

CENTRAL BANK COMMUNICATION ACTIVITIES: CHALLENGES AND OPPORTUNITIES

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ABSTRACT

This paper fundamentally stresses on the challenges and opportunities encountered in central bank communication activities by referencing to the necessity and significance of these communication activities. In this context, as a background information, a connection will be tried to be established between the objectives of central bank communication and communication of central bank with its target groups. In that direction, first of all, the importance of central bank communication activities, the reasons why central banks should communicate effectively, the audiences of central bank, and the instruments and channels of central bank communication will be presented, and finally a comprehensive discussion will be made about the challenges and opportunities of central bank communication.

INTRODUCTION

Especially before 2008 global financial crisis, central banks shared little with the general public about what they were up to and why. They were doing their actions in secrecy and there was not any openness in their goals, and they had the view that it was best to say nothing. Therefore, central banks were less open to scrutiny and public accountability. This situation changed after the global financial crisis and central banks have become more open and transparent in their activities (Vayid, 2013, p.1-2).

Communication which is a typical behavior of human being plays a significant role in everyday life. Good and effective communication; increases understanding, minimizes confusion, builds trust between parties, influences the target audience, and ensures transparency. It is particularly very important in understanding the complex subjects and concepts. Communication, in different forms and shapes, can be a very powerful tool to help non-experts and ordinary people comprehend some subjects that are irrelevant for them. Therefore, government bodies and institutions have put special emphasis on communication with their intended audience, as a part of their responsibilities.

Some recent communication methods and channels have created an appropriate medium and direction for making the language used in certain professions understandable. The role of communication in conveying specialized knowledge to general public has increased significantly. Economy is one of the areas that involve specialized knowledge that needs to be narrated to the public. In that sense, the general public is very much interested in the condition and outlook of their country's economy and as an independent institution, central banks are expected to communicate with their audiences. The more central banks communicate with their audiences, the more they encounter challenges and opportunities.

Effective and successful communication is one of the important challenges for central banks to explain the reasons for their monetary policy decisions to the public. For this reason, central banks publish comprehensive information about their strategy, analyses, and decisions. However, it is very difficult to communicate to the public all information relevant to central bank's decision-making process in a non-exhaustive, clear, compact and comprehensible way. The need for addressing various target groups, including the financial markets, academics, journalists, politicians, and the general public is another difficulty possibly experienced by central banks. In order for a central bank to communicate in an expected way, a very well designed communication channels and instruments may be required for such non-homogeneous target groups (Issing, 2005, p. 72). The related literature has shown that there is no optimal central bank communication strategy which works for the majority of central banks. Central banks have different working environment and conditions. What works for one central bank may not work for another, in addition, what works today may not work tomorrow. How the decision-making process within the central bank is related to its communication strategy is therefore an important issue (De Haan, Eijffinger & Rybiński, 2007, p.5).

The paper is organized as follows. In the first section, background information about central bank communication activities will be presented. In this section, the necessity and importance of central bank communication activities, the audiences of central bank, and the instruments and channels of central bank communication will be overviewed. In the second section, challenges and opportunities in communication activities faced by central banks will be discussed.

CENTRAL BANK COMMUNICATION ACTIVITIES

This section addresses the various aspects of communication activities of central banks. In recent years, the increased independence of central banks has called for more transparency and accountability. In that regard, communication has become a very necessary and important toolkit for central banks, and they have developed different instruments and channels to reach their audiences to achieve their objectives. In the following subsections these points will be tried to be overviewed.

Necessity and Significance of Central Bank Communication

In today's conditions and expectations, central bank communication becomes necessity for the provision of information by central banks to the general public on the monetary policy objectives and strategy, the economic outlook, and the future policy decisions. As central banks have become more independent over time, increased transparency has been the requirement for greater accountability of independent central banks. Therefore, they have become more rigorous about sharing what they do and what underlies their decisions. For the sake of more transparency, they have increased the use of communication, and the significance of communication for central banks has been escalated as partly a logical consequence of this development (De Haan, Eijffinger & Rybiński, 2007, p.1-2).

