The Reserve Bank's external communications

Paul Jackman, Corporate Affairs Manager

This article reviews the way the Reserve Bank communicates its decisions and policies to external audiences. It assesses why the Bank needs a communications programme, the methods used, and the way evolving circumstances are changing the Bank's approach to its external communications.

1 Introduction

The Reserve Bank maintains an active programme of communications with the various external publics that its activities influence. These include the general public, financial market participants, sectors of the economy that are particularly influenced by monetary policy such as exporters, and groups and individuals that take a particular interest in the Bank's activities. The Bank at times needs to communicate specific messages, such as its interest rate announcements or changes to banking supervision requirements. Also, in a more generic sense, there is value in the public and markets having a good understanding of the Bank's role and activities. Much of our communication is therefore aimed at informing the public and specific audiences about our functions and how they relate to the wider economy, as opposed to just communicating with financial markets.

The importance of effective communication by central banks is well recognised internationally, as is demonstrated by the International Monetary Fund's *Code of Good Practices on Transparency in Monetary and Financial Policies*. That code sets out broad principles for central bank transparency in respect of monetary policy, financial regulation and internal governance. It notes that regular, clear communication by central banks helps to promote more effective policy, reduces market uncertainty about policy actions, and is an important element in strengthening the accountability of central banks and fostering sound governance.

As described in this article, the Bank's communications efforts are extensive, and they are also evolving, particularly as inflation expectations have become better anchored.

2 The Reserve Bank's external communications requirements

Among public agencies the Reserve Bank is distinctive in the way it explains its policies and actions to the public. In part this is because the Bank is operationally independent of government and takes actions that have real-world effects, as opposed to being primarily an agency that offers advice to the government. In the context of contemporary standards of transparency and accountability, these actions need to be explained to the public.

As with the judiciary, when an arm of the state is operationally independent, the responsible use of its powers is always an issue. With independence comes a greater need for accountability and transparency. Openness to public scrutiny can help to reconcile operational independence with democratic expectations.

In addition, in the area of monetary policy, the Bank's public communications have a particular sensitivity, in that they often influence financial markets. For this reason, the Bank has to take particular care to avoid any financial market confusion caused by muddled or partial communications. Clarity is crucial.

These two requirements – transparency and market sensitivity - occasionally create tensions. Statements targeted at the general public must be comprehensible and yet also correct technically in terms of the requirements of the financial markets. Conversely, statements targeted at the financial markets must at least say nothing that will be misinterpreted by the general public. Simultaneously communicating effectively with both audiences can be difficult.

3 Methods of communication

The mechanisms that the Bank uses to communicate with its external audiences include:

- the release four times a year of *Monetary Policy Statements,* which explain the Bank's thinking behind its monetary policy decisions, and four additional interim interest rate adjustments announced by press statement;
- the holding by the Governor of four press conferences a year at the time of the release of *Monetary Policy Statements*;
- an extensive programme of off-the-record public speeches by the Governor and other senior Bank staff to sector and service groups, non-government organisations and the like;
- occasional on-the-record public speeches by the Governor and other senior Bank staff;
- a nationwide "roadshow" of meetings with managers of small and medium-sized businesses held every three years;
- the Governor being interviewed by individual reporters and appearing on radio and television;
- an extensive website;
- the publication of an *Annual Report*;
- the publication of a quarterly journal, the *Reserve Bank of New Zealand Bulletin*, that discusses the policy issues facing the Bank;
- the publication of occasional brochures explaining Bank policies aimed at lay audiences;
- the publication of *Discussion Papers* on technical economic issues; and
- the provision of educational resources explaining economic concepts to students.

In addition, the Bank has recently initiated:

- an on-line service by which subscribers receive press statements and other announcements by email; and
- the broadcasting of the Governor's *Monetary Policy Statement* press conferences live on pay-to-view television (SKY CNBC).

Let's look at some of these in more detail.

Monetary Policy Statements

Four times a year the Bank publishes *Monetary Policy Statements* (*MPSs*), two being required by statute annually. These documents, of about 40 pages in length, lay out in detail how the Bank sees the economy, inflation and monetary policy evolving in the months ahead. They are detailed, include economic projections and provide the public with an extensive "window" into the Bank's thinking. In addition, each *MPS* contains an interest rate announcement made at the time of the document's release.

