# KGORI CAPITAL BUSINESS CLUB SEMINAR

## THE IMPORTANCE OF COMMUNICATION IN MACROECONOMIC POLICY MANAGEMENT

by

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Director of Ceremonies

I am pleased and indeed it is an honour to be part of this important information sharing and empowering Seminar, organised by the Kgori Business Press Club. The initiative for this forum resonates with the Bank's desire to contribute to the development of informed financial and economic journalism as a means of improving transmission of market information, as well as incisive commentary on policy analysis and decisions. For a number of reasons, a central bank needs to continually interact and disseminate information to stakeholders. Such interactions and communication clarify the Bank's role and, therefore, reinforces the effectiveness with which it discharges its mandate of ensuring price stability, sound financial and well-functioning payments systems and, more broadly, financial stability.

Director of Ceremonies, the subject of my remarks this morning is **‘The Importance of Communication in Macroeconomic Policy Management.’** For this purpose, let me distil macroeconomic policy into three distinct elements, namely fiscal policy, monetary policy and exchange rate policy; and for convenience add financial sector policies in order to complete the interactive and inherent relationships involved.

Distinguished guests, ladies and gentlemen, you will appreciate that individually and together, these policies are intended to affect the behaviour of economic agents, which is, their response in terms of the supply and demand factors of economic activity. At a broad level, this entails decisions to invest, save, consume, and/or trade across borders. In this regard, the relative incentives across sectors and industries engendered by the various policies and instruments will have an impact on the rate of economic growth, in other words, the pace of increase in national wealth and living standards. Evidence from the 2007/08 global financial and economic crisis indicates that if not well managed and coordinated, macroeconomic and financial policies also have the potential to undermine economic growth.

At this point, distinguished ladies and gentlemen, let me take a moment to illustrate the influence of the various policies and related instruments on real economic activity:
Starting with Fiscal Policy - In a situation of slow economic growth, fiscal policy might involve increase in expenditure or reduction in taxes by Government to stimulate activity. In the event, spending by government and lower taxes generate an increase in demand, including consumption, providing an incentive for businesses to invest and increase operations to meet the higher demand; thus making positive contribution to economic growth.

Monetary Policy – With regard to monetary policy, again assuming a need to support growth, a reduction of interest rates by the central bank, in the right level of doses, will lower the cost of finance, therefore, potentially leading to higher demand by consumers and investment by businesses, ultimately raising the overall rate of economic growth.

Exchange Rate Policy – A discretionary devaluation or maintenance of an undervalued exchange rate could be undertaken in order to enhance the competitiveness of the domestic industry in external markets and against imports. This is relevant for supporting sustainable industrialisation and diversifying sources of growth, and may similarly raise overall rate of economic growth.

Financial Policies – In this area, a sound, stable and inclusive financial sector not only facilitates the conduct of transactions and payments, but it is also the conduit through which macroeconomic policies are transmitted to real economic activity. Thus, there is need for continuous attention to ensure the developmental aspects, as well as integrity, safety, stability and a well-functioning financial sector to support sustainable and inclusive economic growth.

Distinguished Guests, I now to turn to the role of communication in ensuring ultimate efficacy of the various policies or actions and decisions. Efficacy or potency in this regard would mean policy action having the desired or intended outcome. In the examples given above, this would mean higher rates of economic growth with respect to fiscal and monetary policies and a faster pace of industrialisation arising from the exchange rate policy.

Going back in history, there was a time when policymaking was shrouded in secrecy, with policy framework and actions designed to surprise the market; the language of policy makers was coloured by obfuscation and ambiguity in order to generate uncertainty. In particular, a mystique surrounded central banks. The former Chairman of the US Federal Reserve Bank (FED) Allan Greenspan even said in 1987, *"Since I have become a central banker, I have learned to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said"*.

Indeed, in a Speech in 2014, the President of the European Central Bank, Mario Draghi, pointed out that there was a time when the FED would not even publish its interest rate decisions. At the time the FED would let the outside world derive the interest decisions from the market reaction; it was only in 1994 that the FED decided to make its interest rate decisions public in real time.

No doubt things have changed and economic policy making now involves phrases such as "forward guidance" as a real policy tool designed to enable markets and the public to anticipate the direction, magnitude and timing of policy action. And in this regard, the manner and wording of communication becomes crucial.

Therefore, I will argue that communication is an instrument of macroeconomic policy, without which the desired outcomes would not be realised or would be realised only sluggishly. There are two related dimensions to this. First is, economic and policy awareness that helps the public and economic agents to anticipate policy action; the so called expectations. Second is the direct relaying of information on policy action and the intended outcome.

In both these cases, three pillars support effective communication. On one side is the policy institutions, in the middle, a vibrant and knowledgeable media, while an economically aware, participative and responsive market and economic agents are the third pillar. That said, in order for the communication tool to be effective in macroeconomic policy formulation, the institutions and frameworks for policy need to have sufficient integrity. In turn, integrity is derived from clarity with respect to governance, policy setting, operational and accountability frameworks, as well as transparency and consistency.

