CENTRAL BANK OF NIGERIA

UNDERSTANDING
MONETARY POLICY SERIES
NO 9

MONETARY POLICY COMMUNICATION IN NIGERIA

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Aims and Scope

Understanding Monetary Policy Series are designed to improve monetary policy communication as well as economic literacy. The series attempt to bring the technical aspects of monetary policy closer to the critical stakeholders who may not have had formal training in Monetary Management. The contents of the publication are therefore, intended for general information only. While necessary care was taken to ensure the inclusion of information in the publication to aid proper understanding of the monetary policy process and concepts, the Bank would not be liable for the interpretation or application of any piece of information contained herein.

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Central Bank of Nigeria

Mandate

▪Ensure Monetary and Price Stability

▪Issue Legal Tender Currency in Nigeria

▪Maintain External Reserves to safeguard the international value of the Legal Tender Currency

▪Promote a Sound Financial System in Nigeria

▪Act as Banker and Provide Economic and Financial Advice to the Federal Government

Vision

"By 2015, be the Model Central Bank delivering Price and Financial System Stability and promoting Sustainable Economic Development"

Mission Statement

"To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector"

Core Values

- Meritocracy
- Leadership
- Learning
- Customer - Focus

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SECTION ONE

Introduction

In the past two to three decades, central banks in many countries have been granted operational independence in recognition of its benefits. Autonomy and operational independence of central banks necessitate increased operational transparency and imposes a binding requirement for effective communication of their monetary policy decisions and how they arrived at those decisions. Consequently, monetary policy communication has become an increasingly significant tool in central bank monetary policy implementation process.

This educational series attempts to discuss issues relating to monetary policy communication. In particular we are interested in what monetary policy communication entails, the benefits of monetary policy communication, attributes of effective communication, the caveats in monetary policy communication, the aspects of monetary policy communicated by central banks as well as methods of monetary policy communication adopted in Nigeria.

The next section discusses independence, transparency, accountability and monetary policy communication while section 3 explains the importance of monetary policy communication. Section 4 addresses attributes of effective communication, and Monetary Policy Communication at Central Bank of Nigeria (CBN) expound in section 5. Section 6 discusses some caveats to central bank communication while section 7 concludes the series.

SECTION TWO

Independence, Transparency, Accountability and Monetary Policy Communication

The institutional arrangements/structures in many jurisdictions grant the central bank operational independence to deploy an array of instruments to achieve some set objectives as articulated in its mandate. Often under these institutional arrangements, central banks are made accountable for their actions (captured in monetary policy decisions taken over a period of time). Consequently, the central bank is required to be operationally transparent and thus, required to make publicly available, as much information as possible in order to facilitate the decision making of economic agents. The information should enable economic agents to form expectations on the direction of monetary policy, objective of monetary policy and of significant economic variables (e.g. interest rate, inflation, exchange rate). The formed expectations, however, influence the effectiveness of monetary policy and the overall objective of the central bank.

Transparency is not an end in itself, as the primary mandate of most central banks is the maintenance of price and monetary stability or low level of inflation. It is in the pursuit of the primary objective of the central bank that accountability and thus, transparency is anchored, because the two reinforce the credibility of the central bank.

SECTION THREE

The Importance of Monetary Policy Communication

The primary objective of most central banks is achieving low and stable inflation (i.e. price stability). A central bank must be able to communicate its objectives and how it plans to achieve them to stakeholders. The use of monetary policy tools like interest rate to achieve a set goal by the central bank should be explained to stakeholders and must be supported by economic data. Without explicit monetary policy communication, economic agents would be forced to make inferences about the rationale behind monetary policy decisions, the levels and directions of economic variables and the monetary policy path. The complexity of the inference and understanding process on the part of economic agents stems from the fact that they do not have a priori perfect knowledge of (1) economic variables which informed the decision and (2) the processes behind the decisions of monetary authorities.

