

**Code of Principles
and
Best Practices in Central Bank
Communication**

CEMLA Central Bank
Communication Group

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The opinions expressed in this code are not necessarily those of CEMLA.

I. Introduction

The “*Meetings on Central Bank Communication*”¹ have been taking place for eight years at the initiative of the Centre for Latin American Monetary Studies (CEMLA), as a useful forum for discussion in which to share and exchange experiences among those responsible for communication in various central banks. The topics covered have evolved over time, as have the importance of communication and the methods and processes employed.

Those attending the “*VIII Meeting on Central Bank Communication*” held at Cartagena de Indias, Colombia on November 5th-7th 2003, agreed that it would be useful to compile the wealth of experience discussed in these meetings by establishing common and general guidelines that would be recommendable to central banks in matters of communication. To such an end a working group was established to prepare a document that would reflect the foregoing. The result of this joint task – which has the consensus of those central banks attending the meeting and of CEMLA authorities – is contained in the following “**Code of Principles and Best Practices in Central Bank Communication**”. It is felt that this **Code** can contribute to strengthening and ensuring communication frameworks that are ethical, efficient and acceptable to central banks in common.²

The structure of the current document is as follows:

Following this introduction which corresponds to Section I, Section II emphasizes in summary form the main imperatives leading autonomous central banks to commit themselves to communicating with society in such a way as to establish credibility

¹ These were held in Caracas (1996), Brasilia (1997), Guatemala (1998), Santo Domingo (1999), Caracas (2000), Mexico City (2001), Santiago (2002) and Cartagena de Indias (2003).

² This Code could complement the wide-ranging “Code of Best Practices in the Transparency of Monetary and Financial Policies” already established by the International Monetary Fund in 1999, and available for consultation at <http://www.imf.org/external/np/mae/mft/index.htm>

and prestige in a framework of transparency that facilitates the process of accountability.

Today a large majority of central banks conduct monetary policy under a paradigm known as “inflation targeting”, given its proven advantages in contributing in an efficient way to the goal of price stability. In order to succeed, this monetary framework must rely upon broader communicational requirements than those for other regimes familiar to the designers and operators of monetary policy. In view of the foregoing, Section III very briefly summarizes the communicational requirements implied by the practice of “Inflation Targeting”.

Section IV presents five general principles that are identified as fundamental pillars governing sound communication for central banks.

Section V provides a list of the main guidelines whose adoption is recommended in order to implement best practices in central bank communication.

Lastly, Section VI contains some final considerations summing up the essential aspects of the **Code** so that a majority of central banks may adopt the suggested principles and guidelines, with a view to strengthening their framework of communication in an environment of transparency leading to greater credibility of the monetary authorities within society.

II. The Imperative of Central Bank Communication

There can be no doubt that information is a valuable resource leading to knowledge. Knowledge is power. Information is obtained via communication, in its widest meaning of dissemination and transmission of knowledge. Therefore communication implies a high degree of responsibility in those who provide it; a commitment that translates into truthfulness, transparency and ethical integrity.

In recent times central banks have recognized these attributes as a valuable asset, since they provide them with credibility and

prestige. Thus a majority of central banks have convinced themselves of the need for communication. Communication in its widest sense, not only with the so-called media – newspapers, radio, television, news agencies, etc. - but also with all groups within society that demand information on the central bank and its activities. Almost all monetary authorities in the world today recognize the imperative need for openness and transparency. Indeed, many prestigious central bankers already consider communication as an integral part of their responsibilities, on the same level as monetary and exchange rate policy or reserve management.

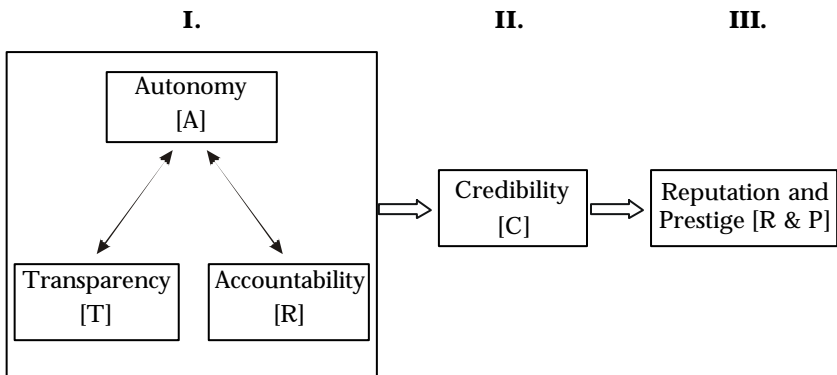
Thus, to the extent that a higher level of common understanding on the part of their diverse audiences is reached, central banks shall attain greater levels of credibility and transparency. This will contribute significantly to growing support for central bank institutionality, in the sense of the autonomy and independence required to achieve their objectives. From this perspective the main responsibility of a central bank's communication policy consists in ensuring that its vision of the world is commonly understood, and in transmitting information in a language that is shared by the public.

