Rakesh Mohan: Communications in central banks - a perspective

Address by Dr Rakesh Mohan, Deputy Governor of the Reserve Bank of India, at the SAARCFINANCE Governors' Symposium, Mumbai, 9 September, 2005.

The annexes and references for this speeech are available on the RBI's website at www.rbi.org.in.

*   *   *

I. Introduction

Communication is part of the professional hazards that central bankers face as a routine. The responses as well as measures are mostly 'measured'. Financial markets watch our pauses, and some punctuation marks in the text of a statement have the distinct possibility of getting transmitted through the movement of a few points in the yield curve. Faced with such grave consequences that can be measured in millions of rupees or dollars, communication in central banking becomes really a very serious matter.

Is it true for central banking only? Perhaps not: after all, communication in general is a complex process. While we all attempt to communicate among ourselves all the time, nonetheless, the expression of intentions in oral or written mode often do not get transmitted correctly to the reader or listener. Words have different connotations - so have paragraphs or lengthy documents. The reader or listener often ascribes motives to expressions used and a wedge is created between what is said and what is perceived. What a person perceives is often very dependent on what she expects to hear, or she wants to hear. It interesting to refer to what William Poole has noted in context of central bank communication,

"Accurate communication requires settled meanings for words. For any given word, we can consult a dictionary and we usually discover that each English word has several meanings, which can be quite different. There is no dictionary in which we can look up the several meanings of a paragraph. The meaning of a policy statement — preferably only one — must be established by the central bank, through consistent practice over time and through more extended discussion of what the language means" (Poole, 2003).

Furthermore, expression of intention is not a one-off affair; on the contrary there are elements of incrementality in communication and reputation plays a role. Illustratively, my children often start reacting to any directions only after a reminder: their normal reaction to my directions is to see whether I was serious to begin with. My credibility is constantly at stake.

Communication in central banking is a far more difficult process. It is not that long ago that central banking was shrouded in mystery. Books like "Secrets of the Temple" (Greider, 1989), and expressions like "monetary mystique" (Goodfreind, 1985) bear testimony to this. It was in fact widely believed that communication from the Central Bank needs to be couched in terms of "constructive ambiguity", a term coined by Chairman Gerry Corrigan of the New York Fed. One is reminded of what Alan Greenspan said, "The undeniable, though regrettable, fact is that the most effective policymaking is done outside the immediate glare of the press" (Greenspan, 2002).

It was felt that earlier that policy effectiveness depended on the degree of surprise with which the market was taken by central bank policy announcements. In fact, it is quite remarkable to note that prior to 1994 the target Federal Funds Rate was not even announced by the US Federal Reserve: the market was left to infer the rate from the timing, sequence and magnitude of its open market operations (Woodford, 2005). Now, however, the U.S. Federal Reserve not only announces its current target Fed Fund Rate but also provides a clear indication of the likely trajectory of future interest rates. Such has been the revolution in Central Bank communication practice over the last ten to fifteen years.

Since the late 1980s and early 1990s the widely perceived iron wall of central banks' communication has become much thinner, along with the fall of the iron curtain. From the current vantage point we can clearly discern three reasons for this change:

- First, the clamour for and attainment of central bank independence has imposed a great degree of responsibility on the central banks – a major one being the attainment of transparency in communication.
- Second, adoption of inflation targeting by a number of central banks since the 1990s made effective communication an integral part of policy making. Monetary policy committees were formed and minutes started being published.
- Third, the innovations in information and communication technology made the speed and form of communication from central banks quite revolutionary. From the print medium and television the new entrants of transmission have been the web-sites of the central banks and the wire agencies like Reuters and Bloomberg.

This change in thinking has occurred with the enhanced perception that "central banks affect the economy as much through their influence on expectations as through any direct, mechanical effects of central bank trading in the market for overnight cash" (Woodford, 2005), or through their specific announcements on the intervention rate. Woodford goes as far as to say that "Central Banking is management of expectations". When a central bank changes its intervention / policy rate, its effectiveness in influencing key variables such as the inflation rate depends crucially on its effect on other financial market prices such as the exchange rate, equity prices and the longer term interest rates. Thus, apart from the specific action related to the overnight policy rate, the central bank has to use all the means at its disposal to achieve its policy aims. Now that direct credit controls, or other quantitative direct instrument are not available, and that financial markets have deepened even in our countries, effective communicative of central bank policy objectives, instruments and action has gained prominence.

