

COMMUNICATION STRATEGY OF THE BANGKO SENTRAL NG PILIPINAS¹

A. Introduction

1. Communication, alongside transparency, has increasingly taken on an important role in modern policymaking. This trend was borne out of the necessity to connect with a financial system that has dramatically developed, expanded and interconnected with one another. Thus, central bank communication strategies are aimed at allowing financial markets to anticipate the policy decisions and the future direction of monetary policy, as well as to reduce uncertainties surrounding these expectations.
2. The rationale behind the necessity for better central bank communication is rooted on two things: (1) the impact of market players' expectations on the financial markets and (2) the mandate of central banks to influence asset prices and interest rates on all maturities. Monetary policy has important macroeconomic effects only if it is able to influence key market prices such as long-term interest rates, stock market values and exchange rates. However, the central bank can only directly control overnight interest rate which has little relevance to economic transactions. Thus, the link between the overnight rate and the key prices and interest rates depends on market expectations.

¹ A paper presented by Mr. Ernando S. De Leon, Deputy Director, Department of Economic Research, Bangko Sentral ng Pilipinas, during the XI Meeting on Central Bank Communications held on 18-20 October 2006 at Buenos Aires, Argentina.

3. Furthermore, the emphasis on transparency and communication was also spurred by the growing interest in greater accountability for central banks considering that central banks have been granted substantial autonomy in executing their tasks. Clients and the public are made aware of the central bank's performance through the latter's regular publication of its targets and achievements.
4. Within the organization, communication is central to effective governance. Effective communication is necessary to accomplish individual and organizational goals, implement and respond to organizational changes, coordinate activities, and engage in organizationally relevant behavior. Employee productivity, administrative discipline and strategy implementation are areas under which communication has critical influence.

B. Existing Communication Strategy

5. In 2002, the Bangko Sentral ng Pilipinas (BSP) shifted to inflation targeting framework which led to greater disclosure and communication of the BSP of its monetary policy actions and decisions. Guinguindo (2005) explained that the accountability of the BSP derives from the fact that, in making a public commitment to achieve the announced inflation targets, the BSP is formally submitting itself to the judgment of financial markets and the general public, and faces reputational risks (along with adverse changes in market sentiment and inflation expectations) should it fail to achieve the targets. Against this background, the BSP put in place specific measures that aim to foster an effective external and internal

communication channels through which policy actions of the monetary authorities could be cascaded.

6. The BSP's overall approach to communication may be described as collegial. That is, communications with the public emphasize portraying the consensus or majority view within the Bank, so that officials speak in one voice, rather than conveying the diversity of views within the Monetary Board. The collegial approach is intended to prevent confusion on the part of market players arising from multiple signals concerning the direction of monetary policy. In practice, views on the monetary policy stance are typically articulated in the media by the BSP Governor. Monetary Board members seldom make public comments on the likely path of monetary policy.

External Communications

7. *The Quarterly Inflation Report.* The Quarterly Inflation Report published by the BSP conveys to the public the overall thinking and analysis of the monetary authorities' decisions on so that monetary policy will be easier to follow and understand. It is also aimed at enabling the public to better monitor the BSP's commitment to the inflation target, thereby helping anchor inflation expectations. The report is essentially a survey of the various factors affecting inflation – recent price and cost developments, prospects for aggregate demand and output, monetary and financial market conditions, labor market conditions, fiscal developments, and the international environment. An electronic copy of the report is regularly uploaded in the BSP website while hard copies are being made available to the Office of the

President of the Republic of the Philippines (ROP), the President of the Philippine Senate and the Speaker of the Lower House of the Philippine Congress.

8. *Issuance of Open Letter.* The BSP issues an open letter addressed to the President of the ROP whenever the BSP fails to achieve the inflation target. The Open Letter explains the reasons why actual inflation did not meet the target, and discusses possible measures to be adopted to bring actual inflation back in line with the inflation target. The Open Letter is typically issued in January following the release of the full-year inflation data for the preceding year and is published on the BSP website. So far, the BSP has had to issue four Open Letters since the start of the inflation targeting regime: two for achieving inflation below the target and two for inflation above the target.

9. *Public Information Campaign (PIC).* The new emphasis on transparency required the familiarization of the public with the concept of inflation targeting (IT). Thus, the most important component of the preparatory blueprint for the new policy framework was the series of public hearings and discussions in 2000 and 2001 held by the BSP in key cities around the country. The objective was to introduce the concept of IT to the public and increase public understanding of the monetary policy process in general. The BSP began conducting a series of PIC on the subject in March 2000. Subsequently, the Monetary Board gave instructions to BSP management to expand the coverage of the PIC to include other advocacies of the BSP. This is to further promote economic and financial literacy in the country. Thus, the BSP included additional topics in its PIC, namely: (1)

microfinance; (2) rediscounting facility; (3) Special Purpose Vehicle Act; and (4) Anti-Money Laundering Act. Moreover, a briefing on recent economic developments in the country has been a regular feature of the PIC. Since its launching in March 2000, the BSP has conducted 51 public information briefings all over the country. The PICs were attended by more than 3,000 representatives from the academe, business, labor, the banking community, government, non-government organizations and the press. The PIC has continued well after the formal start of inflation targeting and the BSP presently holds public briefings on a regular basis in various locations around the country.

