

ASSOCIATION DES BANQUES CENTRALES AFRICAINES



ASSOCIATION OF AFRICAN CENTRAL BANKS

**ASSOCIATION OF AFRICAN  
CENTRAL BANKS (AACB)**

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**AACB 2017 CONTINENTAL SEMINAR ON THE THEME:  
"CREDIBLE COMMUNICATION STRATEGIES OF CENTRAL  
BANKS IN THE FRAMEWORK OF MONETARY POLICY  
AND FINANCIAL STABILITY"**

*(Movenpick Ambassador Hotel, Accra, Ghana, May 3<sup>d</sup> – 5<sup>th</sup>, 2017)*

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**Terms of reference**

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## **INTRODUCTION**

In accordance with the provisions under Article 3 of its statutes, the Association of African Central Banks (AACB) organizes each year a Continental Seminar in order to achieve its objectives. The Seminar aims, inter alia, "to promote the exchange of ideas and experiences on monetary, banking and financial issues and cooperation in Africa".

Recognizing the importance of communication in the conduct of an effective monetary policy and the financial system stability, the Governors approved, at their 39<sup>th</sup> ordinary meeting held in Abuja, Nigeria, on 19<sup>th</sup> August 2016, the organization of the 2017 Continental Seminar on the theme "*Credible Communication Strategies of Central Banks in the Framework of Monetary Policy and Financial Stability*".

These terms of reference present the background to and objectives of the seminar, the main topics going to be addressed and the organizational arrangements involved.

### **1 – BACKGROUND AND OBJECTIVES OF THE SEMINAR**

Over the last few decades, changes in the financial environment and the capital markets interconnection have considerably changed the conditions of monetary policy implementation and the expectations of markets and populations, both in advanced and developing economies. These changes had important repercussions not only on the statutes and missions of central banks but also on the strategy of conducting monetary policy. Their mission now focuses on maintaining price stability and financial stability.

Thus, from institutions in service to the Government's economic policy, central banks have become increasingly independent of political powers in most countries. Indeed, while the central banks independence has been perceived as a highly effective solution in a strategy to combat inflation, its implementation calls for a greater requirement, in particular regarding transparency and public or democratic responsibility. Transparency refers to the ability of a central bank to make its monetary decision-making process known externally, to provide the rationale for its decisions and to inform on future decisions. It is recognized that, from a normative point of view, the effectiveness of monetary policy is enhanced if its objectives are known and understood by the public. In this respect, the transparency requirement underscores the crucial importance of central banks communication.

Today, communication has become one of the priorities of the monetary Authorities as it is closely linked to the achievement of good economic results. It has been now enshrined as a monetary policy instrument and has taken on a special significance in the context of the international financial crisis that began in 2007 and highlighted the limitations of traditional monetary policy instruments. Indeed, the central banks of the major industrialized countries, in particular the US Federal Reserve (Fed) and the European Central Bank (ECB), used "forward guidance" as part of unconventional monetary policy measures to announce guidance of their monetary policy and commit themselves to the future path of their key policy rates. Other actions were carried out through the publication of medium-term economic projections, the organization of televised press conferences, more developed monetary policy releases, as in the case with the one of the Fed, which now exceeds 800 words compared to less than 300 in 2007. Through these measures, central banks have been able to demonstrate clarity in their actions and operations in order to preserve public confidence and consolidate their democratic legitimacy in the context of the international

financial crisis. Given the important role played by central banks communication during the international financial crisis, Mrs Janet Yellen, President of the Fed, pointed out that "the real revolution is not so much in this transparency effort as in the bankers' understanding that communication constitutes in itself a monetary policy action".