In fact, presently there is now perhaps an abundance of information that gets transmitted from the Central Banks to the public. This goes to the extent that the *Economist* (July 22, 2004) recently raised the question: "Do communicative central banks make financial markets lazy?" and concluded that, "It's *not* always good to talk."

The issue at hand for our countries relates to our understanding of the depth and sophistication of our financial markets and of the public at large. Should our communication strategies be similar to that of our counterparts in more developed countries? Should our mode of monetary policy making, e.g. inflation targeting, be similar to the current vogue elsewhere? How confident can we be of our powers of modeling and forecasting? These are the questions that we have to deal with and to then fashion our communication strategies accordingly.

It is in this context that I attempt to review the rationale, forms and practices of communication in central banking and try to evaluate the Indian experience in this address. The rest of the address is orgranised as follows. Section II looks into the general issues relating of communication in central banks. Section III presents the Indian practices and some of my personal reflections in this regard. Section IV gives the concluding observations.

II. Necessity of Communication from the Central Bankers

The issue of communication in central banks is intimately interlinked with the mandate of the central bank. The more complex is the mandate of the central bank, the more difficult as well as more important is the communication. Illustratively, if the mandate of the central bank is either inflation targeting or exchange rate targeting (as in a currency board arrangement) then the objective of central bank is amply clear to the public. Hence communication is necessary to express the commitment of the central bank which is reflected through continuous action to maintain its credibility for achieving these objectives. On the contrary, if the mandate is complex as it is, for example, for the US Federal Reserve and the Reserve Bank of India, then the objectives may not be clear. Moreover, even if the objectives are known, when there are multiple objectives there could be lack of clarity among the relative weights and the changing relative weights of these objectives. In all such cases, the central bank needs to communicate the objectives on a continuous basis. Thus, benefit of central bank communication depends crucially on the adopted policy approach (Bernanke, 2004). Specifically if the central bank follows a simple feedback policy, then the private sector can easily infer its future policies. In that case, there is no necessity of extensive communication by the central bank except when the central bank decides to deviate substantially from the rule. Central bankers in modern times hardly follow a simple feedback rule – all central banks, including the inflation targetors, take into account a wealth of information in deciding the future course of monetary policy and follow what is termed as the 'forecast-based approach'. In this case, the public are not able to infer the likely course of policy so easily and need guidance about the central bank's perception of outlooks, risk assessments, and objectives. Clear and transparent communication plays an important role in this case.

The need for communication from the central banks also comes from another distinct source. Since the early 1990s, there is an increasing emphasis on central bank independence. In a democratic polity, a good deal of trust is placed in the central bank. Various countries in the world have attained varying degrees of independence of their central banks. In this context, questions of accountability and transparency are often raised. Communication is at the heart of accountability. There is, thus, a need to understand motives and procedures. When the political authorities give a clear mandate to the central banks in bestowing independence then the communication policy of the central bank is reasonably clear. A crucial issue about communication policy is when and whom to communicate. Interestingly, when a central bank is not independent, then it can communicate only to the controlling authority. In case of an independent central bank the communication has to go to various actors, viz., (a) public, (b) legislature or executive, (c) market participants. The mode and method of communication to the participants would be distinctly different for these three entities.

In a globalised world, it is not possible to formulate monetary policy independent of international developments. Monetary policy formulation has, thus, became more complex and interdependent (Mohan, 2002). Furthermore, in a globalised world with increasing communication from the regulatory clubs like BIS or IMF, sophistication of the staff is perhaps not too different among the countries. The question, however, is: how sophisticated is the audience in understanding delicate nuances of the announcements of the central banks. In fact, the effectiveness of monetary policy will crucially depend on how well the public and market participants understand the central bank signals. A related question is: do the central banks need to communicate to different agents differently? What is good for the public may not be good for the market participants. After all, "the markets thrive on volatility, while the public dislike it quite intensely" (Blinder et al., 2000).

Monetary policy is most effective when markets anticipate it correctly. Thus, a general consensus in the literature is that more is the transparency, better it is. More open public disclosure of central bank policies may enhance the efficiency of markets, through the following two channels:

- First, greater information about how a central bank makes policy decisions helps to reduce financial speculation.
- Second, clearer decision rules help to reduce the volatility of markets, and, thus, enhance the predictability of future movements of financial assets.

Furthermore, as the rational expectations literature has taught us that the effects of a given policy action have to be defined within a treatment of policy expectations. It is argued that an assumption about public understanding of the future course of policy is a precondition for any coherent analysis of current policy. Monetary policy is no exception to this general rule.