In view of the foregoing, a central bank must communicate and dialogue with each party within the wide spectrum of groups within society. This is precisely the meaning of broad social communication aimed at achieving a collective consensus in support of a central bank's goals and policies.

Even though a central bank is essentially a technical and operational entity, its field of action has an undeniably political dimension to the extent that it wields an exclusive state prerogative in the creation of money by administrative fiat, and because its actions have a direct impact on the welfare of the community. This is why central banks must explain their conduct, and the motives underlying their actions, to society.

By being aware of the diverse nature of their audiences, so as to develop their own language and construct different levels of discourse that can transmit the same message, central banks will be communicating (i.e. attempting a higher degree of

common understanding) rather than merely informing. The modern context of autonomous central banking is more suitable for measuring the task and responsibility of communication. The links between autonomy, transparency and accountability have been widely noted within the paradigm of central bank independence. In reality they are three interdependent processes that determine a behavioral model for central banks, encompassing the following three processes composed of the following elements:



This model highlights the interrelation between the three components of process I, shown by the twin-headed arrows. If adequately implemented, this trilogy of components shall converge into the generation of credibility, which in turn will feed into the ultimate behavioral objective: the possession of reputation and prestige. Credibility can be considered as a flow generated by the A-T-R trilogy that contributes to a stock of reputation and prestige. This behavioral model is enveloped and made feasible by a steady and sufficient flow of communication and information.

The interrelation between these three behavioral pillars of modern central banking, although simple and at this stage obvious, contributes to emphasizing the dimension of the relationships between a central bank and its social interlocutors.

III. Communication requirements of an inflation targeting regime

In recent years a majority of central banks have successfully adopted the monetary regime known as “inflation targeting” in order to comply with their main objective. It is well known that under this scheme the central bank’s direct objective and firm commitment is the rate of inflation for a given period, rather than employing an intermediate objective such as a monetary aggregate or other variable. It is a monetary framework that implies a more discretionary use of various monetary policy instruments, since the fundamental goal is to meet the publicized inflation target.

This monetary policy framework requires increased transparency in central bank actions and more fluid and continuous information and communication with the public, since there must be permanent information on whether the inflation target is being met and, in the case of deviations, the need for explanations and adjustments. This also contributes to a stricter process of accountability, since it refers precisely to meeting the inflation target.

The principal motive for adopting an inflation targeting (**IT**) regime is that it has proven to be a system that can favor the consolidation of credibility in central bank policies and in their aim of reducing the rate of inflation. Among its advantages is that of allowing for a more tangible evaluation of central bank monetary performance, and therefore providing more accountability to society; it also increases public understanding of monetary policy. Along with the greater transparency provided by an **IT** regime, the central bank is exposed to more intense public scrutiny.

Because of this, an **IT** monetary regime imposes far stricter requirements in terms of quantity, quality and transparency of relevant information, as well as a communicational strategy with society to allow for adequate monitoring and tracking. The latter is particularly relevant, since without public support a central bank’s efforts and actions in an **IT** regime are destined to fail. Because of this it is quite crucial under such a system to create a

social consensus regarding the need to attain permanent price stability.

How can the public monitor and evaluate monetary policy under an **IT** system? It is accepted that the following non-exhaustive list of communicational elements are necessary under an **IT** regime:

- a) Effective announcement of inflation targets in a multi-year horizon
- b) Providing the public – both general and specialized – with the greatest information possible on methods of calculation, operations, implementation and decision-making in monetary policy. This could, for example, contemplate disseminating the model for estimating the demand for money, the specific transmission mechanism for monetary policy, the way in which inflation targets are set, the description and explanation of the instruments for monetary intervention, the decision-making process, etc.
- c) Systematic public statements by the highest decision-making authorities within the institution.
- d) The periodic publication of a detailed report on inflation performance, on the monetary measures implemented and the evaluation of success in meeting the established targets, and in the case of deviations, a detailed description of the corrective steps to be taken.

IV. Guiding Principles for Sound Central Bank Communication

The design and implementation of best practices in central bank communication rest upon five fundamental pillars. These may be considered as the basic principles that should be observed in order that the communication process be efficient and effective, and fulfill its objectives. These basic principles are the following:

1. The point of departure of central bank communication strategy must be to accept the premise that the better the public understanding of monetary policy, the more effective it will be.