If agents were rational, had complete information and the central bank was committed to a specific policy rule, there would be no need for the central bank to communicate its decisions to economic agents and the markets. The rationale being that economic agents have the same information as the central bank and they would know how the central bank would react to the information (i.e. based on a priori knowledge of the established policy rule). Systemic patterns in the conduct of monetary policy would be inferred from the behaviour of the central bank (Woodford, 2005). In this instance, the central bank would be fully transparent even without communicating to the public[1]. However, economic agents and financial markets do not have complete information; often central banks have access to information, which the private sector does not have at the time of making its monetary policy decision. Furthermore, central banks are not always committed to a policy rule, and have freedom to exercise discretion in their decision making process. In countries where the central bank has competing objectives, priority may be given to other objectives over the primary objective of maintaining price stability.

Consequently, central bank communication becomes vital in helping to narrow information asymmetry between economic agents and the central bank[2], and

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[1]This is based on Jon Faust and Lars Svensson's (2001, p. 373) definition of central bank transparency (i.e. the relative ease at which the public can deduce central bank goals and intentions from observable data).

[2]Geraats, P. M., 2010, p. 2.

thus help reduce private sector uncertainty about key economic variables. Furthermore, it allows economic agents to have an insight into the reasons behind decisions taken by the central bank. This enables economic agents evaluate the current and projected economic situation with a degree of confidence, to appropriately determine contract terms (quantity, quality, delivery time and prices of goods & services).

The importance of monetary policy communication is further underscored by the role of financial markets as vehicles for monetary policy implementation and economic development. Financial markets rely heavily on economic and financial data, particularly those emanating from the monetary authorities, to form expectations about the economy and to make appropriate economic maximisation decisions. Institutional portfolio investors require a substantial amount of detailed and frequent information about the projected path of monetary policy and key economic variables. Information is continuously analysed, to enable market players make informed market positioning decisions. These positions (buying, keeping or selling of an asset) impact on asset prices, the trend of general price levels and the success of central banks in achieving price stability.

Economic agents have also become more sophisticated and knowledgeable in their capacity to analyse information for decision making, as a result of increased processing capacity of computers, accessibility of information and advancements in Information and Communication Technology (ICT). Consequently, these have contributed to a reduction in the response time of economic agents to information contained in monetary policy communication. Like institutional investors, individual economic agents utilise detailed and frequent information about the projected path of monetary policy and key economic variables to make informed market positioning decisions.

The effectiveness of monetary policy in influencing macroeconomic outcomes lies in its ability to move relevant financial market prices (long-term interest rates, stock market values and exchange rates), by shaping expectations of economic agents and markets of these prices[3].Monetary policy communication must be able to effectively coordinate market expectations in the desired direction[4]. This ability depends on the methods and tools deployed by the central bank, how the central bank communicates the deployment of the tools and ultimately, market

[3]Amato, D. et al., 2002, p. 2.

[4]Central bank communication is a device for coordinating the beliefs of financial market agents (Morris et al., 2002).

belief in these methods and tools[5]. Central bank communication in essence has become an important tool[6] in overall macroeconomic management through its capacity to shape the expectations of economic agents about economic variables. Consequently, the signals of central bank intentions influence the actions of economic agents[7] and thus, the outcome of the policy.

Essentially, *expectation* is the channel through which the lever of monetary policy is linked with market prices. Though there are many levers available to monetary authorities to influence economic expectations, short-term interest rate have become a prominent lever adopted by many central banks to influence expectations (inflation) of economic agents and the financial markets. This is because short-term rates are anchored to the Monetary Policy Rate (MPR), which is easily measurable and controllable by monetary authorities. Within the Nigerian economy, it is the overnight interest rates (interbank and open buy back rates) which are anchored to the (MPR)[8]. Central banks influence inflation expectations because of their capacity to influence market expectation of the future path of overnight interest rates[9]. The returns at the long end of the yield curve[10]reflect the expected path of future overnight rates and thus, inflation expectations[11].Central Bank interest rate decision in an environment of imperfect information can

[5]Issing, O. 2005, p. 70.

[6]A tool which in the words of Woodford (Woodford, 2003) is crucially used to steer market expectations

[7]Market participants and expectations gravitate towards the CORE MESSAGE contained in central bank communication (Sarno et al., 2001). The studies carried out by Beine etal., 2006, Fratzscher 2004, Fratzscher 2006, Jansen et al., 2007 and Dominguez et al., 2007 found a statistically significant relationship between central bank intervention and expectation of intervention on intra-day foreign exchange level and volatility.