Besides, this literature also showed that monetary authorities cannot utilize the short-run trade-off by “fooling” the public systemically, and thereby established the necessity of transparency in communication of central banks.

The forex market, because of its special nature, could be an exception to this general rule of ‘more the merrier’ in case of transparency. Communication in the area of exchange rate policy is special due to a number of reasons (Blinder et al., 2000). First, apart from central banks, governments in a number of cases have joint responsibility for exchange rate policy. Second, in case of some exchange rate arrangements (such as, pure pegs and pure floats), the need for central bank communication is absent. Third, in the some instances where central banks decide to intervene in the foreign exchange market in pursuit of monetary goals, secrecy may be defensible on the grounds of effectiveness. I shall turn to this issue in the Indian context in somewhat greater detail.

Another general issue is despite the multiplicity of objectives there is only one instrument with the central banks, viz., a variant of the short term interest rate. Central banks all over the world try to change the short term interest rates on the assumption that it will influence the medium and long term interest rates - after all it is the medium and long term rates that affect expectations and asset prices (Blinder, 1998). To a large extent, this happens through explanations or forecasts. The effectiveness of these will crucially depend on the degree of sophistication of the financial market participants and the interlocutors.

The extent of transparency in central bank communication has been dictated by the norms of openness in the body-politic as well. Illustratively, Bank of England (BoE)’s information dissemination is governed by the Freedom of Information Act 2000 of the U.K. This Act places an obligation on public authorities to adopt and maintain a publication scheme. Furthermore, with effect from January 2005, the Act provides a general right of access to all types of recorded information held by public authorities and sets out exemptions from that right. Similarly, in the U.S, as per the Freedom of Information Act one can request information from the Fed.

Do central banks talk in an obscure language? Is communication an exercise in obfuscation? Many of the central banks have traditionally been portrayed as ‘tight-lipped, secretive, and cryptic’. It is often alleged that central bank executives use complicated words to convey little meaning. Blinder and others have alleged that, “Chairman Alan Greenspan is credited with raising Fedspeak to a high art … even characterizing his own way of communicating as mumbling with great incoherence” (Blinder et al, 2000). In one particular incident, Chairman Greenspan is reported to have told a US senator, who claimed to have understood what the chairman had just said, that “in that case, I must have misspoken”.

Notwithstanding such allegations, there have been great moves in fostering transparency in central communication in recent years. A case in point is the publication of minutes of the Monetary Policy Committee of the Bank of England. According to the Bank of England Act, 1998, the BoE is supposed to "publish minutes of the MPC meeting before the end of the period of 6 weeks beginning with the day of the meeting." Until October 1998 the minutes were published about five weeks after the meeting. The Monetary Policy Committee announced in 1998 that it would publish the minutes of its monthly meetings on the Wednesday of the second week after the meetings take place. Apart from the Minutes, they publish the voting pattern of the individual members as well.

Besides, central banks are increasingly learning to communicate ‘perception of uncertainty’, as different from ‘ambiguity’. In terms of communication there are various ways to tell the public that ‘we do not know for certain’, which are clearly preferable to couching a statement in ambiguous language. Illustratively, the BoE publishes its growth or inflation forecasts with a differing margin of error – what is popularly called the “fan chart”. The fan chart with its increasing lighter shade (at the outward direction) is a mode which clearly communicates the extent of uncertainty and the degree of ignorance of the forecaster.

Another important hallmark of modern communication is the emerging roles of web-sites and wire agencies. While the speed of communication is still slightly slower than light, wire agencies put the communication from the central banks on an almost real time basis. This has great ramifications on the transmission of news and formation of expectation in the financial markets.

Having delineated the general principles let me now turn to the Indian specifics on central bank communication.

III. Communication in RBI

I have already pointed out that more complex is the mandate for the central bank more is the necessity of communication. The Indian case would perhaps approximate that of a complex objective. After all, apart from pursuing monetary policy, financial stability is one of the overriding concerns of the RBI. Within the objective of monetary policy, both control of inflation and providing adequate credit to the productive sectors of the economy so as to foster growth are equally important. This apart, Reserve Bank acts as a banking regulator, debt manager, government debt market regulator and currency issuer. Faced with such multiple tasks and complex mandate, there is an utmost necessity of clearer communication on the part of the Reserve Bank of India.