The actual interest rate announcement is communicated to the financial markets via a so-called "screen message". The Bank has an arrangement with the wire service news agencies – Reuters, Dow Jones and Bloomberg – so that press statements and other announcements can be instantly transmitted onto their screens, which are used by financial market participants globally. On the day of an *MPS* release at 9.00 am, a press statement which makes the interest rate announcement is simultaneously "flashed" to the wire services. This is done to ensure that, as much as possible, all financial market participants can have access to Reserve Bank announcements at the same moment in time.

Prior to the press release being issued, reporters in a lock-up have nearly two hours to read the full *MPS* and to prepare their reports. However, they are only permitted to file their stories after the "screen message" has been flashed to the wire services. Two minutes after the release of the interest rate announcement, Dr Brash gives a press conference to answer questions about the decision.

A separate lock-up is also held for financial analysts.

Television

A recent innovation is that Dr Brash's *MPS* press conferences are broadcast live on SKY Television's CNBC channel. The Bank pays for the filming of the press conference, its production and then its transmission to SKY, with SKY carrying the cost of the actual broadcast. The target audience for this broadcast is financial market participants. If others who are interested watch, that is a bonus, but the main aim is to provide the financial markets with all the nuances of Dr Brash's comments, including his responses to reporters' questions. This is instead of having to rely on second-hand reports via the news media, with the risk of misinterpretation that that entails.

Previously, the Bank broadcast its press conferences live on its website, but we found that most institutions could not access this service because of computer "firewall" limitations. However, we suspect that in the longer run web-based broadcasts of press conferences will become the norm, as this technology matures.

Speeches

Each year the Governor, and occasionally other staff, deliver a large number of speeches to many different audiences. Most speeches are about monetary policy, but other topics have included the state of the New Zealand economy, prospects and policy options for economic growth, optimal currency regimes, external vulnerability, financial market stability and New Zealand's approach to banking supervision. Most speeches are off-the-record, and a few are on-the-record.

Off-the-record speeches allow the Bank to communicate with large numbers of New Zealanders without flooding the financial markets with potentially confusing messages. Typical audiences are sector and service groups.

On-the-record speeches, usually by the Governor, are valuable for putting the Bank's views to a wider audience. They usually receive widespread media coverage. Speeches are also mailed to relevant audiences using an extensive database of mailing lists. A typical mail-out would go to about 1300 addressees.

In addition, every three years Dr Brash undertakes a "roadshow" in which he tours the country addressing a multitude of audiences, especially in provincial areas. In the 2001 roadshow, Dr Brash addressed representatives of small and medium businesses in 24 towns and cities over two weeks, reaching about 4,700 people. These roadshows are intended to reach a wider audience than the normal sector and service groups that more typically invite Dr Brash to address their meetings.

Media availability

Aside from the formal communications initiatives described above, the Bank also seeks to be accountable to the public in more general terms. The Bank receives numerous requests from journalists for interviews and often accepts these requests. The one exception is that the Bank does not grant requests to journalists who want to publish material that is market-sensitive, such as the Bank's current view of monetary conditions or the state of the economy. However, that aside, a reporter's request for an interview is granted unless there is a good reason to do otherwise.

The Governor also makes himself available for radio and television interviews. The benefit in this lies not just in the specifics of what's said but also in his generic accountability to the public, which is appropriate in a democracy.

The Bank also puts considerable effort into providing background briefings and advice to reporters seeking to cover economic issues. Statistics about the state of the economy available on the Bank's website are used extensively by the news media.

Publications

The Bank produces a range of publications explaining its activities and policies. The Bank's key accountability document is its *Annual Report*. This contains:

- statements by the Governor and the Chairman of the Non-Executive Directors' Committee of the Board;
- information about the functions, structure and governance of the Bank;
- details about the non-executive members of the Board;
- a chronology and description of the Bank's activities for the period under review;
- an assessment of the Bank's intended outputs in the year ahead; and
- the Bank's financial statements.

For the last three years in a row, the Bank's *Annual Report* has won the Institute of Chartered Accountants Annual Report Award in its class.