[8] The MPR is the rate which all other transactional interest rates are anchored.

[9] The actual level of overnight interest rate rarely influences economic decisions, however, it's expected future path plays a significant role in economic decision making, particularly with regards to medium to long-term contracts/transactions (Blinder et al., 2008, p.10). According to Woodford (2001, p 307 - 312), successful monetary policy involves not just the effective control of overnight interest rates but also the evolution of market expectations and further asserts that the essence of monetary policy is the art of managing expectations.

[10]The yield curve is the diagrammatic depiction of the relationship between interest rates and tenors of financial instruments traded in the financial market.

[11]Expectations about future central bank behaviour provide the essential link between short rates and long rates (Blinder, 1998)

become a communication tool that signals to the market, the central bank's inflation outlook[12].

It is apparent, based on the foregoing, that monetary policy communication has its benefits to the central bank and these include:

1. It reduces the possibility of economic agents making errors when making short-term economic decisions;

2. It helps to manage and reduce interest rate volatility as agents no longer have to second guess monetary policy decisions;

3. It eliminates guessing by economic agents on the actual occurrence of policy change[13] and facilitates prompt decision making and market re-alignment;

4. Reduces the overall cost of monetary policy implementation and liquidity management;

5. Improves effectiveness and efficiency of monetary policy implementation[14]; and

6. Facilitates the actualisation of the objectives and mandates of a central bank.

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[12]Amato, D. et al., 2002, pp. 9 – 10.

[13]Amato, D. et al., 2002, p. 8.

[14]The study by Demiralp et al., (2002) indicate that changes in Federal reserve's fund rate were effected with smaller open market operations as a result of real-time announcements of intended changes in federal funds rate. This thus suggests that monetary policy implementation efficiency is enhanced by openness and communication.

SECTION FOUR

Attributes of Effective Communication

As previously mentioned, monetary policy communication is meant to achieve a purpose. The ability to achieve the desired objective depends on the attributes of information being communicated, the method of communication, the originator of the communication and the capacity of the receiver. A piece of information communicated over a medium can have different meanings attached to it by different consumers of the information[15]. Any uncertainty as a result of communicated information could be from either the transmitter or the receiver, hence, the reasoning behind the description of central bank communication as a two-way street by Blinder et al (2008 p 38). Consequently any monetary policy communication must have the following attributes:

1. **Clarity**: information communicated by the central bank must be seen to be clear. It should send out signals about the economy and help reduce uncertainty or noise about economic variables to facilitate informed decision making.[16]. It requires that signals being conveyed via the different communication channels be consistent and well-coordinated. The public should be able to elicit and understand the '***central*** or ***core***' message being communicated by the central bank. Information emanating from the different communication channels of the central bank should not give mixed or conflicting signals[17]. Mixed communicated signals cloud the core message of central bank communication. Furthermore, it would degrade the predictability of monetary policy. It is therefore paramount that communication from the representative of the central bank, members of the monetary policy decision making committee and the different communication channels be consistent and synergised. Likewise, it is paramount that central banks establish a good

[15]Fracasso et al., 2003 survey analysis of different central bank inflation reports observed that the same inflation report had different interpretations depending on the user (respondents) and the interest rate surprises widened with divergent interpretations.

[16]Poole, W., 2001. p. 9

[17]Blinder 2004, chapter 2 discusses extensively what he terms the cacophony problem, when communication emanating from central bank sends out mixed and conflicting message. Monetary policy decision communicated by dissimilar voices could befuddle rather than clarify public opinion particularly when the voiced messages are conflicting. A central bank voicing mixed and divergent information may effectively have no voice at all (Blinder, 2007, p. 114). Poorly coordinated group communication may increase rather than reduce the noise to signal ratio (Blinder et al., 2008, pp. 16).

relationship with the press, to crucially ensure that the aired views of the central bank are objective and undistorted.

2. **Open:** information communicated should contain as much relevant detail as possible to facilitate effective and informed decision making by economic agents and markets[18]. The communication should contain sufficient detail for consumers to understand past economic developments and monetary policy decisions, economic outlook and expected direction of future monetary policy[19].