What do we need to communicate? In a central bank, there is necessity of three kinds of communication, viz., (a) policy measures, (b) reasons behind such policy measures and (c) analysis of the economy. RBI is engaged with all these three kinds of communication. In fact, by international standards the Reserve Bank of India (RBI) has a fairly extensive and transparent communication system. The bi-annual policy statements have traditionally communicated the Reserve Bank's stands on monetary policy in the immediate future of six months to one year. As of July this year, we have now begun a system of quarterly reviews in addition to the bi-annual statements. The present practice of attaching a review of macro economic developments to the annual policy and mid term review, and to the quarterly reviews gives an expansive view of how the central bank sees the economy. In the bi-annual policy meetings with the leading bankers, the Governor while announcing the policy explains the rationale behind the measures at length. These policy meetings are not one-way traffic. Each banker present in the meeting interacts with the Governor to express his or her reaction to the policy announcement. After the policy announcement is over, the Governor addresses a press conference in the afternoon. The Deputy Governor in–charge of the Monetary Policy Department normally gives live interviews to all the major television channels on the same day. Governor also gives interviews to print and electronic media over the next few days after the monetary policy announcement. The only thing we still do not have is a live telecast of Governor's monetary policy announcements.

Apart from these policy statements communication of RBI policy takes place through speeches of the Governor and Deputy Governors. These speeches are devoted to issues concerning the economy as well as articulation of the RBI's policies. Interestingly, globally it has been found that the speeches of the Governors of the central banks have been an important determinant of the movement of the term structure of interest rates as changes in the repo rate (Fracasso, Genberg and Wyplosz, 2003).

The typical mode in which RBI's policy is communicated to the regulated entities is departmental circulars. Depending on the domain of operations the concerned department will issue a circular which then is placed in the website without any delay. A typical complaint about the circulars is often that they are written in the language that is not easily comprehensible, and one needs to translate them into normal understandable language. But that is a complaint against any formal statement couched in semi-legal language. I do believe, however, that we can all do a much better job of writing circulars in plain English shorn of tedious jargon.

The other major mode of dissemination of RBI policy as well as its views on the economy is its Reports. Over the years these Reports have turned out to be more analytical, transparent and forward looking in their outlook. The two statutory reports of the Bank, the Annual Report and the Report on Trend and Progress of Banking in India have evoked immense interest among the public, market participants as well as in academia. The theme based Report on Currency and Finance is a platform to articulate the research findings on an issue of topical interest. RBI Occasional Papers has also emerged as a professional journal of refereed research output of the RBI staff.

Over the years Committee Reports have emerged as another plank of communication from RBI. The plethora of committees formed by the RBI tries to communicate to the financial sector participants or markets. Interestingly, many of these committees are conceptualized during the process of either the annual or the mid-year Review of monetary policy, so that by the time of the next policy its recommendations are available for consideration or for implementation. While the general public is quite cynical about the formation of any committee, as long as the authorities are serious about a transparent acceptance or rejection of the recommendations of the committees, they remain a major vehicle of the collective policy thinking.

An important feature of the RBI communication policy is the almost real-time dissemination of information through its web-site. The results of the Liquidity Adjustment Facility (LAF) of the day are posted in the web-site by 12.30 P.M of the same day, by 2.30 P.M the reference rates numbers are also placed in the web-site. By the next day morning the press release on money market operations are out. Every Saturday by 12 noon the weekly statistical supplement is placed in the web-site, giving a fairly detailed recent data-base on the RBI and the financial sector. By the first of every month, the RBI Bulletin of the month is out. All the regulatory and administrative circulars of different Departments are placed on the web-site within half an hour of its finalization. I think such a high speed of dissemination is possible due to the professional skills of the internal staff of the RBI.

Another significant step towards transparency of monetary policy implementation is formation of various Technical Advisory Committees (TACs) in the RBI with representatives from market participants, other regulators (like SEBI or IRDA) and experts. Over the years, three such Technical Advisory committees have emerged – one on the money, forex and G-Sec markets, the other on regulation, and a recent one on monetary policy. These fora act as platforms where RBI comes to know about the needs of market players and where the RBI is able to communicate its stand on these issues that may not be strictly feasible in the formal modes of circulars. Many of the agenda notes prepared for these meetings form the background of the bi-annual monetary policy announcements. These apart, the Resource Management Discussions before the Annual Policy act as another mode of a two-way communication between management of commercial banks and RBI management. Meeting with the State Finance Secretaries is another platform of communication.