This new context of conducting monetary policy imposes the implementation of new strategies, based on a desire for increased communication aimed at eliminating sources of uncertainty and anchoring inflation expectations at a low level consistent with the central bank's objective. The development of New Information and Communication Technologies (NICT) encourages a growing reactivity of monetary policy and a continuous monitoring of suitable devices of communication in real time. However, the implementation of an effective and credible communication strategy in the field of monetary policy currently presents some challenges. Indeed, one of the major challenges facing a central bank in terms of communication is its ability to explain the uncertainty surrounding the economic outlook in a context where economies are increasingly exposed to unforeseen shocks. For example, a prospective communication of central banks could be risky as it could give wrong directions to the markets, in view of the large discrepancies that could exist between the forecasts and the realizations. Similarly, the formal publication of an operational monetary policy objective is another challenge for central banks, given the risks of deviating from this target. Moreover, the results of monetary policy are only apparent in the medium term.

In addition, central banks have been given a new responsibility, in particular the financial stability mandate, in view of the effectiveness of their actions, which helped to alleviate the financial market turmoil during the recent international financial crisis. However, this crisis has led to a profound reflection on the role of the central bank in preserving financial stability. By assigning it a new mission, the central bank now has the dual responsibility of ensuring price stability and financial system stability. New communication challenges, such as the strategy to be adopted in financial markets that are extremely sensitive to the information provided by the central bank to guide expectations are emerging. Uncontrolled communication could lead to market volatility, and increased volatility could reduce market efficiency. By way of illustration, the Fed's announcement in May 2013 of its intentions to reduce its purchases of long-term assets has surprised many central banks, triggering resales around the world. To this end, the International Monetary Fund (IMF) Code of Good Practices on Transparency in Monetary and Financial Policies recommends limiting the dissemination of certain types of data as it could affect the decision-making process and the effectiveness of monetary policy action.

Given the new challenges posed by central bank communication, a cautious approach is needed to avoid undermining their credibility.

It is in this context where communication became a full-fledged instrument of monetary policy, with a view to preserving price stability and financial stability, that the Assembly of Governors decided that the reflections of the 2017 Continental Seminar will focus on the credible communication strategies of central banks within the framework of carrying out their tasks, including monetary policy and financial stability.

In this regard, the following main objectives are assigned to the 2017 Continental Seminar:

- Contribute to understanding the increased importance of central bank communication in achieving the objectives of monetary policy and financial stability, while highlighting the risks associated with this communication;
- Conducting in-depth reflections on the implementation of central bank communication strategies in order to enhance the effectiveness of their actions while maintaining their credibility;
- Analyzing various central banks communication strategies and drawing lessons for African central banks;
- Highlighting the new challenges of adopting communication as an instrument of monetary policy and financial stability by central banks and proposing strategic lines for its implementation.

## **2 – PROCEEDINGS**

The Seminar could include:

- Presentations specifying the objectives, motivations of central bank communication, media and tools of communication, elements to be communicated by central banks, credible communication strategies to be implemented, and challenges related to central banks communication;
- Reflections on the strategic lines of appropriate central bank communication in various contexts (uncertainties, financial crisis, etc.), with a view to ensuring price stability and financial stability;
- Recommendations aimed at addressing the new communication challenges of central banks, with a view to enhancing the effectiveness of monetary policy and ensuring the stability of the financial system.

## **3 – ORGANIZATIONAL ARRANGEMENTS**

### **3.1. Participants**

The Continental Seminar would bring together about fifty participants from the following institutions:

- AACB member Central Banks;
- European Central Bank (ECB);
- African Union Commission (AUC);
- United Nations Economic Commission for Africa (UNECA);
- Secretariat of the Common Market for Eastern and Southern Africa (COMESA);

- Secretariat of the Southern African Development Community (SADC);
- Central African Economic and Monetary Community (CEMAC);
- General Secretariat of the Economic Community of Central African States (ECCAS);
- Economic Community of West African States (ECOWAS);
- Arab Magreb Union (AMU);
- West African Economic and Monetary Union (WAEMU);
- East African Community (EAC);
- West African Monetary Agency (WAMA);
- West African Monetary Institute (WAMI);
- International Monetary Fund (IMF);
- World Bank;
- Bank for International Settlements (BIS);
- African Development Bank (AfDB);
- Making Finance Work for Africa (MFW4A);
- GIZ.