3. **Timely:** information communicated must be timely to enable economic agents and the markets make optimising decisions within the appropriate timeframe. All relevant information should be disclosed as soon as possible to enable quick reactions by the markets and economic agents to monetary policy decisions and thus, improve the effectiveness and efficiency of the monetary policy implementation process[20].

4. **Consistency:** information communicated should be both decision and time consistent, so as to facilitate predictability of monetary policy decision in the long run. This is possible if the central bank provides an implicit indication of the modalities (speed and line of action) of its reaction function to exogenous macroeconomic shocks.

5. **Credibility:** information communicated should show that policy decisions are derived from a systematic and coherent process for it to be deemed credible by economic agents and the markets. Consistency in decision making and actions improves the credibility of central bank communication. Credibility, however, is built on a convincing track record backed by a stable analytical framework and monetary policy decision making process. Credibility instils in economic agents and markets, a belief in the continued application of a systematic process in monetary policy decision making, irrespective of changes in key monetary policy decision making personnel. Furthermore, it provides assurance to the

[18]The findings of Michael Pakko (2005) using Taylor based rule, was that information content of US Federal Reserve's communication was a statistically significant determinant in the formation of markets expectation about changes to fed fund target rates.

[19]Bulir, A. et al, 2008, p. 6.

[20]The content and timeliness of information contained in central bank communication significantly affects the type and speed of financial market reaction to news which is rapidly amalgamated into asset prices (Blinder et al, 2008 p. 36).

markets and economic agents that in the event of an exogenous shock, the central bank would implement appropriate monetary policies consistent with actualising its long-term objectives.

SECTION FIVE

Monetary Policy Communication in Practice

Central Bank communication typically occurs through the following channels:

1. **Press Release:** These are short statements typically released to the media immediately after the meeting by the personnel responsible for monetary policy decision in relevant jurisdictions. The usual target audience are financial analysts and journalists.

2. **Press Conference:** This is typically organised for journalists at the end of the meeting of the body responsible for monetary policy decision making. The contents are broader than that of the press release and it allows the chairman of the decision-making body (the Governor of the central bank) to explain the rationale behind the decisions taken. In some jurisdictions, the chairman goes a step further and discusses the voting pattern and the comments of members of the committee. The press conference is typically televised and the associated presentations uploaded on the website of the central bank. It is a question and answer session and an avenue for the press to seek clarification on monetary policy decisions.

3. **Interviews with Committee Members:** Often, central bank communication occurs through interviews with the Board members of the central bank or members of the monetary policy decision-making committee. It presents an opportunity for Board and Committee members to explain the rationale behind their decisions. It usually occurs within a short window (the first week) after the conclusion of the monetary policy meeting, and its content is typically broader and targeted at the larger public.

4. **Minutes of Monetary Policy Meeting:** In some countries, the minutes of the policy meeting is released to the general public. It typically summarises the presentations and critical issues discussed at the meeting prior to arriving at the final policy decision.

5. **Inflation Report:** Some jurisdictions produce inflation report, which is a forward looking document highlighting the expected trend in inflation within a specified time horizon. It contains inflation forecasts and the data used to derive the forecast. The central focus of the report is explaining the reason(s) behind the forecast. It is usually presented to market analysts at selected seminars and it allows the central bank to go into great details about the forecast models.

6. **Articles**: These are typically prepared by central bank staff summarising key features of the inflation report, monetary policy decision and other matters pertaining to monetary and macroeconomic issues, in simpler less technical terms for ease of understanding by the public.

7. **Policy Documents**: These are documents prepared by the central bank to communicate major policy changes, details of the changes to the operational modalities of the new policy to the public.

8. **Research Publications**: These are research studies prepared by central bank staff on pertinent economic issues. They are usually technical in nature and targeted at market & economic research analysts and academics.

9. **Speeches, Panel & Town Hall Sessions**: Executive and Senior Management staff of central banks are often invited to deliver presentations and speeches, be part of panel discussions and engage in town hall-type discussion sessions on issues pertinent to monetary policy and macroeconomic management. These are open to the public and provide an avenue for the public to seek clarification from central bank officials on topics that impact on their daily lives.

