the CBA has started to develop communication framework on financial stability, centered around biannual Financial Stability Review, it might benefit from the dedicated advice on financial stability communications. At some stage in the next few years, the CBA may also consider requesting the IMF to conduct a Central Bank Transparency review to enhance its accountability and facilitate dialogue with the external stakeholders.
87. **Going forward, the impressive progress in communication has to be accompanied by consistent policy actions to ensure that the CBA's credibility continues to grow.** The transition to IT is a complex process, which could take many years to complete. A credible commitment by the central bank to appropriate policy action is a key ingredient for success. By saying what it does and by doing what it says, the CBA will bolster its credibility, further strengthening the contribution of communication to fulfilling the central bank's mandate.

Annex I. Key Attributes of an Effective Central Bank Website

Ease of finding key information. How easy is it to find the most important information on monetary policy objectives (such as the inflation target), monetary policy decisions (on the policy rate, calendar of future policy meetings), and core economic analysis (inflation report)?

Focus of information. At the initial point of entry onto the website, is only the most relevant information presented, with no extraneous information?

Clarity of information and readability. For each type of information, is the presentation clear, concise, and easily understandable, not just to economic and financial professionals, but also to a broader public?

Tiering of information. Are high-level messages presented up front, with links to more in-depth information? Is detailed technical information separated from high-level information, to avoid overwhelming the reader while still being easy to locate?

Attribution of information. Is each piece of information clearly identified as to its official status and source, showing clearly whether it is endorsed by the government or based on law, whether it reflects a decision by the Board, or whether it is a staff or unofficial view? Is a source given for all statistical tables and figures?

Accessibility of historical information. Is all historical information (such as past monetary policy decisions, inflation reports, press releases) organized in a way that allows it to be located easily and quickly?

Use of graphics, videos, and podcasts. Does the website use graphics (pictures, charts, and videos) and podcasts effectively?

Public education. Is there a section on the website that helps teachers, students, and other members of the public learn about the functions and activities of the CBA?

Mobile-friendly. Is the website easily usable not only on larger screens, but also on mobile devices?

Annex II. Advanced Communication Techniques

To address the challenges of the new information environment, central banks must engage with a wide range of audiences, with different degrees of sophistication, using multiple channels and a variety of formats. Practice also shows that to be more effective and strategic, communications need to be increasingly integrated with operations, drawing on an in-depth understanding of policies and their future path.

More accessible language is key for reaching a broader audience. One objective is to find ways to simplify the language—without changing the meaning—to facilitate better understanding of policies across a range of audiences. Success largely depends on understanding the *how* and *why* of communications, the ability to deliver tiered and relatable messages, and to make use of behavioral insights drawn from psychology, cognitive and social science, and audience segmentation.

Audience segmentation. Different audience groups have different characteristics, which strongly influence the extent to which audience members pay attention to, understand, and act on different messages. For each key audience that BI has identified in broad terms—bank analysts, parliamentarians, government officials, academia, media—more granular segmentation is needed, based on more specific characteristics, than just membership in a given broad audience group. For example, among parliamentarians and their staff, some have specific expertise or responsibility for monetary policy or other macroeconomic issues. Outreach to these and other granular subgroups will need to be more tailored to enhance effectiveness.

Tiering of messages by content and channels.

Tiering by content means that some core messages should be provided at *two or three levels of technicality* (Figure 1). Recipients would then be able to choose the version that is most meaningful to them. It is also vital to make messages relatable, adapting the content to the interests of the audiences to be reached. Finance professionals, for example, will want to know how the central bank arrived at its decision, to cross-check this information with their own analysis and projections of interest rates, inflation, and economic outlook, and to draw out the implications for the future development of financial market variables underlying their investment decisions. The average consumer will be interested mainly in topics such as inflation, jobs, and incomes, and will find that information most relatable. Looking beyond monetary policy, consumers also tend to be interested in the safety of their financial savings and in housing prices.

Tiering by channels means that the same message is adapted to and sent through print, television, radio, video, online, and social media to reach all tiers of recipients (sometimes referred to as channel declination). To do this, it is necessary to draw on knowledge about different channel audiences. For example, different social media platforms are used by different audiences.

