

Communications Policy of the Reserve Bank of India

Mr. Green, Mr. Weetman, Mr. New and friends,

I am thankful to the organisers and in particular Mr. New for giving me the honour of participating in the 150th anniversary celebrations of the Reuters Group. In all innocence, I accepted the invitation only soon to realise that there is no free lunch or free dinner in this world. I am assigned the task of inaugurating the evening and addressing the guests on this occasion. I pleaded for some draft from Reuters, though informally. As you may be aware, as senior bureaucrats, we are good at reading out excellent speeches drafted by others. But, the organisers insisted on giving me a free hand. It was a polite way, I presume, of suggesting that we do our homework diligently. So, a visit to Reuters Website and Websites of several central banks became necessary to select a subject and also to obtain some material for a suitable address on this occasion. Of course, I consulted several of my colleagues in the Reserve Bank, including Ms. Alpana Killawala, the points person in our relations with the media.

Reuters

Reuters is, perhaps, synonymous with online news but there is more to Reuters than purveying news. In 1850-51, Mr. Paul Julius Reuter, the founder had used a fleet of forty five pigeons to deliver news and stock prices between Brussels and Aachen in Germany. Now, in 2001, besides serving the financial markets using state of art technology, Reuters information is read by an estimated 73 million people each month. The Reuters website provides a long list of its impressive achievements over the last 150 years. An aspect that is the most striking is the reach of its information to different parts of the world. Reuters is a prime example of how the most modern available technologies can be harnessed to minimise information asymmetry. To quote from the Reuters website: "Over 5,58,000 professional users in 69,700 locations access Reuters information and news worldwide. Data is provided on more than 9,40,000 shares, bonds and other financial instruments as well as on 40,000 companies. Financial information is obtained from 257 exchanges and over-the-counter markets. 5,047 clients contribute prices, opinions, and analyses covering a wide variety of markets".

In this background, perhaps this is a proper occasion to share with the distinguished gathering today some of my thoughts on dilemmas faced by central banks in their communication policies and the multiple effects of the media. This will be followed by a brief narration of initiatives taken by select central banks and then by a more detailed account of dissemination policies and practices of the Reserve Bank of India.

Central Banks' Dilemmas

The functioning of the central banks has generally been considered highly secretive if not entirely to be an ivory tower. In fact, a book by William Greider on the Federal Reserve published as recently as 1987 is titled "Secrets of the Temple". The situation has changed, however. For instance, the European Central Bank (ECB) like most other central banks in the world, is laying greater emphasis on its communications policy, as acknowledged by Mr. Otmar Issing about a year ago. In fact, Mr. Issing explained the communications problem in the context

of “euro’s external exchange rate” and the rather mixed opinion of the ECB despite its success in its main task. It is clear that the approaches of central banks to communications have changed. What are the reasons for this change?

Traditionally, central banking policy formulation has been associated with an element of secrecy, and for good reasons, a central bank was considered to be an arm of Government. Furthermore, financial markets and entities were tightly regulated and functioned the way regulators would like them to behave. However, with financial deregulation and increasing cross border flows, the central banks of most countries have gained some degree of autonomy and with it a sense of accountability. Hence, central banks do see some advantage in communicating in as transparent a manner as is appropriate, their policy intentions and operations. Well informed market participants enable, though not assure, improved functioning of markets. Of course, the policy maker cannot reveal policy cards as it is advisable to maintain an element of surprise or avoid anticipatory actions. Yet, in all cases, either *ex-ante*, or concurrent or at least *ex-post*, adequate communication of rationale for policies and operations is expected now and, in my view, this is desirable.

There are several dilemmas faced by central banks while designing an appropriate communications policy. What should be communicated and to what degree of disaggregation, are one set of issues. The second set relates to: at what stage of evolution of internal thinking and debate should there be dissemination. The third set relates to the timing of communication with reference to its market impact. The fourth relates to the quality of information and the possible ways in which it could be perceived. Thus, alleged incoherence or an element of ambiguity at times on the part of central bankers in explaining policies is as much a reflection of the complexity of the issues as it is of the differing perceptions of a variety of audiences to which the communication is addressed.

Perhaps, the diversity in the audience needs to be explained. Broadly speaking, any communication from a central bank is addressed to several constituencies namely, the regulated entities; participants in financial markets; financial analysts; economists-cum-researchers or opinion makers in the academia; the multilateral bodies including the International Monetary Fund; the World Bank and of course credit rating agencies; the immediate stakeholder being the Government or Parliament; and the ultimate stakeholder being the public at large. Each of these constituencies has its own concerns, time-frame, perception and technical expertise. While there is some scope for designing specific communications to be of use to a particular constituency on its unique requirements, a large part of communications has to be addressed to all constituencies. In any case, all communications, unless they are very confidential in nature are rightly accessible to all the constituencies and selective dissemination is almost impossible in modern days of high technology and vibrant democracy. So, often the practical issue is to design an array of instruments and a menu-approach keeping in view the sensitivities and complexities, recognising that the users and uses of a central bank’s communications are varied. An illustration is, how to craft a press release or website release that produces hard information to professionals but does not keep away the interests of general public.