10. **Open Lectures**: Members of staff of central banks are often invited to institutions to deliver lectures that span the entire spectrum of central bank operations and policy decisions. It is an opportunity to provide participants with an insight into central bank operations and how it is aligned with the achievement of its primary objectives. Occasionally, the lectures may take place within the headquarters or offices of the central bank.

11. **Annual Reports**: Central banks in some jurisdictions are statutorily obliged to produce and publish for public information, an annual report of activities in the previous year.

12. **Executive, Legislative and Judiciary Requests**: Occasionally, the Governor or Chairman of the Board of the central bank may be required to submit a report on current and past developments to the executive, judicial and legislative arms of government. Furthermore, the Governor or Chairman of the Board of the central bank may be invited by the judicial and legislative arms of government to provide testimony on issues relating to monetary policy and macroeconomic management.

13. **Industry, Monetary Policy and Economic Management Conferences**: Central banks often organise conferences to inform industry practitioners on domestic and international developments and their implication for monetary policy. An example of this is the recent adoption of risk-based supervision and the need to educate practitioners on the new concept, in order to be compliant with the Basel II accord. Central banks also organise monetary policy and macroeconomic management conferences as an avenue to enlighten practitioners and the public at large on its operations, the rationale for its monetary decisions and the desired macroeconomic impact of its decisions.

14. **Periodicals**: Central banks often publish papers, series, research works, and bulletins etc., which are a vital source of information on the domestic and global economy. Central banks also produce special publications and monographs once in a while that cover one aspect or the entire spectrum of the economy.

15. **Bankers' Committee**: Central banks have regular sessions with financial sector practitioners to discuss pertinent issues pertaining to its operations, observations on practices within the industry (domestic), policy decisions, sanctions, etc. It is an avenue for the central bank to morally persuade key decision makers in the finance sector to review existing practices in line with global best practice and to align existing practice with the long run objective of the central bank.

5.1 Monetary Policy Communication in the CBN

Information dissemination by the CBN since inception has been shaped by changing global best practices. The realisation of the significance of information communication to monetary policy implementation gave birth to the Corporate Communications Department. The Department is responsible for developing an appropriate information communication strategy for the CBN. It would ensure that appropriate communication channels are established to facilitate effective and efficient dissemination of information to target audiences. The Department is tasked with developing an '***optimal***' communication and disclosure policy for the CBN subject to the existing institutional, decision-making and monetary policy committee structures under which it operates. It is responsible for vetting the information content, the timing of information communication and the channel of information communication. In summary, the activities of the Department are founded on the recognition of the significant interrelationship between the formation of expectations by market and economic agent, expectations and monetary policy communication, implementation and effectiveness.

The currently established communication channels used by the CBN include (1) Press release, (2) Press conference, (3) Interviews with Board and Monetary Policy Committee members, (4) Articles, (5) Policy Documents, (6) Research publications, (7) Speeches, Panel &town Hall Sessions, (8) Open lectures, Annual reports, (9) Parliamentary requests, (10) Industry, monetary policy and economic management conferences, (11) Ad-hoc publications, (12) Bankers Committee forum and (13) Educational Series.

The Governor of the CBN immediately after the Monetary Policy Committee (MPC) meeting organises a press conference, in which the decisions of the MPC and the rationale are articulated to the press in audience. It provides the platform for prompt rationalisation on monetary policy decisions, while according members of the press an opportunity to put forward their questions to the Governor for clarification. Subsequent to this, the policy decision is posted on the CBN intranet for the viewing of staff and a transcript of the press conference is immediately posted on the CBN website for public consumption.

The CBN publishes its annual report in line with statutory requirements and occasionally prepares a report for the executive and legislative arms of Government when required. Similarly, the Governor of the CBN from time to time may be required by the legislative arms of government to testify on pertinent monetary and economic issues. The CBN organises conferences, seminars, open lectures, etc. for the benefit of targeted audiences. Furthermore, the CBN organises special training programmes for practitioners and aspiring practitioners in the finance industry. The CBN produces a number of ad-hoc publications like the Monthly Economic Report, Public Education Series, Statistical Bulletin, Monetary Policy Report, Economic and Financial Review, CBN Bullion, etc., all of which cover topics relating to the entire spectrum of the economy. The CBN also prepares policy documents like the Bankers Tariff and the Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for the benefit of financial sector practitioners (Egbuna, 2008).