Annex III. Key Methods and Indicators for Evaluating the Effectiveness of Central Bank Communications

Analysis of the central bank's communication activities:

- The overall number of communication activities, including publications on owned, free, and paid communication channels, responses to media inquiries, speakers' engagement in events, etc.;
- Breakdown of the number of communication activities into proactive (i.e., initiated by the central bank) versus reactive (i.e., conducted in response to an inquiry from the media or other stakeholders);
- The overall number of publications on owned communication channels and their activity;
- Breakdown of central bank publications by owned free, and paid communication channels;
- Breakdown of central bank publications by communication products (e.g., press releases, speeches, social media posts, etc.);
- Text analysis of central bank press releases, reports, and other publications for readability (e.g., Flesch-Kincaid and Dale-Chall scores, using Natural Language Processing technologies);
- The overall number/share of public engagements of central bank speakers organized by the central bank versus those organized by third parties.

Analysis of owned communication channels:

- Website;
- The total number of the website's users and new users and their growth rates;
- The number of user visits on the website, its activity in general and around the dates of policy decisions and preannounced publications, and its breakdown, by topic, of the visited pages (e.g., monetary policy, payment systems, etc.);
- Sources of the website's traffic;
- The most-read press releases, reports, and other publications, by topic;
- Social media;
- The total number of a page's followers and its growth rate;
- The number of views or impressions and interactions with the audience about specific publications versus the averages and their breakdown, by topic;
- The click-through rate for specific publications versus the average.

Media and social media monitoring analysis:

- Analysis of mentions (publications);
- The overall volume/number of publications and their activity during the reporting period;
- The number/share of publications by media channels (e.g., digital media, print press, TV, radio, Facebook, X, YouTube, etc.) and by top-10 media outlets;
- Share of publications generated by the central bank;
- Analysis of audience outreach (views by audience);
- The overall volume/number of views and their activity during the reporting period;
- The number/share of views by media channels and by top-10 media outlets;
- Analysis of topics and narratives;
- The number/share of publications and views, by topic or central bank function (e.g., monetary policy, financial stability, payment systems, capital markets, etc.);

- Breakdown of publications into ones with the central bank, its officials, and its decisions as the primary topic versus as the secondary topic;
- Top stories with the largest number of mentions with positive and neutral sentiment;
- Top stories with the largest number of mentions with negative sentiment;
- Penetration of the central bank's key messages in priority media (signal-to-noise ratio);
- Sentiment analysis;
- The sentiment/tone of publications (positive, negative, or neutral) and its activity;
- Coverage of free media channels, by sentiment;
- Subjectivity analysis;
- The number/share of publications with the central bank as the subject (i.e., news source) versus an object (i.e., others talking about the central bank);
- The number/share of publications with quotes of speakers, in total and by speaker;
- Top third-party commentators about the central bank and its policy, by number of mentions, sentiments, topic/focus of commentary.

Surveys and other sociological tools:

- Inflation expectations of target audiences (households, experts and bank analysts, corporations);
- Levels of trust and confidence in the central bank, by the public and other target audiences;
- The public's and other target audiences' knowledge and awareness levels regarding the central bank as a brand, its mandate, mission, monetary policy objectives and tools, etc.

Annex IV. Key Principles of Crisis Communications

While each crisis has different origins and unfolds differently, key principles apply in communicating with the public about crises. These are summarized below:

- **Clarity of objectives:** The main objective of communication with the public when there is a high risk of a systemic financial crisis is to transmit confidence, with the aim of preventing or ending creditor runs on financial institutions and markets. A communication strategy must be part of a comprehensive policy package to address the underlying problems, not just a delaying tactic.
- **What to communicate:**
 - *Who is affected and what is being done:* Key messages must describe what the issue is, who it affects, and what is being done about it. Policy responses should be linked back to the basic concerns of market participants: Is my money safe? Can I conduct normal banking business? Will I have access to funds? Do not leave key questions unanswered.
 - *Deliver news in clear, definitive, but not alarming terms:* If depositors or other creditors must bear losses, this should be communicated clearly using plain language, explaining why it is necessary, and not change the message (barring major new developments).
 - *Communicating problems without solutions will increase uncertainty:* To the extent that identified problems remain unaddressed, incentives for creditors to make a run-on financial institutions will increase.
 - *Do not overpromise:* It is important to address the problems that are clearly identified, without saying or implying that there will be no more bad news if it is still uncertain. For example, saying that no more banks will fail while conditions remain turbulent may lead to a loss of credibility if even a small, non-systemic failure were then to occur.
- **“Speak with one voice”:** Financial sector authorities must communicate clearly and consistently, without contradiction or inconsistent messaging between different public agencies.
- **Be ready for “media wars”:** Affected stakeholders may challenge the authorities’ representation of events, their policies, or even policymakers as individuals; a strong and unified response must be readied against such attacks.
- **Coordinate:** A comprehensive package of policies and consistent communication by one or a few spokespersons requires effective coordination across government and financial agencies as well as flexibility and capacity to respond quickly to emerging developments.
- **Prepare well:** While decisions will have to be made “in the moment” in any crisis, many decisions, materials, and processes can be prepared in advance.