Expert audiences can read, understand and comprehend lots of statistics, many pages long inflation reports, and long speeches with lots of charts. But this is not generally true for average people that are mostly interested in inflation and interest rates. Good and effective communication can be a very powerful and effective tool to help ordinary people comprehend and learn irrelevant subjects for them. Central bank communication with the public is therefore very important and essential for transparency and accountability reasons.

Over the last few decades, communication has become an increasingly important aspect of monetary policy of central banks. Experiences suggest that communication activities of central banks can be an important and powerful part of the central banks' assets since these actions have the potential to influence financial markets, enhance the predictability of monetary policy decisions, and help achieve central banks' macroeconomic targets. However, an optimal communication strategy has yet to be reached since there is no consensus among central banks (Blinder, Ehrmann, Fratzscher, DeHaan & Jansen, 2008, p.55-56).

Communication activities of central banks might be also an important instrument for influencing market behavior and information transmission and, in this regard, might work as a preventive tool in a risk-management sense. Central bank communication might affect volatility in financial markets via increased transparency and decreased uncertainty. Although financial market volatility can increase in the short term, it will decrease in the long term and thus contribute to financial stability in a positive sense. Uncertainty can be reduced by central banks by communicating relevant information about macroeconomic fundamentals, the condition of financial institutions and the financial sector more generally, and the management of policy. Hence, central bank communication is very significant in enhancing financial market efficiency and to calm down market volatilities (Knütter, Mohr & Wagner, 2011, p. 1,7,8).

Audiences of Central Bank

Academic literature on central bank communication has a tendency to treat central bank's audience as a single group, which is represented by financial markets. In practice, central bank's audiences are not composed of homogeneous groups. These groups have different backgrounds, experiences, interests and expectations (Reid, 2015, p.157).

Audiences of central banks are interested in central banks' policies and actions with different expectations and concerns. Therefore, central banks should adopt appropriate communications approach and engagement with their audiences. In general, central banks communicate with the following groups (Hannah, 2015, p.8-9):

- Public
- Media and journalists
- Business
- Regulated industries
- Markets
- Researchers and teachers, academics
- Government

As can be seen from above list, the target audience is heterogeneous, ranging from commentators in the media to politicians and ultimately to the general public. Due to aforementioned heterogeneity, "What needs to be communicated to whom?" is the important question to be addressed. The style, form and timeliness of

communication are very significant. Communication that is relevant, targeted, and accessible is highly desired. Central banks must therefore not only communicate clearly about their objectives, but also show why these objectives are reasonable and worth pursuing (Fracasso, Genberg & Wyplosz, 2003, p.7). Since central banks' audiences are composed of heterogeneous groups, both the policy and communication of central banks should be designed with this in mind. Although it is not practical to incorporate the full range of heterogeneity within a single economic model, it seems beneficial to first identify the characteristics of central banks' audiences, and then to tailor the communication to broad groups of the central banks' audience (Reid, 2015, p.157).

Instruments and Channels of Central Bank Communication

In recent decades, central banks have made many adjustments in the channels of communication for increased accountability and transparency concerns. This willingness to communicate more openly has increased the communication instruments and channels (Jeanneau, 2009, p.6). In today's conditions, many central banks describe their objectives, their decisions and underlying reasons within the framework of a communication strategy and through various communication channels (TCMB, 2011, p.1). These communication instruments range from brief press releases about monetary policy decisions to the publication of voting results, regularly published reports to the customary annual reports, as well as speeches delivered by central bank representatives. The communication instruments and channels commonly used by central banks are tried to be listed in the following table (Issing, 2005, p.72,76,78).