5.2 Aspects of Monetary Policy Communication

The aspects of monetary policy communicated by central banks include:

1. **Objectives and Strategy**: The primary objectives of the central bank are its mandate articulated in the legal act which provides the foundation for its establishment and operation. These objectives are either quantitative or qualitative in nature. Some countries adopting inflation targeting framework, clearly specify the inflation rate that they intend to achieve within a given time horizon. The central banks of these countries announce their quantitative objective and are strictly bound to achieving

it. The advantage of this is that it facilitates accountability by providing a benchmark for which central bank performance can be compared. Furthermore, it provides a measurable anchor upon which markets and economic agents' expectations can be aligned.

Qualitative enunciation essentially entails stating the broad objective of the central bank without truly quantifying the objectives. Performance is measured based on the periodic trends of key economic variables, identified in the objective of the central bank. One of such qualitative enunciations is the maintenance of monetary and price stability. Under this pronouncement, no identifiable level of inflation rate or inflation rate volatility is announced; however central bank performance can be gauged by comparing annual inflation rates or the trend in annual inflation rates over a time period to ascertain if it is meeting this objective.

A Central bank must clearly communicate its proposed long-term strategic policy actions designed to ensure the actualisation of its primary long-term objectives. The strategy document must contain details on past policy actions and operational procedures. It should highlight shortcomings in past policy decisions and current operational procedures and clearly identify necessary actions required to address these shortcomings.

2. **Rationale Behind Monetary Policy Decisions:** Central banks provide the public with explanations on the reasoning behind policy decisions. This plays a dual role. Firstly, it helps reduce uncertainty about the economic situation on the part of economic agents and markets thus, facilitating informed decision making by same. Secondly, it helps steer expectations in the desired direction consequently improving the effectiveness of monetary policy. As previously discussed, clear and timely announcement on monetary policy decisions and the rationale behind them helps reduce noise content in the current information pool and consequently reduces speculation by markets and economic agents (Blinder at al., 2008, pp. 19 – 20).

3. **Economic Outlook:** Central banks provide the public with information on the future outlook of the economy[21] and key economic variables to

[21] The Bank of England (BoE), European Central Bank (ECB) and Federal Open Market Committee (FOMC) (i.e. the monetary policy decision- making body in the USA) periodically illustrate the likely path of inflation with fan charts in inflation reports, staff projections in inflation reports and staff projections in FOMC inflation forecasts respectively (Blinder et al, 2008, p. 20).

enable markets and economic agents adequately anchor their expectations[22]. Forward looking information provides markets and economic agents with an insight to the inclination of future monetary policy decisions by the central bank.

Caution must be exercised when interpreting these statements, as outlooks are based on forecasts which may not necessarily materialise. Forecasts are based on models which often are an imperfect interpretation of the economy. Furthermore, the data used to make projections are not precisely measured but estimated. Projections suffer from being derived from imperfect models of the economy and imprecisely measured figures. Projections should therefore be understood as statements of the future state of the economy, conditional on the precision of the model and of available current data and economic dynamics (changes in economic environment). Despite these flaws, outlooks remain an integral aspect of expectation formation and a vital instrument in steering expectations in the desired direction to facilitate effective monetary policy implementation.

4. **Policy Rate Path:** Some central banks provide the public with information showing the expected future path of interest rates to guide market and economic agents' expectations. While some adopt a qualitative approach using code words[23], others adopt a quantitative approach and actually present the numerical path of future policy rate, upon which their forecasts of the economy is derived (e.g. Iceland, New Zealand, Norway and Sweden). Though communication of future policy path is critical to formation of expectations, the non-actualisation of projected developments may put the credibility of central bank communication and monetary policy decisions in doubt, and thus hinder their short and long-term effectiveness[24]. This further underscores the need to stress the

[22]The study by Andersson et al., 2006 found a statistically significant relationship between central bank communication on economic outlook and movements in financial markets (i.e. the financial markets react to economic outlook information communicated by central bank).