The Bank also publishes the *Reserve Bank of New Zealand Bulletin*, which is a quarterly journal of semi-technical articles mainly written by the Bank's economists. The target audience is intelligent, well informed, but non-specialist readers.

The Bank has a range of brochures and booklets prepared for lay audiences. These include publications that give general descriptions of the Bank's activities and statutory framework, answer questions about monetary policy, explain the nation's currency, provide guidance on registered banks' financial disclosures and provide simple investment advice in the context of low inflation.

Brochures and booklets currently in use are:

This is the Reserve Bank

Central Banking in New Zealand

The Impact of Monetary Policy on Growth

Monetary Policy Over the Business Cycle

Explaining Currency

Your Bank's Disclosure Statement - What's in it for you?

The REAL Story: Saving and investing now that inflation is under control

Internet

The Bank's website[1] is now the public's main method of accessing information about the Bank's activities. The Bank's publications, news releases, speeches and the like are displayed on the website, along with statistical data about the New Zealand economy. Typically we now get over 10,000 visits to the website a week.

Reserve Bank Email Service

A recent innovation on the Bank's website allows people to register online to receive the Bank's press statements and other announcements by email. This has generated a self-created audience of people interested in what we are doing. At the time of writing, this service had about 1400 users.

[1] http://www.rbnz.govt.nz

Education

The Bank has sought to augment public understanding of its activities and policies by providing resources to the education system. For sixth form economics students, in 1995 we produced an education kit entitled *Inflation: a sixth form resource*, which concentrated on the merits of low inflation. In 1996 we produced, in conjunction with the Bankers' Association, a kit called *The Tale of the TT2.* Aimed at 7 and 8 year olds, this introduces children to the notion of prices. For third and fourth formers, in 1997 we produced an education kit called *The PIE Kit*, which is a general introduction to economics. (PIE stands for "people, inflation and economics".)

More recently, the Bank sponsored the Journalist Training Organisation to create a course textbook for training mid-career journalists to be business reporters. The Bank also receives numerous requests from schools wanting to visit the Bank. At such visits, we provide a seminar, usually delivered by one of our junior economists.

For 2002, two new education initiatives for secondary schools are being developed, these being a website game that simulates monetary policy decision-making and a competition for 7th form economics students involving making and justifying monetary policy decisions.

Resources

The Bank's external communications are managed within its Corporate Affairs Department. Those involved in external communications are the Department's Manager, a communications officer, a clerical assistant and a desktop publishing and printing manager. The Bank's *Monetary Policy Statements* and *Bulletins* are written and edited by policy staff elsewhere in the Bank. Aside from the *Annual Report* all published documents are prepared in-house. Each week a Communications Committee meets to assess the communications issues being faced by the Bank and to manage the Bank's communications programme. Its membership comprises the two Governors, the Corporate Affairs Manager, the Communications Officer and the editor of the *Bulletin*.

4 Evolving the message

The communications methods that the Bank uses, as described in this article, are now well established. However, in terms of content and tone, the Bank's external communications are in transition and its public persona is changing.

Over the first decade of the Bank's operational independence, the Bank acquired a relatively high public profile and monetary policy was regarded as a relatively controversial feature of public policy. Now that the battle against high inflation has been won, and the monetary policy framework is well established, the Bank seeks a somewhat lower profile – to be seen to be carrying out important but non-controversial functions in a reliable and predictable way. In political and economic terms, we want, long term, to be "just part of the furniture". When participants in an economy can concentrate on issues such as productivity enhancement and economic innovation, and do not have to waste time or energy trying to second-guess future rates of inflation or central bank actions, that benefits economic performance.

The Bank's communications stance was very different when it was first directed to focus on price stability. In the 1970s and 1980s New Zealand experienced high and variable inflation matched by high inflation expectations. In other words, not only were prices rising rapidly, but price setters were sufficiently habituated to this that they consistently assumed high inflation in their pricing plans and tended, given any demand pressures, to put up prices aggressively. As monetary policy brought inflation down in the late 1980s, and then held it down in the early 1990s, so the Bank urgently needed to drag inflation expectations down as well. This was because, once inflation expectations were brought close to the Bank's actual inflation target, then monetary policy could be less aggressive while still maintaining price stability. Paradoxically, the more the public could be persuaded that the Bank was utterly resolute in its pursuit of price stability, the "gentler" monetary policy could actually be.