2. It is imperative that central banks pursue a proactive communication policy. This proactive element must come about as a true balance between the traditional spirit of the central banker and his role as a dynamic, open and transparent communicator. This proactive policy must be dynamic, demanding and aimed at a wide and diversified social spectrum with well-defined interlocutors. It should be all embracing in its efforts to reach all groups within society. The messages should be tailored to each interlocutor group.
3. A central bank should design and implement an integral and articulated communication strategy so as to adequately transmit and explain its objectives and actions to all social groups.
4. A central bank should consolidate the process of disseminating ample and transparent information as a systematic process and continuous effort aimed at guiding and explaining monetary policy. It is not sufficient for economic agents to have timely access to information; they must also have the elements with which to interpret it properly. Only thus will the messages a central bank wishes to transmit to society get through, and achieve an authentic consensus on its everyday business.
5. Since in many of our countries inflation is one of the phenomena least understood by the public, despite the fact that it has been directly affected by the rise in prices for a long time, the communication and dissemination effort must begin by building an authentic anti-inflationary social consensus. In other words, the work must begin at the foundations. To the degree that a collective social consciousness regarding the damage caused by inflationary pressures can gather ground, more favorable expectations aligned with the disinflation goals of the central bank will be strengthened.

V. Main Guidelines for Best Practices in Central Bank Communication

- 1) In view of the highly technical nature of monetary policy, it is necessary to communicate the functions and activities

of central banks in a clear, precise, integral and articulate manner. This poses a challenge for economists at the monetary authorities, requiring a process of training and learning in the field of communication.

- 2) The social benefits of price stability must be explained clearly and extensively. It is obvious that a majority of social groups are not very interested in having detailed information on monetary policy targets, analysis or decisions. Society typically limits itself to observing how economic development and employment evolve. Because of this, if society is not informed of the importance of price stability, no matter what the costs in terms of growth and unemployment that instability may produce in the short run, central banks will not be able to count on the support they need from all social groups that form part of the economy, and which is indispensable to attain the objectives of monetary policy.
- 3) The “inflation targeting” regime, which depends on entering a public commitment to defend and meet a previously announced quantitative rate of inflation goal for a given period, employs the periodic publication of reports on inflation performance as its main communication instrument. These reports track the evolution of inflation, identify and if need be explain the deviations from target, and inform of the corresponding corrective measures to be applied. These publications constitute the basic ingredient for transparency and confidence building. They also improve public understanding of monetary policy.
- 4) The process of communication must be periodic, calendar-based, systematic and must include all social groups. The following list, while not exhaustive, consists of the main target groups at which the communication process must be directed: communications media, business community, professional associations, unions, intellectuals, academia, students, financial analysts, political parties, members of the legislature, NGOs, religious organizations and the general public.

- 5) Following the analysis required to detect the social target group, the most appropriate language for the message must be chosen, together with the most suitable instrument or medium through which the information shall be made known.
- 6) Social groups must be provided with the appropriate tools to interpret the information they receive so that they can optimize their planning decisions, be they consumers, producers, retailers or investors. This is important because the expectations of market participants are crucial to the process of monetary policy transmission; e.g. via the determination of interest rates, reactions in the stock market and in exchange rates, as well as in the setting of prices and wages.
- 7) The main instruments or means that can be used for efficient communication in order to achieve greater impact on each and every social group are: press bulletins, technical notes and reports, explanatory brochures, educational handbooks, working with media (e.g. press briefings, radio and television interviews), official spokesmen, op-ed articles in periodicals written by staff, conferences, talks with small groups, videos, technical work meetings with groups, interactive museum of central bank activities, exhibitions, etc. It should be pointed out that the specific deployment of any of these instruments in reaching out to the various target groups would depend on the particular strategy and circumstances.
- 8) During the process of determining the instruments for communication, two types of message, active and passive, may be considered. Active messages refer to those that are of a direct and explicit nature, seeking an immediate impact, and for which a response is expected from the recipient. An example would be the announcement of a change in the posture of monetary policy. Passive messages, on the other hand, simply comply with their basic function of transmitting information, e.g. the periodic publication of bulletins containing the bank's balance sheet, the behavior of prices, the balance of payments, etc. The former

require follow-through and evaluation, while the latter are transmitted in general form without any subsequent and expressly defined communication objective.