Regarding general awareness and understanding of economic and financial matters, we need to appreciate that, generally, economies are characterised by business cycles of varying lengths and intensity, driven by various factors.

While, there is no time to go into details, the message I am relaying is that the various macroeconomic policies are programmed to respond to such cycles. Therefore, economic awareness entails understanding the state of the economy, the current cycle, the direction or momentum, and, therefore, anticipate policy direction. Thus, in terms of macroeconomic indicators, an up-cycle is normally characterised by acceleration in economic growth and credit demand, and an increase in inflation. In this instance, a well-informed market and public will anticipate that the next set of policies would be contractionary. The converse is true, where sustained low and falling inflation, depressed economic growth and credit demand should engender expectations of expansionary or accommodative monetary policies.

Therefore, in this environment of well-informed expectations and trust in the stabilising capacity and potency of instruments arsenal of the authorities, there is less risk of market overreaction to the path of economic indicators. Indeed, economic agents might take stabilising and policy reinforcing decisions. Consequently, once a policy-setting institution has built up integrity and reputation, markets and economic agents generate belief and respond accordingly because the institution consistently does what it says it will do in given circumstances.

I will now illustrate, and indeed reinforce, how communication is evolving with respect to two areas of macroeconomic policy formulation in Botswana. You will appreciate, that in the areas of monetary policy and exchange rate policy, there is ongoing improvements and clarity relating to institutional setting, policy framework and parameters, instruments and decision-making cycles and dissemination platforms. In my view such developments have greatly improved understanding and efficacy of these policies.

Regarding monetary policy, the Bank of Botswana has now entrenched a price stability objective of 3 – 6 percent, where the institutional set-up entails six pre-announced meetings in a year, of the Monetary Policy Committee that assess developments, economic outlook and make a policy decision. A media briefing, and a Statement announcing the policy decision and related background information follow each meeting. The annual Monetary Policy Statement and its Mid-term Review serve as the anchor for dissemination of the monetary policy framework, policy analysis and guide for expectations on economic and policy outcomes.

In this regard, awareness of the policy framework, institutional arrangements for decision-making and consistency, promote the necessary integrity and transparency that foster efficacy of monetary policy. In essence, economic agents are able to anticipate, as well as respond to policy action. In addition, markets are more aligned to the policy stance. We, therefore, view the maintenance of a transparent and accountable monetary policy and the related communication strategies, as contributing to sustained attainment of the inflation objective.

The exchange rate policy is also much more transparent. It is now clear to the market that we have a fixed exchange rate, albeit in a crawling band arrangement, pegged 55 percent to the SDR and 45 percent to the South African rand. It is also known that the exchange rate is continuously adjusted using an annual rate of crawl based on the difference in the projected inflation of the trading partner countries and Botswana's inflation objective; this rate of crawl is public knowledge, typically announced at the beginning of the year. Such transparency has removed uncertainty in the management of the exchange rate. Thus, economic agents can use market information and forecasts with respect to the freely traded currencies (that constitute the Pula basket) and inflation, to anticipate the Pula exchange rate. In this regard, certainty about the policy path helps to anchor economic decisions in a manner desired by policy action, and that is supportive of industrialisation and economic growth objectives.

Distinguished Ladies and gentlemen, effective communication also entails common understanding and usage of language. In this regard, there is need, on the part of policy-setting institutions, for consistency in definitions, in the meanings of adjectives attributed to magnitudes of changes and movements in economic indicators, as well as the wording/interpretation of policy action (or non-action). To the extent that such common language is accepted and used by the media, policy analysts and commentators, it becomes a tool in policy formulation that has an intended impact on economic decision making. However, on the other hand, misreporting, either deliberately or due to lack of understanding of some key concepts, could cause unnecessary confusion in the market and, therefore, be detrimental to the implementation of these macroeconomic policies.

Communication also entails proper identification of spokespersons for the policy setting institution and matters on which they are responsible. A proper arrangement in this regard, promotes credibility and effectiveness of policy communication. For example, the Governor of the central bank is normally and appropriately the singular voice on monetary policy, while the Minister responsible for finance or treasury, is the singular voice on fiscal policy.

In concluding, I want to point out that, dissemination platforms are also an important component of policy effectiveness, and determine the reach and credibility of macroeconomic policy. For the Bank, we find high-level gatherings such as the launch of the Monetary Policy Statement, Economic Briefings following publication of the Annual report, as well as media briefings following Monetary Policy Committee meetings, to be very important. These facilitate both information dissemination, exchange of ideas, as well as feedback and evaluation of their performance. Extensive use of the website also allows for wider and continuous access to information and external contributions and commentary. The Bank also finds that research and publications, as well as participation in workshops and seminars, help to project the quality and content of the Bank's work, which also engenders credibility and integrity of the sources of policy analysis and decisions.

Ladies and gentlemen, allow me to end here and I would be happy to continue the dialogue as you make observations, comments and ask questions.