[23]Jansen et al., 2007(b).(e.g. the FOMC and the use of words like policy bias, balance of risks in released statements and FOMC inflation forecasts, and Governing Council (GC) of the ECB with codes like vigilance)

[24]This is buttressed by the point made by the previous chairman of the FOMC Paul Volcker for refusing to immediately announce its decisions in 1984 which hinges on the fact that observers may misconstrue announcements as commitment to certain operations, which are influenced by future

conditionality of forward-looking information communicated by the central bank (Blinder et al, 2008, pp. 21 – 22).

The different communication channels relay different forms and contents of information at different time intervals, targeting different audiences. Press releases are targeted at journalists and financial analysts and typically the content is the major decisions taken by the committee. The press conference, which is targeted at the general public, provides more information including the reasons for the decisions taken by the committee, their voting patterns, and the economic figures that informed the decision of the Committee. Typically, the pieces of information released immediately after policy decisions are designed to create news, reduce noise and uncertainty, and rapidly influence expectations of markets and economic agents in the policy direction. The pieces of information released at later dates or after significant amount of research are designed to educate the public on the strategic decision-making process of the central bank. They give the public an insight into the historical (past and current) actions of the central bank, and the proposed future policy actions that would enable it meet its long-term mandate. These are critical to fostering the institutional credibility of the central bank and thus, its ability to realise its long-term objectives.

SECTION SIX

Caveats to Central Bank Communication

Though central banks strive to be transparent, it is however important to note that it is prohibitively costly for central banks to be totally operationally transparent. The financial cost of collating, preparing and transmitting data in simplified manner that is meaningful to consumers of such information can be high. Likewise, the cost to monetary policy implementation may be substantial as it may lead to markets reacting disproportionately to information, excessive swings in macroeconomic results[25] and exceptional bubbles. This could hamper the predictability of the effects of monetary policy[26] and impose a significant premium on liquidity management.

While it is desirable to provide as much information as possible, caution must be taken in that too much information may be detrimental than helpful to monetary policy implementation. Particular caution should be paid to the release of information pertaining to the rationalisation of past actions taken in the light of past events, as this could introduce greater noise into the existing pool of public knowledge[27].

Despite all the attributes mentioned, information communication remains a tricky process. The worry is that though communication of information is effective in steering expectations, the peril lies in its extreme efficacy at doing so. A clear communication strategy and disclosure policy must be in place to ensure that all the attributes earlier mentioned are contained in the information to be communicated.

The imperfect nature of the data and models used to derive forecasts, the magnification of uncertainty from frequent publication of such projections and economic dynamics, can adversely impact on expectation formation and thus effectiveness of monetary policy implementation. Over-reaction to increased uncertainty, as a result of revisions to published data, can potentially result in the opposite outcome for the desired objective of the communicated information.

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[25]Geraats, P. M., 2010, pp. 2 – 3.

[26] Amato, D. et al., 2002, p. 3.

[27]Amato, D. et al., 2002, p. 8.

A finely struck balance must be achieved between timely but noise-laden and slow but more accurate information[28]. Likewise, a balance must be achieved between information clarity and simplicity vis-à-vis conveyance of model and decision complexity in an uncertain and dynamic implementation environment (Winkler, 2000). Central banks must ensure that codes contained in forward-looking statements about the economy and key economic variables, should be appropriately qualified. Qualification implies that conditionality is attached to the coded information being communicated, to avoid undue pressure to honour a pseudo-promise. Therefore, Central Bank expectations of the future must be conveyed as conditional commitment[29] derived from current information that is likely to change in time.

[28]It is believed that the Australian Balance of Trade release calendar was changed from monthly to quarterly basis because monthly statistics injected excess volatility into prices emanating from financial markets (Amato, D. et al., 2002 p. 5).

[29]Issing, O., 2005, p. 70.

SECTION SEVEN

Conclusion

The peculiarities of the Nigerian economy pose significant challenges to the dissemination of the CBN's core message, contained in monetary policy communication, to the relevant economic stakeholders. These challenges include amongst others:

Levels of Economic Literacy: low levels of economic literacy and capacity to comprehend economic concepts and issues pertinent to expectation formation and decision making constitutes a formidable barrier in the effective dissemination and assimilation of the core message of monetary policy communication. This is in part due to the educational and financial disenfranchisement of a significant proportion of the citizenry with little or no access to formal education and formal financial services.