Annex V. Annual Report Structure

Annual reports play a crucial role in fostering transparency and accountability by central banks.

They reveal information about the central bank's objectives, strategy, activities, decisions, and performance over the past year, ensuring accountability to stakeholders and helping to build understanding and the credibility of central banks. The structure of the Annual Report may vary, depending on the specific practices and priorities of each central bank, but its sections generally encompass key aspects of central bank's activity.

- **Introduction:** This section summarizes and provides an overview of the central bank's mission, mandate, and its policies in line with legislation.
- **Governor's Message:** A short message from the central bank governor summarizing key developments, challenges, and achievements over the past year.
- **Economic Review:** Analysis and commentary on the domestic and international economic environment, including trends in inflation, growth, balance of payment, oil prices, and other relevant macroeconomic indicators.
- **Monetary Policy Review:** Assessment of the monetary policy framework, goals, strategies, decisions, etc. This part should also include information on monetary policy implementation, including tools/instruments.
- **Financial Stability Review and/or Regulatory and Supervisory Activities:** Assessment of the overall stability of the financial system, including risks and vulnerabilities, regulatory measures, and actions taken to promote financial stability. Overview of regulatory initiatives, updates on financial sector supervision, and measures to enhance the resilience of the banking and financial system.
- **Review of other Central Bank Functions:** Information on currency management, payment systems, financial literacy, protections of consumers' rights, research, etc.
- **Institutional Review:** Detailed information on organizational structure, governance structure, internal controls, etc.
- **International Relations:** Summary of the central bank's involvement in bilateral and multilateral organizations, including cooperation with international financial institutions, other central banks, etc.
- **Financial Statements:** Financial statements of the central bank according to International Financial Reporting Standards and other accounting rules.
- **Appendices:** Supplementary materials, such as statistical tables, glossary of terms, and additional details on specific topics covered in the report.

Annex VI. Assessing the CBA Monetary Policy Press Release

<i>Current Format</i>	<i>Good Practice Attributes</i>
On interest rate corridor parameters.	<p>Title should reflect the decision:</p> <p>The Central Bank of the Republic of Azerbaijan keeps the policy rate at 7.25 percent.</p>
<p>21 June 2024: The Management Board of the Central Bank of the Republic of Azerbaijan decided to leave the refinancing rate unchanged at 7.25 percent. The floor of the interest rate corridor is 6.25 percent, and the ceiling is 8.25 percent.</p>	<p>Lead paragraph with key news:</p> <p>The Board of the Central Bank of the Republic of Azerbaijan keeps the refinancing rate at 7.25 percent. The floor of the interest rate corridor is 6.25 percent, and the ceiling is 8.25 percent.</p>
<p>The decision was made considering the comparison of the actual and forecasted inflation rates, along with the target band (4±2 percent), the dynamics of inflationary factors, and the assessment of the balance of risks. The factors that increase and decrease inflation, neutralizing each other, contributed to the decision related to the interest rate corridor.</p> <p>The annual inflation rate has been below the lower limit of the target band since the last meeting. In May 2024, the 12-month inflation rate stood at 0.3 percent, consistent with the CBA's April forecasts. In May, the 12-month core inflation rate was 0.4 percent. Annual food deflation was 1.4 percent, non-food inflation was 1 percent, and services inflation was 2.2percent.</p> <p>Survey results among households suggest that the expected inflation rate for the upcoming 12 months is close to the lower bound of the target band.</p>	<p>Recent inflation developments: summary</p> <p>In line with the CBA forecasts, overall inflation has remained below the target rate of 4 (±2 percent) and reached 0.3 percent in May (year-over-year), driven largely by food deflation (1.4percent annualized). Core inflation in May was estimated at 0.4percent (year-over-year). Annual non-food inflation was 1percent, and services inflation was 2.2percent.</p> <p>However, expectations of consumer inflation for the upcoming 12 months are close to the lower bound of the target band.</p>

