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AT

THE 2017 CONTINENTAL SEMINAR OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

BY

DR JOHNSON P. ASIAMA

SECOND DEPUTY GOVERNOR, BANK OF GHANA

THEME: ***CREDIBLE COMMUNICATION STRATEGIES OF CENTRAL BANKS IN THE FRAMEWORK OF MONETARY POLICY AND FINANCIAL STABILITY***

AT

MOVENICK AMBASSADOR HOTEL

ON

MAY 03, 2017

Mr. Chairman,
The Executive Secretary, AACB,
Facilitators on the theme & sub-themes,
Technical Experts from our respective Central Banks
Distinguished Guests,
Ladies and Gentlemen,

Introduction

1. It is a pleasure to join you at this all important Continental Seminar of the Association of African Central Banks (AACB). I wish to first thank the AACB for choosing Ghana as the host and also warmly welcome all delegates, especially the first time visitors.

2. Mr. Chairman, I consider the sub-theme for this seminar session, "*Credible Communication Strategies for Central Banks in the Framework of Monetary Policy and Financial Stability*," timely because of the emerging role of communication as a tool to shape expectations towards achieving the core mandate of price stability. Therefore, my opening remarks will briefly touch on monetary policy formulation in Africa and the move towards incorporating communication in the monetary policy formulation process.

Monetary Policy in Africa

3. Mr. Chairman, Africa is a continent of developing and emerging economies therefore policies are broadly aimed at promoting economic growth, poverty reduction and development. In the recent past, most African central banks assumed developmental roles by directly intervening in the real sector of the economy. With this role, monetary policy formulation in the early 1970s was directed at financing large fiscal deficits incurred in the pursuit of accelerated growth and development. The monetary accommodation of fiscal deficits and in some instances direct controls on interest and exchange rates resulted in severe financial repression.

4. The independence of central banks then was largely non-existent and government economic policies were mostly directives for state institutions, including the central bank. Central bank communication was limited to regulatory and supervisory guidelines issued periodically to financial institutions under its control. Economic agents seeking information had to depend on ex-post publications to conjecture the stance of monetary policy pursued during the course of the year.

5. Mr. Chairman, with paradigm shifts on monetary policy making in the global economy, it became clear that the direct instruments were not only devoid of market or price signals but also distortionary in the allocation of resources. The prevalence of state-owned banks in Africa at the time further perpetuated such distortions as political directives informed the allocation of financial resources to the economy. Thus, there was the need to move away from the direct control to market-based regimes introduced in the late 1980s under the structural adjustments and financial sector liberalization policies pioneered by the IMF and World Bank.

6. These had significant impact on the economies of most African countries. Financial markets have deepened with innovative products alongside increasing integration of African markets to the global financial markets.

7. As time progressed, it became imperative for African central banks to pursue forward-looking monetary policy to tackle price stability which is a necessary condition for sustainable growth. In so doing, some of our members such as Ghana, South Africa, and Uganda adopted the Inflation Targeting monetary policy framework, while other central banks de-emphasized the role of monetary aggregates and started incorporating elements of forward-looking monetary policy frameworks.

8. Mr. Chairman, forward-looking monetary policies can only be effective if the central bank is able to shape inflation expectations of the public to align with the medium term inflation target. To do this, the central bank needs to be transparent with regard to the monetary policy objective and provide a clear policy direction on how to achieve it. Communication and transparency helps shape and anchor inflation expectations as well as build policy credibility towards delivering the core mandate of the central bank.

9. In the case of financial stability, central bank communication strategy should be developed with utmost care in order not to incite unnecessary and unintended reaction from the market. There is therefore the need to maintain a delicate balance between transparency and accountability on one hand, and the probability that the information being communicated could unsettle markets. A transparent and credible communication strategy is feasible in a context of a stable market underpinned by effective regulatory and supervision regime.

Central Bank Communication and Challenges

10. Mr. Chairman, transparency and policy credibility that underpin forward-looking monetary policies and market-based prudential regulations call for effective central bank communication. To quote the Deputy Governor of the Federal Reserve Bank of New Zealand, "central banks' pronouncements have economic and social impact". Therefore, central bank communication strategies must be underscored by accountability and transparency. This involves deepening understanding of economic relationships and their ultimate impact on inflation, and signalling monetary policy actions which provide forward guidance to market participants.

11. It is for these reasons that communication has become an additional tool in the kitty of the central banker. In several instances, central banks communicate interest rate policy decisions, risk assessments of inflation horizon and changes in inflation forecasts relative to the actual outturns. These are all intended to shape expectations and build credibility in the delivery of the central banks' mandate.

12. However, communication in some African countries faces some challenges. As democratic processes take root alongside media pluralism and the explosion of social media, there is a potential for central bank actions and inactions to be misrepresented and in the process, erode the central bank's reputation and lower market and public confidence in monetary policy decisions.

13. As central bankers, we must appreciate new communication trends and develop communication strategies to leverage existing media technology to build confidence of market players. African central banks should also develop a framework for comprehensive education packages to improve financial literacy across all the sectors of the economy. This will enhance market appreciation of monetary policy decisions and central bank actions for appropriate response.

Monetary Policy Credibility

14. Mr. Chairman, monetary policy credibility is crucial for attaining monetary policy objectives, particularly, in a rational expectations environment where economic agents have full information on how the economy works. It is a solution to the time dynamic inconsistency problem, where the expectations of economic agents are shaped by the actions or inactions of the central bank in the delivery of its mandate. In Africa, the time dynamic inconsistency problem is made worse by fiscal dominance and inadequate central bank operational autonomy.

15. Monetary policy credibility in several advanced economies has been the cornerstone for anchored inflation expectations, and lower variability of monetary policy outcomes as market participants believe the central bank's commitment to achieving its policy objectives. However, it should be noted that credibility does not preclude flexibility. In the pursuit of policy credibility, the central banker should also have the flexibility to adjust previous commitments in the face of internal and external shocks that may shift the realisation of policy objectives.

16. There is the need to build monetary policy credibility, especially in a number of African central banks to support monetary policy making. Efforts must be made to remove both technical and political constraints which are pervasive within the African central banking context. Some of these technical constraints include data unreliability and untimeliness with monetary policy decision or forecasts, over-optimistic policy objectives, and uncontrollability of policy instruments.

17. Political constraints such as inadequate legislation to back the operational independence of the central bank also hinder policy credibility. Addressing these constraints would require financial and technical support to state institutions that generate the economic and financial data, and constitutional, legislative and operational reforms to strengthen monetary policy formulation.

18. Mr. Chairman, going through the programme for this seminar, I have no doubt that much will be learned to greatly enhance communication in our respective central banks. I urge all of you participants to note the important take-away points from this seminar. For example, how does effective communication enhance central bank credibility and effectiveness of monetary policy? How should we manage communication in times of crisis? And what lessons should we learn from cross-country experiences in central bank communications?

19. Mr. Chairman, these foregoing remarks are just a few pointers to set off the discussions on the topic. I do hope that by the end of this seminar, the presentations and detailed discussions will deepen our understanding of central bank communication and monetary policy credibility. On this note, let me once again thank the Executive Secretariat and the Planning Committee for putting this seminar together.

20. I wish you all fruitful discussions. Thank you.