In designing and effectuating a communications policy, it is also necessary to recognise the variety in media. Traditionally the press, *i.e.*, the print media has been the most dominant

and perhaps continues to be so especially to reach a wide audience and for analysis. The electronic media is a more recent phenomenon, which is becoming increasingly dominant.

The speed with which wire agencies can impact the markets is of special significance to a central bank. The visual impact is more in respect of television and of course, debates on televisions are likely. An important means of communication in the recent past has been website and also e-mail. The problem before a central banker is to cater to the needs of the different means of communication with appropriate nuance while maintaining the quality of information and credibility of policy. In a sense, we have two sets of problems in this regard, *viz.*, the variety of target audience and the varying nature of media through which communications occur. Briefly stated, if a central banker sounds confused at times, he or she may be truly confused; and it is unlikely to be a pretence. But, there are more occasions when a central banker knows what to say but is confused when it comes to deciding on the design of communication or the appropriateness of media.

Multiple Effects of the Media

In assessing the contribution of the media to public good, I would distinguish among at least four types of effects. The first type may be characterised as the ‘news effect’, which would normally reflect factual or formal positions or events. In a sense, the media’s reporting would be faithful and non-controversial. A second type can be identified as ‘rumour effect’, and often rumours have a destabilising effect and in some cases have the potential to degenerate into self-perpetuating or self-fulfilling events. The rumour effect often results in unintended losses or gains and people may suspect that there is some vested interest behind such rumours. Needless to say, the media’s role will, on the whole, tend to be negative in this channel. The third type is marked by the ‘survey effect’. It is not uncommon for the media to undertake opinion polls or surveys and these could have methodological and other problems in terms of reflecting the true picture. These surveys have a tendency to influence the perception of markets and sometimes the general public. In such a case, the contribution of the media would depend on scientific methodology adopted, transparency of assumptions, and objectivity in presentation of the results. Adequate care is a pre-condition to ensure a positive effect through this channel. The fourth is the ‘interpretation effect’, where media tries to interpret the stand taken by policy makers or markets or corporates. The interpretation effect may be positive or negative depending on professional skills as well as commitment to objectives. Responsibility and accountability would be key to ensure positive effect through this channel.

In brief, it is my submission that the media’s responsibilities are not confined to its shareholders or to its subscribers, but extend to the larger segment of the public. In this sense, the challenges and dilemmas before the media are perhaps no less than those before the central banks.

Dissemination Initiatives of Central Banks

Central banks use a variety of methods to disseminate information to the market. It could include daily press releases, periodical policy announcements, regular and *ad hoc* publications, speeches by the top management, interviews with the press, *etc.* More recently, central banks

have been effectively using the website for disseminating information. However, the critical change that can be observed in recent years is that the electronic media such as the Reuters have enhanced the ability of communication systems to allow instantaneous reach of information to market participants. The IT revolution has transformed financial services by changing the speed, scope, nature of information and communication.

A random survey of the websites of some central banks shows availability of a wide variety of applications such as quick dissemination of important policy communications; posting of press releases; disclosing information relating to financial markets; releasing economic indicators in various formats; providing applications to extract statistics in the format desired by the user, equipping other web-based services to the financial sector such as facilitating submission of returns, advertising job opportunities in the central banks, *etc.* There are increasing similarities in the type of information that is released by central banks on their websites. The differences in availability of information, that do exist, come from the differences in institutional responsibilities, such as supervision being vested with an authority outside the central bank, *etc.*

It is also observed that many central banks use the website as their primary medium of communication and look forward to reducing or discontinuing the print media. Some central banks like the Bank of England and the Reserve Bank of New Zealand have offered special initiatives in creating awareness of their functioning among lay public including schools and colleges.

The survey also brings out a universal recognition of four relevant issues, namely :

First, in an increasingly deregulated market and enhanced credibility of central banks in macro-policy, the effective articulation of policy by the central bank is important.

Second, appropriate and transparent communications from the central bank helps the market respond to policies with better information.

Third, the perceptions of media are critical and act as a feedback mechanism to the central bank.

Fourth, while central banks are increasingly transparent, the extent of transparency from the regulated units and financial markets is still a matter of concern. This results in a type of information asymmetry between public authorities and private sector, a factor that needs to be noted by the media in the discharge of their functions.