- 9) The following guidelines are recommended for the relationship with the communications media in particular:
 - a) informational equity among all media representatives should be upheld, without privileging one medium over others;
 - b) the use of *off-the-record* interviews should be minimized. If it is desired that a statement not be attributed to a particular official, it is preferable to attribute it to the institution rather than to anonymous, undisclosed or ambiguous sources;
 - c) special attention should be given to the language employed in drafting press communiqués, since these should be simple, direct and containing a minimal use of technicalities. If the latter must be employed, they should be properly explained;
 - d) the circumstances under which an informational “*purdah*” or *blackout* is put in effect should be closely evaluated, and not abused;
 - e) it is highly recommendable that formal and systematic training be offered to reporters covering the central bank, by means of seminars, talks, etc.
- 10) In cases where the central bank has instituted a Monetary Policy Committee to make the corresponding decisions, these must be published in a timely fashion. This may be done through various means, e.g. by publishing bulletins, publicizing the minutes of the Committee’s proceedings and the votes of its members, etc. The choice of instrument shall depend on the particular legal operating framework for the kind of Committee in place, as well as on established practice and customs.
- 11) It is essential that an important part of the communication process be directed at explaining central bank autonomy, emphasizing that it strengthens democracy and constitutes a safeguard and insurance policy purchased by society to protect itself against policies that could lead to destabilizing inflationary processes.
- 12) If, despite central bank autonomy, there exists the possibility that government, under extraordinary

circumstances, could revoke the monetary policy decisions of the central bank, these circumstances should be clearly described, laid out and published. The purpose here is to minimize uncertainty and prevent the violation of central bank institutionality.

- 13) To ensure satisfactory and efficient accountability, the goals and strategies behind policy actions must be clearly established, and those responsible for them clearly identified. Furthermore, although the formal instance via which the central bank renders accounts depends on each system of government, currently and given that most central banks are autonomous and most countries are democratic, in most cases accountability takes place in a parliamentary context. While the frequency and manner in which the central bank formally reports its policies and results to the legislative power may vary from one country to another, these should be stipulated in the charter or statutes of the central bank.
- 14) It is a requirement of democratic systems that the public good should benefit from a better mutual understanding between central banks and the legislative institutions (Congress or Parliament). Clearly this relationship is neither simple nor easy, in view of the different goals pursued by each party. Nevertheless it is important to capitalize on the areas of intersection of both sets of interests. Both institutions should perceive the advantages of being seen as allies rather than opponents. The relationship between them should therefore be constructed as a process of mutual understanding and respect. This has led central banks to the need to formalize and intensify their relationships with this Power of Government. These have evolved from legal relationships into those of a more technical nature. Currently, central bank lobbying must seek to efficiently promote the public interest by providing ample, timely and precise information and analysis. Furthermore, a strictly equitable treatment should be dispensed to all legislators without party distinction, so as to avoid favoritisms within the central bank-legislative relationship.

- 15) It is recommendable to place the responsibility for the process and practice of communication in an administrative unit at the most senior level possible within the institution. This facilitates the implementation of communication policy since the unit responsible is close to the line of command and should not encounter interference from excessive bureaucratic structures. Internal communication between the highest decision-making authority and those responsible for communication policy must be direct and fluid in order to be effective to the outside world.
- 16) It is highly recommendable that those responsible for implementing communication policy and strategy possess experience and knowledge of the everyday business, the policies and the general working of the monetary authority. This familiarity could be a necessary ingredient in order to more effectively transmit and explain to society the central bank's policies.
- 17) For a communication strategy to attain its highest level of effectiveness, it is recommendable and perhaps even necessary that communication policy be not only defined but also supervised at the highest decision-making level in the central bank.
- 18) The senior staff of the institution should be systematically trained in communication techniques so that, on one hand they may become the transmitters of clear and cogent messages, and on the other they may develop a professional relationship with the media. In other words, economists should be trained to be good transmitters and communicators as well as good technicians, so that they may adequately explain and divulge their policies and so become efficient opinion-makers.
- 19) If the communication process is to promote credibility, certainty and trust in central bank policies, it must exhibit institutional consistency. For this it is indispensable that, according to each topic, a single message be designed and transmitted. "One voice in various mouths" is the fundamental rule. For it to obtain, there must be an

internal process of agreement on the singularity of the message.