Table 1. Communication Instruments and Channels Used by Central Banks

Instruments	Channels
Press releases	Website/hard copy
Press conference	Direct communication, subsequently also website/hard copy
Publication of the minutes of meetings	Website/hard copy
Publication of voting behavior	Website/hard copy
Reports (monthly bulletin, annual report, etc.)	Website/hard copy
Publication of projections	Website/hard copy
Publication of statistical data and surveys	Website/hard copy
Public hearings/report to the legislature	Live reporting, print media, website/hard copy
Interviews	TV, radio, and/or print media
Speeches	Direct interaction; TV, radio, and/or reporting in the media
Briefings	Direct interaction
Conferences	Direct interaction, subsequently also website/hard copy
Presentations/visitor groups	Direct interaction
Information leaflets	Website/hard copy

The different communication instruments convey information about central bank actions and intentions to different audiences via various communication channels illustrated in above table. For instance, by means of press releases or press conferences, the major decisions taken by the central bank can be published on central bank's website or in a printed form, or the Board or committee members of the central bank can share their views on monetary policy decisions via interviews.

CHALLENGES AND OPPORTUNITIES OF CENTRAL BANK COMMUNICATION

Central banks are expected to provide the public with convincing and consistent information for their actions and measures. Central banks, therefore, communicate with their stakeholders to ensure transparency and accountability. While communicating, central banks desire to make the most of every opportunity but face some challenges. Central banks have to deal successfully with those challenges while taking advantage of communication opportunities. It is also possible to turn challenges into opportunities if central banks' policies and actions are very well designed.

As stated, there are many challenges in central bank communication and those challenges have to be handled properly and carefully. For instance, it is very challenging that central banks communicate with the public all information relevant to their decision-making process. While doing this, central banks can exhaust the potential audiences by not being clear, concise and comprehensible enough. For this reason, central banks' communication has the risk of not conveying the necessary information clearly and with the right emphasis. Another challenge is necessity to address various audiences that have heterogeneous nature, including policymakers, academics, market participants, and the general public. Such audiences may require different type and level of information provided from suitable communication channels. While trying to become more and more transparent, central banks can confuse and distract their audiences. Which information and decisions

should be presented by central banks is another difficulty encountered in central bank communication. Irrelevant, unclear, inconsistent and vague information can do more harm than good.

“A central bank that speaks with a cacophony of voices may, in effect, have no voice at all” is pointed out by Blinder (2006). This is especially true if central bank audiences come across conflicting explanations from the authorities of central bank instead of consistent ones. According to Ehrmann and Fratzscher (2005), communication that is dispersed and conveys a variety of committee views on monetary policy decisions reduces the predictability of decisions and decrease the ability of financial market participants to understand the future direction of monetary policy.

Financial crises are the most difficult and critical periods for central banks. They have to employ the best strategies possible to handle the crisis properly. In times of crisis, the power of communication becomes more important and has to be used in the right direction and proportionately since financial markets are easily affected by even the possibility or any sign of a crisis and the general public can become panic. Central bank communication in crisis times is very challenging in every aspect and has to be fine-tuned. Before, during and after the possible crisis periods, central banks should not use the policies and strategies they benefit in risk-free times. During these periods, central banks should adjust their communication activities to calm down market volatilities, to reduce and even eliminate uncertainties, to build trust, and to prevent panic. Central banks need to know when what to share with their shareholders. Belke (2017) points out that the benefits of better central bank communication are supported by empirical evidence in the context of the financial crisis and he presents the results a few studies to support his view in his work.

The main challenges and risks of communication that central banks may face in their activities were tried be explained above. Although central bank communication poses some challenges, it also creates some great opportunities. It should not be forgotten that challenges can also possibly be converted into opportunities if challenges can be handled appropriately. In the subsequent paragraphs, some important opportunities that can be caught by central banks in their communication with their target groups will be tried to be presented.

