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Dilemmas in Central Bank Communication : Challenges, Credibility and People Costs

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This Presentation focuses on:

- Central Bank Communication
- Communication Challenges for RBI
- Credibility & People Cost Dimensions



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Communication is part of the professional hazards that central bankers face as a routine

For long, central banking was shrouded in mystery. Books like William Greider's 'Secrets of the Temple' and expressions like 'monetary mystique' bear testimony to this

Gerry Corrigan, former Chairman of the New York Fed, coined the term 'constructive ambiguity' for the kind of communication that a central bank ought to send out



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Alan Greenspan, former Chairman of Fed Reserve, once reportedly told a US Senator who claimed to have understood what the Chairman had just said that “in that case, I must have misspoken”



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One of the professional hazards that central bankers the world over face is communication. Banks follows our cues, journalists and analysts get to their interpretive best as our lips or pen move, financial markets watch our pauses, and some turn of phrase or even punctuation marks in the text of our statements have the distinct possibility of getting transmitted through movement of a few points in yield curve



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In fact, to paraphrase what Nobel Laureate Prof. Amartya Sen has said in a different context, in a public policy institution like the RBI, when you utter a sentence, you must make sure that not just the full sentence sounds right, but that any consecutive subset of words also does not end up giving the wrong impression



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Innovations in IT have made central bank communication quite revolutionary. We are now on Print, TV, Newswire and may soon be on Twitter too (Fed Reserve got a Twitter handle on March 15, 2012)

Central banks are now wise to the fact that in this age of globalization, they can leverage on communication to enhance their effectiveness



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The issue of communication is also intimately interlinked with the mandate of the central bank

The more complex the mandate, the more difficult the communication

If it is just inflation targeting or exchange rate targeting, then the central bank's objective is amply clear to the public

On the contrary, if the mandate is as complex as RBI's, then the objectives may not be very clear



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Increasingly, central bank communication is not just a matter of openness and transparency, but also of education, guidance, persuasion and dialogue, and of listening and learning

Importantly, in transmitting any communication central banks always have to bear in mind that while doing so their credibility is constantly at stake



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Central banks usually need to communicate three things : (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

By international standards, the RBI has a fairly extensive and transparent Message system : Real-time dissemination on our Website

After Monetary Policy/Review announcements, Governor/Deputy Governors in charge of Monetary Policy Department often gives interviews to print media and TV channels <We have deadline embargoed Publications, while some like Bank of Canada also has 'lock-up' arrangements>



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Now Governor and all Deputy Governors also do an extensive Phone-in where Journalists/Researchers/Observers ask Qs which are responded to live

Another important communication medium for us is the Speeches given by Governor and Deputy Governors as also sometimes Executive Directors

These Speeches talk about issues concerning the economy as well as articulation of RBI's policies

All our Reports & Publications are also important statement modes



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All these communication modes of course have 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, Scholars & Experts and the Media

What happens to the communication internally? Or, as Collin Mitchell puts it, “sell the brand inside”



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- This brings us to managing people risk in the organization
- One of the hardest risks to quantify and manage within any organization is people
- As we have a very low attrition rate and most of our employees stay on, we have to keep in mind the risks associated with our staff that occurs at every stage of the employee life cycle
- Hence quite a bit of our efforts go towards communicating with and engaging our own people



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- People risks are numerous and multi-faceted – from workplace safety, absenteeism and succession planning, through to loss of key people and other internal issues such as discipline & vigilance cases
- We are, therefore, constantly trying to get a handle on the human element in risk management
- We review and rework our policies regularly so that we can redesign our work environment to cater to the changing population demographics



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For managing people costs more effectively, we :

- try to involve people in planning and decision-making
- **provide ongoing training and education**
- establish expectations for employee performance and enabling people to know when individuals are succeeding
- **evaluate employee performance and providing helpful feedback**
- compensate employees adequately and fairly
- **maintain open communication**



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✓ In doing so, our internal communication methods are becoming increasingly diverse so as to address broad people issues & match varying needs of RBI's internal stakeholders



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Thank You