- 20) Among the characteristics that an efficient central bank communicator must have are: technical and institutional knowledge; conviction with respect to the virtues of the policies to be “sold”; the capacity to express a single message to different social groups in a clear and understandable way (that is, the ability to raise or lower the level of the required explanation in order to match the level of the interlocutor); to be moderate in expression so as to not have a negative influence on important variables; to be of broad mind; to have “the gift of the gab”, good pronunciation, good speech-making, charisma and vocabulary. In short, the real challenge to efficient communication is being able to get through to all segments of the public.
- 21) The process of communication and transparency of information also seeks for monetary policy actions to be highly predictable by means of a solid analytical framework, accessible and well-defined sources of information, and coherent methodologies.
- 22) The areas where transparency and dissemination of data must be limited should be clearly specified. For example, internal debates regarding monetary policy that could send the wrong signals to the market, or information related to a central bank’s role as lender of last resort, or as financial regulator or supervisor. No information that could be used advantageously or preferentially by some market agents should be supplied.
- 23) There is no unique guideline to be followed regarding information related to exchange rate policy. Here it is crucial whether or not exchange rate policy is the direct responsibility of the central bank. One school of thought sustains that central bank opinions and information on exchange rate policy should be handled with caution in order to guarantee, for example, the effectiveness of interventions in the exchange market. In short, exchange market information is an issue open to debate, and each

central bank's disclosure practice in this area shall depend upon its own particular circumstances.

- 24) The protection of personal data must be guaranteed, and the confidentiality of certain information must be maintained, among others, for reasons of national security.
- 25) It should be very clear that transparency through communication is no substitute for correct and efficient policies, but rather that they are complements that contribute to the proper functioning of a central bank. The efficiency of monetary policy increases when the general public can anticipate the central bank's actions and work together to attain the common goal of price stability. Similarly, by reducing uncertainty via greater transparency, the costs associated with decisions based on mistaken expectations are also reduced.

VI. Final Considerations

It is almost redundant nowadays to repeat among central bankers the need for an explicit and systematic policy of communication. In recent years this has no doubt gone hand in hand with the development of autonomous central banks, and associated to such responsibility, the requirements for greater transparency and stricter and more effective accountability to society. It is of particular importance to any modern central bank to improve the understanding that professionals, the market and the general public may have of monetary policy and of the instruments at hand to attain the central objective of lowering inflation. Communication has acquired primary importance due to its role in forming expectations in the markets and among the general public, and the impact this has on the process of monetary policy transmission. It has been recognized that sound communication facilitates interaction with the markets and contributes to a more effective compliance with the objectives of monetary policy. Likewise, an "open-door" communication policy helps a central bank gain public confidence and credibility, which are very important assets for autonomous institutions.

- One should not think of a communication strategy in terms of rigid and strict rules to be applied under all circumstances, but rather as a flexible informational framework that can be adapted to circumstances and which can present information in an articulate and systematic manner. In this context, divulging information by a central bank is far more than a matter of good “marketing” or public relations. It is a technically coherent and analytically sound framework in support of the goal of monetary policy, via the systematic promotion of favorable expectations among economic agents towards said goal. It should be stressed that the foregoing becomes a particularly relevant challenge when a central bank chooses an inflation-targeting regime as its monetary paradigm.
- Communicating is a two-way street with shared responsibility. Each party involved has obligations and responsibilities in order that the process of communication may be efficient. For a given message to be entirely understood requires the willingness and ability of the central bank to transmit it, as well as those of the public or audience to understand and interpret its content. Only then will the information be useful for optimal decision-making by economic agents. A central bank must communicate via open and honest methods. To perform this task efficiently it must make itself understood. But it also must be listened to.
- Communicational practices meet their highest challenge when dealing with crises that must be resolved by the central bank. An evaluation of what must and must not be done in terms of communication under these circumstances becomes crucial, especially because action must be taken in a timely and speedy fashion. The recommendations contained in this **Code** may provide certain elements for a crisis-mode communication strategy. However the handling will depend on specific situations and on the particular features of each central bank. Due to this the **Code** has avoided proposing concrete strategies for acting in a crisis. Nevertheless, the exchange of experiences among central banks in this context can be very enriching for the design

of communicational strategies in the face of an emergency. Therefore the **Code** exhorts central banks to cooperate and consult each other to such an end.

- In democratic systems the community has called for a wide disclosure of information on the performance of public institutions, in all spheres of government-society relationships, so as to submit them to scrutiny by the population. Central banks are no exception, and that is why there is complete acceptance among today's central banking circles regarding the virtues of transparency and dialogue with all social players, and the need to divulge, inform and publicly explain the business and policies of the monetary authorities. It is for these reasons that the present **Code** may be of use, by proposing guiding principles for sound communication as well as guidelines for best practices in communication, that are sufficiently universal to be generally recognized and adopted by central banks.

VIII. Working Group Contacts

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