Financial markets are very sensitive to country's economic conditions and can be affected very easily, when uncertainty in markets exists, central bank communication can play a very effective role. During these sorts of periods, reliable and timely information transmitted to the related parties can build confidence and prevent markets from being panic and severely impaired. Particularly, financial markets closely monitor economic and financial indicators and try to take the best position possible according to developments. As an independent institution, central bank is much respected and its policies and decisions are taken into consideration, as a result, carefully crafted central bank communication generally has the potential to influence financial markets in the intended direction. For central bank transparency, policy-effectiveness can be achieved ultimately by making the markets to think like the central bank. If central bank can be successful in doing so, central bank can have the chance to manage expectations of future monetary policy better and, keep the markets in line with its own thinking (Blinder, 2006, p.16).

Dynamic and modern central bank communication with the general public can be very appealing, especially, Internet has given central banks new possibilities to address the public directly and deliver their messages effectively. This opportunity permits central banks to control messages transmitted to public in terms of content and timing. During especially crisis times, central banks can eliminate confusion, increase understanding, build trust, and ensure transparency by communicating to the public with carefully selected information and messages at the right time. This is very important for comforting, influencing, persuading, and winning the public. By taking the required actions and measures at the right time, and sharing them with the general public, central banks can prevent panic, minimize possible damages in the markets, and build trust with the public. It should not be noted that central banks have to select the right language, the right time and appropriate communication tools to address their audiences.

Central bank communication can occur in different ways and occasions. For instance, central bank communication often takes place through interviews with the Board members of the central bank or members of the monetary policy decision-making committee. This sort of direct interaction creates an opportunity for Board and committee members to explain the logical basis behind their decisions. Furthermore, immediately after the Monetary Policy Committee meetings, the Governor of the central bank often organizes a press conference, in which the decisions of the Committee and the reasons are delivered to the press. Press conference provides a suitable platform for a central bank to deliver the rationale behind its monetary policy decisions and clarify the questions directed from the members of the press. Subsequently, the monetary policy decision and a transcript of the press conference are immediately posted on the central bank website to lighten and de-stress the public. In addition, members of staff of central banks visit related institutions to give lectures that emphasize central bank

operations and policy decisions. These lectures create another good opportunity to present information about central bank operations and to show how these operations are in harmony with central bank's primary objectives (CBN, 2011, p. 13-16).

CONCLUSIONS

As central banks have become more and more independent from government influence, transparency and accountability have become their unavoidable concern. Due to transparency and accountability apprehensions, central banks have started to attach great importance to communication with their target groups. Central banks generally publish information about inflation, unemployment rate, financial stability, interest and exchange rates, but average people usually do not fully understand what is being said. Therefore, effective communication has become an important asset for central banks in the last few decades. Central bank communication can be seen as the presentation of understandable information to central bank's audiences regarding monetary policy objectives and strategy, general economic outlook, and possible future policy decisions. Due to technological advances and changing communication trends, central banks have also had the opportunity to make use of different communication methods and channels. While central banks have increased the quality and quantity of communication with their audiences, as a natural consequence, they have started to encounter both challenges and opportunities.

This study is designed to contribute to a deeper understanding of central bank communication challenges and opportunities. Within this context, the challenges and opportunities that central banks possibly encounter in their communication endeavor were tried to be presented after giving some background information about central bank communication activities. As tried to be explained in the study, an attempt was made to show that there was a sensible link between the challenges and opportunities of central bank communication. As a result of logical inference, it would not be wrong to state that any challenge handled very well can be turned into an opportunity by central bank.

As a future work, it is believed that it could be very beneficial to explore an appropriate balance between transparency and national security concerns. The globalization has made the countries more interdependent and countries economically and financially rely on each other. Knowing a country's economic and financial weaknesses may give another country an opportunity to carry out his malicious intentions. For accountability reasons, it is assessed that sharing too much central bank information without any distinction and elaboration for the sake of being transparent may have the potential to undermine the national security of a country. The balance should therefore be found between transparency and economy's vulnerability to possible external financial attacks.

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