I have tried to give a quick run-down of the various means and modes of communication strategy and policy of the RBI. Needless to say, in tune with the global trends the RBI too has become more transparent, articulate and fast in communicating its policies and views on the economy. Nevertheless, questions remain. What else could have been done? Could the RBI have done better? What are impediments and hazards of communication in a central bank? How fast does the market react to central bank's announcements? Let me now turn to some of these issues.

How fast does the central bank communication influence the market? An interesting illustration of the impact of central bank communication is perhaps the episode in stock market on May 17, 2004. On this day, in the wake of change of Government, stock markets in India witnessed a record fall in price, which triggered the index-based circuit breaker twice during the day. The index-based circuit breaker triggered for the first time at 10:16 AM when the Sensex touched a low of 4516. When trading resumed after one hour at 11:15 AM, the

Sensex opened at 4448 before touching the day's low of 4227 at 11:19 AM – which triggered the circuit breaker for around two hours. In normal circumstances, the Reserve Bank does not take a view about the stock market. However, when confronted with the possibility of a spill-over in money, G-Sec and forex markets RBI intervened on that day and two separate press releases were issued by the Bank indicating, (a) constitution of an internal Task Force under the Executive Director, Financial Market Committee to monitor the developments in financial markets, and (b) assuring availability of Rupee and Forex Liquidity (Annex). Thus, it was communicated that RBI was keeping in touch with major settlement banks and the stock exchanges to ensure that payment obligations on the exchanges were met and gave assurance of selling dollars through agent banks in order to augment supply or intervene directly to meet any demand supply imbalances. These press releases were placed on the web-site around 2.00 P.M, but were released to wire agencies half an hour earlier and were flashed in all the tickers by 1.30 P.M. Trading had resumed by that time at 1:16 PM; subsequent to the flashing of the press release, the market witnessed a quick recovery, before closing at 4505. Whereas I am not claiming the entire recovery in the sensex on that day to be solely due to the communication from the RBI, it is important to understand the role and power of such communications when there are occasions when central bank communication can have immediate impact on the market - that too on a market that is not strictly under its jurisdiction.

Central Bank communication has its flip side too. The modern day paparazzi-syndrome haunts central bankers as well. I am sure that many of the central bankers must have at some point of time must have bitterly surprised to find in the next day's newspaper some statement that was ascribed to him or her – whereas the truth could be entirely opposite. Let me illustrate this with a personal experience – one among the few I have experienced during my stay in RBI. On August 14, 2004 I was at the Annual Citibank-Fitch Debt Market Conference. On my entry I was chased by the journalists and one of the questions I was asked was about the future rate of inflation. To the best of my recollection I said that the present rise in inflation was predominantly driven by supply-shocks and that we were monitoring the developments carefully. To my utter surprise, a pink paper in the next day (i.e., August 15, 2004) reported a story with the photographs of the President of India and mine side by side, with the following catch lines:

- "President APJ Abdul Kalam said on Saturday that sustaining a high eight per cent growth and containing inflation, now at 7.61 per cent, were the major challenges for the country."
- "Meanwhile, Reserve Bank (RBI) deputy governor Rakesh Mohan on Saturday reiterated that the authorities were expecting inflation to fall to the earlier levels of five per cent."

The story implied that a Deputy Governor of the RBI differed with the President of India on the stance of inflation on the eve of the Independence Day! However, I was absolutely in a catch-22 situation and was unable to issue a letter of protest as it would have given the signal that the RBI is expecting the inflation to go up. Such are the travails of central bank communication!

Similar experience is often found in interpretation of various reports and policy statements. I am told that in recent years, the Bank of Canada has instituted a media "lock-up" arrangement in which the media can read key reports of the Bank of Canada and write their stories prior to the official publication time. There are regular media briefings during this lock-up period, where officials can deal with technical questions and clarify other issues (purely on an unattributed basis) for the media. In Canada such practice have resulted in a clear improvement in the in the quality of the reporting. I am aware that in RBI as well, the Reports are released to the media a day earlier to the release date but without any technical briefing. Perhaps we can think of introducing this media lock-up arrangement inclusive of technical briefing in RBI. This could reduce the work of issuing rejoinders about some perceived misgiving on central bank policies.