To that end, the Bank chose to be very active in advocating the benefits of price stability, not merely to build public support for the price stability goal, but also to persuade price setters that inflation was a thing of the past. In doing so, the Bank was seeking to reduce the adjustment costs associated with getting inflation down and keeping it down. We knew that the economic cost of disinflation would be higher for as long as those who set wages and prices did not believe that inflation was coming down or staying down. Therefore, in the early days of the inflation-targeting regime, it was particularly important for the Bank to convince the public, and especially wage and price setters, that we were serious about bringing inflation down to within the target range and keeping it there.

Such activist communications carried their own tensions. For example, a judgement had to be made about how far the Bank should go in advocating or even campaigning for the goals defined in the Reserve Bank of New Zealand Act. The Bank, after all, is merely a government agency carrying out duties set by statute. Our decision was that we had to be forthright – that the goal of monetary policy and the importance of achieving and maintaining price stability had to be clearly articulated. This involved risk, but we made the judgement that operational independence meant that relying on ministerial advocacy of the policy framework was not enough and, indeed, not appropriate if the public were to be convinced of the Bank's operational independence.

Another tension was resolving how to talk about the benefits of price stability without implying that monetary policy had an economic growth target. In the early 1990s, the risk was that price setters might gain the impression that secretly the Bank was trying to use monetary policy to promote short-term economic growth, despite its statutory focus on price stability alone. From that they might have concluded that inflation would be higher than otherwise, which they would have built into their pricing plans. Then to contain this the Bank would have had to set interest rates higher than otherwise, curtailing economic growth. Thus, in the face of high inflation expectations, for monetary policy to make its best contribution to economic growth, ironically it helped for the Bank to appear to be relatively insensitive to the issue.

However, through the 1990s, as inflationary expectations became better "anchored", the Bank was able to make its external communications more balanced, talking more openly about the growth benefits of price stability. To that end, in the 1990s the Bank's documents aimed at lay audiences often included a statement that: *Price stability protects the value* *of people's incomes and savings, and encourages investment in the nation's productive capacity, thereby contributing to employment, growth, export competitiveness and a more just society. In particular, monetary policy aimed at price stability also promotes secure employment by helping to smooth out boom-bust business cycles. This means when the economy falters, inflationary pressures fall and monetary conditions can be eased, which encourages the economy and employment to grow again.*

Latterly, since December 1999, the Policy Targets Agreement has made this explicit, so that the Bank is now required "In pursuing its price stability objective (to) seek to avoid unnecessary instability in output, interest rates and the exchange rate." In fact, the Bank has done this all along, the difference being that with inflation expectations better anchored, we can now afford to discuss monetary policy in a more balanced way.

So too, in terms of general "tone", the Bank has been evolving a different public relations persona. In the early and mid-1990s the Bank's "communications tone" had a crusading aspect, as we sought to constrain inflationary expectations. However, a less strident approach is now more appropriate, akin to that of a "vigilant guardian" waiting in the background but still committed to do what needs to be done, should the need arise.

The evolution of the Bank's communications stance, as described here, involves risk. If the transition occurs too slowly, the risk is that the public may conclude that the Bank is out of touch, too powerful and undemocratic. The perception could then be that the Bank is "kicking a dead horse", obsessively fighting a war against an inflation threat that in fact is gone, and doing economic damage as a result. The ultimate cost of such a mistake could be a loss of community support, and then political support, and then the Bank's operational independence. Conversely, if the transition occurs too quickly, the risk is that price setters may think the Bank has "gone soft on inflation." The Bank would then have to make monetary policy more aggressive again to win back its credibility. A by-product of that would be economic damage. Getting the balance "right" in our communications strategy is therefore very imp0ortant.

5 Conclusion

Looking to the future, a key communications challenge for the Bank will be the continued management of the transition described above. As this takes place, and as the Bank becomes increasingly "off the front page", a likely outcome will be an increased emphasis on using new and targeted technologies to communicate with smaller, more specific audiences. The Bank's website, the Reserve Bank Email Service and the television or web-based transmission of press conferences are examples of these more discrete "new media" initiatives.