<p>The overall external inflationary environment is neutral. According to the World Bank, in May 2024, the commodity price index increased by 5.6 percent, and non-energy prices increased by 5.1 percent annually. The United Nations Food and Agriculture Organization reported a 3.4 percent drop in the food price index in the same period.</p> <p>The appreciation of the nominal effective exchange rate of the manat (19.3 percent in 2023 and 3.2 percent over the first five months of 2024) contributed to the decline of imported inflation.</p> <p>There has been no significant change in the risk balance of inflation since the last meeting. The volatility of inflation in partner countries and commodity prices in the global market remains the key external inflation risk. Still-tight monetary conditions in advanced economies contribute to the drop in global inflation.</p> <p>The main internal risks that may push up inflation are attributable to local cost factors, as well as to overexpansion of aggregate demand. Accordingly, the focus should be on the expansion of budget expenditures and the effect of lending on inflation in the medium term.</p>	<p>External economic developments considered:</p> <p>The volatility of inflation in partner countries and of commodity prices in the global market remain the key external inflation risks.</p> <p>Current and future price dynamics on global food and commodities markets are not fully straightforward. Although the CBA assesses the overall effects of these developments on domestic inflation as neutral, uncertainty has prevailed over whether the decline in import food prices will continue over the medium term.</p> <p>Still-tight monetary conditions in advanced economies contribute to the drop in global inflation.</p> <p>The appreciation of the nominal effective exchange rate of the manat has contributed to an overall decline in prices of imported goods and services.</p>
<p>Monetary policy tools are employed in response to developments in financial markets and the liquidity position of the banking system. Active usage of monetary policy tools ensures that average interest rates in the money market move within the interest rate corridor of the CBA. Over the month of June 2024, the average interest rate on one-day unsecured transactions (1-day AZIR) was 6.75 percent (compared with 6.88 percent in May) and was within the interest rate corridor. Autonomous (non-monetary policy) factors, particularly the rise in the balances of government accounts due to the state budget</p>	<p>Domestic economic developments considered:</p> <p>The main internal risks that may push up inflation are attributable to local cost factors, as well as to overexpansion of aggregate demand. Accordingly, the focus should be on the expansion of budget expenditures and the effect of lending on inflation in the medium term.</p> <p>The CBA employs all available monetary policy instruments to ensure short-term money market rates are sufficiently close to the policy rate. In June 2024, the average rate of one-day AZIR (unsecured transactions) was 6.75 percent and stayed within the interest rate corridor.</p>

surplus, have a downward effect on banking system liquidity.	The CBA closely monitors developments in financial markets to manage the liquidity position of the banking system, which has remained long. The state budget surplus positively contributed to decreasing excess liquidity in the banking system.
In general, upside and downside risks of inflation balance each other . If current conditions remain unchanged, in 2024 and 2025, annual inflation is expected to be within the target band (4±2 percent). The CBA will announce its updated macroeconomic forecasts at the end of July 2024.	Summary of considerations and decision: After several consecutive decisions on decreasing the key policy rate, the CBA has decided to take a pause in further monetary easing. In view of the perceived inflation risks and uncertainties, the Board concluded that the current level of the monetary policy rate remained appropriate to sustain the inflation rate at (4±2 percent) as determined by the main monetary policy strategy.
Next monetary policy decisions will depend on actual and forecasted inflation, and the dynamics of external and internal risk factors. The balance of inflationary factors, current inflation dynamics, and the impact of non-monetary policy factors on the monetary condition and aggregate demand keep elevated the likelihood of leaving the interest rate corridor parameters unchanged at the next meeting too.	Guidance on potential policy response going forward: Unless the balance of inflationary factors and risks substantially changes (could include a list of other critical factors), the Board most likely will opt for maintaining the current policy stance at the next Board meeting as well.
This decision takes effect on 24 June 2024. The information on the next decision on interest rate corridor parameters will be made public on 31 July 2024 and accompanied by a press conference.	Informational note with background: This decision takes effect on 24 June 2024. The next decision on policy rates will be made public on 31 July 2024 and accompanied by a press briefing.