### **3.2. Seminar agenda**

The seminar would hold on a three-day period with plenary and break-out sessions, as follows:

*Day One (am):* Presentations on the objectives, information channels and information content communicated by central banks to ensure the strengthening of the effectiveness and credibility of monetary policy as well as the stability of the financial system:

1. «Central Banks Communication and Monetary Policy Credibility»;
  - definition of central banks monetary policy objectives;
  - what audience should the central bank target in its communication strategy?
  - the nature and frequency of information provided by the central bank;
  - how could this information help to strengthen the credibility of the central bank's monetary policy?

- how to measure the impact of this communication on monetary policy conducted by the central bank?
  - how to ensure the credibility of central banks communication on an uncertain target (medium-term inflation), in a context increasingly marked by unforeseen shocks, both endogenous and exogenous?
2. "Challenges in Financial Stability Communication – A practical Perspective";
- Instruments of communication in the context of financial stability. Should these instruments be the same or different from those of monetary policy?
  - Analysis of the communication tools and means used by central banks to communicate with the various stakeholders (public and markets) in the financial system and the associated risks;
  - Challenges and risks to the stability of the financial system to which central banks are exposed if communication is not well controlled;
  - Lessons to be learned.
3. "Cross-Country Comparative Analysis of central bank communication: lessons for African central banks";
- what were the major central banks' communication strategies (eg ECB, Fed, Bank of Japan, Bank of England, Bank of Canada, Swis National Bank, Reserve Bank of New Zealand) before and during the international financial crisis;
  - comparative analysis of central bank communication strategies (speeches, press releases after the meetings, forecasts publication, press conferences, etc.);
  - comparative analysis of the effectiveness of these communication strategies;
  - what lessons can be learned for African central banks.

*Day one (pm)* : Presentations on the experiences of central banks in the AACB sub-regions relevant to the central theme of the seminar.

1. North Africa (Banque Centrale de Mauritanie, Central Bank of Sudan)
2. West Africa (Bank of Ghana, BCEAO)
3. East Africa (Banque de la République du Burundi, National Bank of Ethiopia)
4. Central Africa (BEAC, Banque Centrale du Congo)
5. Southern Africa (South African Reserve Bank, Reserve Bank of Malawi)

*Day two (am)* : Break-out sessions on the theme "African central banks' communication strategies and effectiveness of monetary policy and financial stability"

- Break-out session 1 : «Central banks communication in a crisis environment: lessons learned from the recent international financial crisis».

This workshop aims at showing how to build a communication system in a crisis environment, based on the example of the recent international financial crisis. In this regard, it will focus on the lessons learned from this crisis for African central banks;

What are the potential new communication tools and channels that central banks could explore?

- Break-out session 2: «Central banks' communication strategies: dynamics, structure and measurement of the impact on monetary and financial stability».

This will involve analyzing the central bank's communication strategies in a dynamic manner, focusing on the communication mechanisms used by central banks and the risks involved, and how to measure the impact of central banks communication on monetary and financial stability.

- Break-out session 3: «Central bank communication and effectiveness of monetary policy».

This will show, from the communication experiences of the central banks of advanced economies, how communication can help to achieve the objectives of monetary policy while enhancing its credibility;

*Day two (pm) and Day three:* Reporting in plenary on the break-out sessions, developing and adopting the conclusions and recommendations of the Seminar.

### **3.3. Date and venue**

At the end of its first ordinary meeting of the year held on 8<sup>th</sup> March 2017 in Dakar, the AACB Bureau took note of the convening of the 2017 Continental Seminar in Accra, Ghana, from 3<sup>th</sup> to 5<sup>th</sup> May 2017 at Movenpick Ambassador Hotel.

### **4. RELATED EXPENSES**

In accordance with the Association's 2017 budget, approved by the Assembly of Governors in Abuja, the cost of organizing the Seminar will be covered by the host institution, except for the transportation costs and the travel expenses of the AACB Secretariat.

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