In common parlance, often central communication is seen in an insider-outsider context. It is assumed that central bank communication refers to what the central bank chooses to tell the general public, market participants, experts, or the media. What happens to the communication internally? Or, to borrow from the management literature, how do we “sell the brand inside” (Mitchell, 2001)? While information is doled to the employees in form of memos, news letter, many an occasion the employees of an organization are unable to realize the uniqueness of the brand. Central banks are no exception to this general trend of the corporate world. The policy and research wings of the RBI would need to pay particular attention to the dissemination and effective communication of the RBI policies to internal staff and play a pro-active role. I put forward the following ideas in this context:

- It would be useful in this context to arrange internal seminars / talks in all regional offices and training colleges of the RBI after monetary policy announcements or publication of important Reports – whether regular (e.g., Annual Report or Report on Currency & Finance) or Committee Reports.
- Another idea could be to release FAQs (frequently asked questions) on any policy matter in the website. There could be educational resources as well as done in FED (such as, “In Plain English: Making Sense of the Federal Reserve”, or material on personal financial education).
- Still another idea could be to introduce a working paper series with a clear disclaimer that ‘these are the finding of the individual researcher and not of the RBI’. The unfortunate thing about the domestic Press is that they often choose to disregard the disclaimer, and start ascribing any research finding to the RBI.
- Finally, many of the internal notes of various departments are of immense analytical value; subject to the caveats of confidentiality (which I am sure would be exceptions rather than rules), many such notes could be made available internally. Departmental sites in the RBI Intranet could be effectively utilized in this.

While the management normally makes policy statements to the outside world, in an increasingly liberalizing economy, staffs often act as ambassadors of the institution – in that sense internal communication could act as a conduit for external communication as well.

A look at the communication policy of the central banks in advanced countries brings out two important features. Many of the central banks have a monetary policy committee with some form or the other, and many of them have an inflation report and a financial stability report. The question is how far do we need them? While the Inflation Report is a hallmark of many inflation targeting economies, it is by no means universal – the same is also true for financial stability report. Nevertheless, a critical question in this context is publication of the central bank’s forecasts. Almost all central banks have some internal forecasts about the inflation and growth rate of the economy. The inflation targeting countries tend to attach heavy emphasis on the publication of forecasts. These forecasts are based on some economic models, and buttressed by the policy maker’s expectation of future. Thus, when and if, we think in favour of introducing an inflation report for India, we need to sort out the prerequisite of a detailed macro model as well as commitment to a band of inflation – not just a point of time (which in any way is announced in the bi-annual policy statements), bur a path for the year(s) to come. As far as financial stability report is concerned, it is heartening to note that Report on Trend and Progress of Banking in India, 2003-04 has introduced a chapter on this topic. As the Report on Trend and Progress of Banking in India is a statutory report, the question arises whether we need to introduce an additional financial stability report, or we need to couch the contents of this report suitably, so that it effectively becomes the financial stability report.

As far as the monetary policy committees are concerned, it may be noted that the Advisory Group on 'Transparency in Monetary and Financial Policies' (for the Standing Committee on International Financial Standards and Codes), with Shri M. Narasimham as Chairman and Shri S.S. Tarapore as a member, recommended setting up of a monetary policy committee in RBI.

Consequently, in order to further strengthen the consultative process in monetary policy, the RBI has set up a Technical Advisory Committee on Monetary Policy in July 2005 with external experts in the areas of monetary economics, central banking, financial markets and public finance. The Technical Advisory Committee comprises the Governor as the Chairman, the Deputy Governor in charge of Monetary Policy as an internal member, and four external members in the committee. Other Deputy Governor(s) and any expert depending on the requirement of the subject will be special invitees. The Committee would meet at least once in a quarter. The Technical Advisory Committee is a right step towards enhanced transparency for communication from the RBI.

IV. Concluding Observations

Central Bank communication has come a long way. From the secretive central bankers, allegations are now made that they are talking too much. Central banks have become more transparent and today there is abundance of material about the central banks' intended action plan.

What is the message then? While nobody doubts that necessity and transparency of central banks communication, the question is how do we go about it? In conclusion, I can do no better but to quote from Adam Posen of the Institute of International Economics, who succinctly summarized the need for central bank communication:

"Think of the relationship between a central bank and the attentive public as analogous to the relationship between a married couple. Good communication is key if the relationship is to cope well with the bumps and bruises of everyday life. While familiarity removes the need for too much explicitness in communication, changing surroundings and personal needs over time make it dangerous to take too much previous understanding for granted. Presumably, the relationship is for the long-term, and day-to-day misunderstandings do not imperil the relationship, but they can make it less pleasant or mutually beneficial" (Posen, 2002, p. 3).