Communications Policy of RBI

Against this backdrop, I would attempt to explain the communications policy of RBI and bring on record the sources of information available to the media and the public from the RBI. Information on areas relating to the economy, banking and financial sector is released with stringent standards of quality and timeliness. Dissemination of information takes place through several channels such as press releases, publications - regular and occasional - notifications, Frequently Asked Questions, advertisements and website. The annual April and October

monetary and credit policy statements and speeches and interviews of the Top management articulate the RBI's assessment of the economy and the financial system. My presence here today is part of a fruitful and beneficial partnership between RBI and media in the broader context of creating public awareness, and obtaining continuous feedback.

The RBI makes efforts to provide quality data to the public at large, which emanates from a robust statistical system established and strengthened over the years. The fundamental attributes of a good statistical system are credibility, timeliness and adequacy. The RBI endeavours to provide credible statistics for dissemination through the media through various ways – with updating of data on its website, daily press releases, and its weekly, monthly, quarterly and annual publications. The communications from RBI range from a daily press release on money market data at about 9.00 A.M.; details of repos and reverse repos as part of Liquidity Adjustment Facility at about 12.30 P.M.; the U.S. dollar-rupee reference rate at about 2.00 P.M.; monetary, banking and prices data through a Weekly Statistical Supplement and the Annual Report of RBI, Report on Trend and Progress of Banking in India and the Report on Currency and Finance. Incidentally, you would have already seen the Annual Report of the RBI for the year July-June 2000-01 on the RBI website at 5 PM today followed almost simultaneously by wide coverage by the electronic media.

The RBI brings out a number of *Ad hoc* publications, which contain a wealth of useful information on national and international issues.

Information on various facets of Indian Economy is disseminated through the RBI publications, such as, Handbook of Statistics on Indian Economy, Statistical Tables relating to Banks in India, Banking Statistics - Annual and Quarterly. The document relating to Macroeconomic and Monetary Developments issued along with the April Monetary and Credit Policy Statement is also an important source of background information. Incidentally, RBI is the only recognised source for the information on the consolidated position of State Finances. These publications contain valuable information useful to researchers and to the general public at large.

The RBI also brings out special publications and monographs from time to time dealing with issues such as the problems of agricultural finance, company finances, balance of payments, etc., which have a unique place in the economic information system in the country. Available evidence on international comparisons of level of transparency as well as quality and timeliness of information clearly shows that RBI comes out well in the top league. Professional standards and credibility of RBI are ranked very high. In fact, several of the speeches of Governor and Deputy Governors of RBI are circulated to other central banks as part of the Bank for International Settlements Review, Basel, Switzerland. India is also amongst the first few signatories to the Special Data Dissemination Standards (SDDS) as defined by the International Monetary Fund for the purpose of releasing data and the RBI contributes to SDDS in a significant manner. There has been an ongoing and steady improvement in the collection, compilation, coverage and publications of various economic and monetary statistics.

Conclusion

In the context of deregulation and liberalisation of financial markets, it is well recognised that wider dissemination of information by all economic agents and transparency of policy formulation and operations on part of the Government and other regulatory authorities contribute significantly to efficient markets. Further, timely and relevant information is vital for efficient policy making and stabilising expectations. While opaqueness will lead to inefficiency, asymmetric information would cause segmented market behaviour and imperfections. RBI believes that information dissemination leads to minimisation of uncertainties about policy intentions and contributes to market stability. RBI, therefore, lays a great emphasis upon transparency and public availability of information. Agencies like Reuters have a significant role in providing on-line information to market participants. In fact, not merely the financial market participants use such services and no doubt derive benefit out of it, but the RBI itself utilises such services and is by and large pleased with the benefits derived. In a very important sense, therefore, RBI is not only a supplier of information and analysis but also an attentive consumer of media-services such as that of Reuters.

In this background, dissemination of information should be authentic, properly classified, and should have sufficient details so that it is understood in a homogenous manner by all participants including central banks. In that sense, while information *per se* is neutral, if it is understood differently and interpreted with any element of bias, the purpose of information dissemination may get distorted leading to destabilising influence and panic reactions in the market. There is, therefore, an enormous responsibility placed upon the agencies *viz.*, press, journals or any other media like Reuters to ensure that authentic and properly interpreted information are provided to the market.

Correspondingly, the Reserve Bank of India has a responsibility to benefit from and contribute to the activities of media such as Reuters.

Confidence and mutual trust is the key to a productive role for all concerned. The fact that Reuters has thought fit to call an official from the RBI on this important occasion is a testimony to the valuable and fruitful relationship between media and the RBI.

Thank you.

[?] Address by Dr.Y.V.Reddy, Deputy Governor, Reserve Bank of India, at the 150th anniversary of the Reuters Group, at Mumbai, on August 28, 2001.