Level of Financial Inclusion: the low levels of financial inclusion particularly in the rural areas where a large section of the citizenry do not have access to any form of formal financial services, constitutes a significant challenge to the dissemination and implementation of monetary policy decisions. Consequently, low levels of financial inclusion effectively limit the scope of influence of monetary policy decision and communication within the economy. The CBN is currently working towards deepening the level of financial inclusion in Nigeria through the Other Financial Institutions Department (OFID) and the development of payment and settlement systems via a robust platform to facilitate the provision of some financial services in rural areas.

Infrastructural Deficiencies: the poor state of some basic infrastructure – telecommunication, roads, power etc hinders effective monetary policy communication. This is particularly so in rural communities, due to poor or missing infrastructural amenities.

In summary, communication transparency enhances central bank's accountability. It enhances macroeconomic performance by reducing market uncertainty and enhancing market predictability of monetary policy decisions, which reduces the damage of policy surprises (Blinder et al., 2001). Furthermore, central bank credibility and ability to provide a stable efficient and effective monetary policy implementation platform is on open communication that highlights the following:

1. The decisions of the Monetary Policy Committee;

2. The rationale and theoretical basis for monetary policy decisions;

3. The current and future macroeconomic conditions;

4. The limitations and conditionality of forecasts;

5. Public sensitisation on the lag effect of policies[30];and

6. A clear communication of the limits of central bank mandates and capacities to accomplish its objectives[31].

As the market learns from central bank actions and word, the central bank should actively strive to be a better teacher to the markets of its way of thinking (Blinder, 2004, p. 25), in order to improve market predictability of monetary policy directions and thus improve monetary policy implementation[32].

Skilful communication can improve macroeconomic outcomes (Binder et al., 2008, p. 14). Evidence suggests that when central bank communication is clear, it impacts on asset prices. However, for these benefits to materialise, central banks must ensure that an appropriate communication and disclosure policy is in place. The communication channels and tools used by the central bank should relay well-coordinated and consistent '***Core or Central message***' to its target audience. Central banks should strive to foster a cordial, mutually respectful, well-functioning and objective relationship with the media[33]. Finally, central bank

[30]Monetary policy communication must emphasise the lag effect of policies to the public, to sensitise the public to the fact that the effects of currently implemented policies would not materialise in the immediate but many quarters (2 – 6) in the future.

[31]Central banks should sensitise the public to the fact that monetary policies are designed to control inflation in the medium to long-term horizon, and may be ineffectual against fluctuations in short-term inflation rates triggered by volatile components of price index (Issing, 2005, p. 71). Furthermore, central banks must effectively communicate to the public its role as the champion of monetary and price stability, the fall out of which may be sustainable growth if the right institutional, infrastructural and fiscal structures are in place in the economy. The central bank is not solely responsible for sustainable development and promotion of employment; this is a joint responsibility of fiscal and monetary authorities.

[32]The finding of the work of Anne Sibert (2006) is that both the central bank and society are always better off with increased transparency.

[33]Often public gets their information via the mainstream media intermediary, as such the intended message is not received or gauged at the source, the implication of which is that the core message

communication should be clear, consistent, timely, open and credible. Crucially, the ability to successfully influence public opinion and secure public trust lies in the effective communication of past, current and proposed future monetary policy decisions.

may be degraded and in the extreme lost as the interpretation of the message relayed by the intermediary may differ from the true message of the central bank. This may be as a result of misleading report, spinning and sensationalising of reports or late rendition of reports relating to announced monetary policy (Blinder et al., 2008, p. 26).

Table of Glossary

BoE	Bank of England
BOP	Balance of Payment
CBN	Central Bank of Nigeria
CEPR	Centre for Economic Policy and Research
CESifo	Centre for Economic Studies
CNB	Czech National Bank
ECB	European Central Bank
FOMC	Federal Open Market Committee
FX	Foreign Exchange
GC	Governing Council
GDP	Gross Domestic Production
ICMB	International Centre for Monetary and Banking Studies
ICT	Information and Communication Technologies
IMF	International Monetary Fund
MPR	Monetary Policy Rate
US	United States of America

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