10. *Financial Literacy Campaign (FLC)*. The BSP has taken a proactive stance in embarking on a consumer education program that aims to improve the basic financial literacy of the public. In 2004, the BSP approved the creation of a Consumer Education Committee to address the basic financial literacy requirements of consumers of financial products and services. This involved familiarizing the public on the various banking products and services that they usually encounter in ordinary financial transactions. The FLC is also aimed at encouraging the usage of financial services.

11. One ongoing FLC is the Overseas Filipino Workers (OFW) Literacy Campaign which aims to promote savings and investments among OFWs and their beneficiaries by informing the target participants of alternative opportunities for remittances, such as savings or placements in financial instruments and/or investments in business ventures available in the non-banking sector. The

program is also one of the important initiatives that the BSP is undertaking this year with the view to channel remittances to development activities and help promote the savings habit among OFWs and their beneficiaries. To date, six FLCs had been conducted in various provinces since it was launched on 28 February 2006. Three more FLCs are scheduled for the rest of the year as the BSP strives to reach out to more OFWs and their beneficiaries all over the country.

12. *Economic Briefings.* The BSP also conducts economic briefings with regional and international financial organizations, foreign investors and fund managers to present an overview of the Philippine financial and economic environment and address queries on emerging economic issues facing the Philippine economy.
13. *Dialogue with Industry Associations.* The BSP also conducts dialogues with industry associations such as the Bankers Association of the Philippines (BAP), Rural Bankers Association of the Philippines (RBAP), Confederation of the Non-Stock Savings and Loans Association, Philippine Exporters Confederation, etc. These dialogues are venues for clarifying the BSP's positions on matters that are of concern to these associations. The issues/views expressed by the participants of these dialogues also serve as inputs in the decision-making process of the monetary authorities on key economic, monetary and financial matters.
14. *The BSP Review.* Published twice a year to serve primarily as a forum for presenting the research findings of BSP staff, The BSP Review includes analytical and policy-oriented research articles on various economic, financial and statistical

issues of interest to the BSP. The research articles are accessed through the BSP website.

Internal Communications

15. *Documentation of the BSP's medium-term roadmap and individual projects and operational plans.* This is a strategy implementation which aims to aid the timely implementation of projects through a clear understanding of project timelines and deliverables by setting reasonable targets.
16. *The Performance Evaluation Program.* The evaluation program is meant to strengthen employees' commitments to work through supervisor-staff dialogue process of the performance evaluation. Employee productivity is ensured through this evaluation program.
17. *Publication of Office Orders, Memoranda and Administrative Guidelines through the Intranet.* This is to ensure uniform and consistent understanding and application of administrative policies and guidelines through heightened awareness.
18. *Quarterly publication of The Central Banker.* The Central Banker is a regular publication of the Corporate Affairs Office which highlights BSP's involvement in bank-wide or outside-bank activities. The newsletter builds up the organizational spirit and fosters unity among the employees.

C. Areas for Improvement

19. The Inflation Report has been received favorably by various local and international institutions and in particular, the International Monetary Fund noted that the report provides a comprehensive description of recent developments, an incisive analysis of monetary policy, and a forthright assessment of inflation prospects, and is clearly written and readily understood by the informed public. In 2003, the relatively new Inflation Report has been ranked 11th out of 20 inflation-reporting central banks by Fracasso, Genberg and Wyplosz of the Centre for Economic Policy Research of London. However, areas for improvement still remain. Greater effort is needed in making the report more convincing to readers and conveying the Bank's expertise in monetary policy. Further improvements could still be made in the quantity and quality of information presented such as in the price and growth data, underlying assumptions for inflation forecasting and risks involved, details of the inflation forecasting models used and the coverage of financial stability issues.

20. The BSP is also deep in the process of educating the public and the local media with regards to economic concepts aside from inflation targeting such as the recent of economic developments, the role of the BSP in the Philippine economy, and anti-money laundering through continued conduct of regional briefings. Future efforts to increase economic literacy will center on these and other issues, including the importance of looking at the forecasted path of inflation over the policy horizon. In time, increased public understanding of the basic concepts will allow the BSP to employ greater nuance in communicating its monetary policy stance with greater assurance of better public appreciation and support.

21. In the aspect of internal communication, areas for improvement remain in the setting up a communication strategy and client satisfaction survey for major bank-wide initiatives, and in conducting post-implementation review of completed projects to boost institutional knowledge. To further improve employee productivity, it is also possible to review the Performance Evaluation Program, particularly on its use as a feedback mechanism.

22. The BSP is continuously at work in improving transparency and its public communications. Currently, there is a greater conscious effort within the policymaking circle to properly communicate the policy impulses to financial markets, the media and the public at large. Greater transparency and communication, in turn, have not only enabled financial markets and the public to better anticipate the direction of monetary policy, but also have made the task of explaining the stance of monetary policy, and the rationale behind it, easier for authorities.