



## **RESERVE BANK OF MALAWI**

### **COMMUNICATION ON MONETARY AND FINANCIAL STABILITY POLICIES**

#### **1. Preamble**

The principal objectives of the Reserve Bank of Malawi (the Bank) are price and financial stability. This entails that the Bank has the responsibility of formulating and implementing monetary policy to ensure price stability, and to regulate, supervise and analyse the health of the financial system aiming to foster financial stability. In pursuing its objectives, the Bank also carries out attendant activities such as promoting the development of the financial system, creation of an efficient and secure payment system, and facilitating financial literacy and inclusion.

The Bank is of the view that efficient communication on monetary and financial stability issues is central to the achievement of these objectives. This document therefore prescribes the manner in which the Bank is going to communicate various policies, actions and events to stakeholders. The document describes the Bank's commitment to provide the public with clear, accurate and timely information, communicated in a professional manner, and in accordance with the laws regarding public information and data practices.

This communication Policy is set out to address three key areas. First, monetary policy communication on measures to be implemented by the Bank in pursuit of price stability. While the measures will largely be reflected in terms of monetary policy rate decisions, they shall also broadly include sales and/or purchases of foreign exchange, open market operations, discount window trading activity and liquidity reserve requirement (LRR) ratio. Secondly, the Bank will communicate information on its assessment of the health of the financial system, sources of risk and remedial measures, and the overall state of the national payment infrastructure. Thirdly, the Bank will have a plan in place for managing communication in times of crises.

#### **2. Communication Policy Objectives**

The overall objective of this Policy is to provide a framework for communication that will ensure the attainment of the Bank's principal objectives of price and financial stability. The

aim is to implement a communication strategy that is properly coordinated, effectively managed and responsive to various information needs of the Bank's stakeholders.

## **2.1 Specific Objectives**

In committing to this communication Policy, the Bank aims to assure all stakeholders that:

- Communication of the monetary policy framework and policy decisions will be timely, clear and effective in explaining how the decisions are arrived at, with a view to anchor market expectations on inflation,
- The Bank shall provide a mechanism for receiving feedback from stakeholders on their assessment and views of the monetary policy decisions made by the Monetary Policy Committee,
- The Bank shall ensure that macro prudential policies and relevant information on the financial system stability are clearly, effectively and timely communicated, and
- The Bank shall keep the public informed about the Bank's work and the country's economic developments.

## **3. Communication Policy Statement**

The communication Policy shall ensure that all un-confidential information will be open and transparent, timely, accurate, clear, consistent, and available in the required modes.

### **3.1 Effective Communication**

3.1.1 In order to promote effective monetary policy and financial stability communication, the Bank shall:

- (a) Convey policy decisions and relevant information in a clear, timely and concise manner using the most efficient and latest technological tools,
- (b) Implement a two-way communication framework to solicit feedback from all stakeholders, and
- (c) Implement a plan for managing communication in times of crises.

## **4. Scope of Application**

This Policy will apply to all monetary policy, financial stability and crisis communication.

## **5. Implementation Procedure**

### **5.1 Monetary Policy Communication**

This section explains how monetary policy communication will be handled by the Bank. The country's current monetary policy framework is focused on reserve money targeting. Recently, policy conduct has tilted towards interest rate targeting as a transition point towards an inflation targeting framework.

### **5.1.1 Current monetary policy framework**

The Bank is implementing a monetary aggregate targeting framework. Reserve money is the operational target whereas the intermediate target is broad money liabilities. Under this framework, single digit inflation is pursued. Hence the reserve money target is set to be consistent with the single digit inflation in line with the region's convergence criteria.

### **5.1.2 The decision-making process of monetary policy and strengthening internal monetary policy framework**

The Monetary Policy Committee (MPC) makes all monetary policy decisions. The Committee meets four times a year, on pre-announced dates, to deliberate on economic developments and outlook which inform their decision. The Committee is composed of the following members:

Voting members:

- Governor - Chairperson
- Deputy Governor(s)
- Representative from the private sector
- Representative from academia
- Representative from Institute of Chartered Accountants in Malawi (ICAM)
- Director, Economic Policy Research - Secretary

Non-voting members: Secretary to the Treasury

The MPC is supported by a Monetary Policy Technical Committee (MPTC) which is an advisory organ of the MPC. The committee is composed of the following members:

Chairperson: Deputy Governor

Alternate Chairperson: Director, Financial Markets

Secretary: Director, Economic Policy Research

Members: Director, Communication and Protocol

Director, Banking

Director, Foreign Flows Monitoring

Director, Bank Supervision

Director, Strategy and Risk Management

Director, Economic Affairs (Ministry of Finance)

The MPTC reviews key sectoral reports submitted by different departments as follows:

- i. Financial market developments
- ii. Banking system developments
- iii. Fiscal developments comprising implementation progress of the national budget and government operations through the Bank
- iv. Macroeconomic developments and forecast report

### **5.1.3 Hierarchy of monetary policy communication**

The Governor as Chairperson of the Monetary Policy Committee is the spokesperson on all matters of monetary policy. However, the Governor may delegate the function to the Chairperson of the Monetary Policy Technical Committee (MPTC) or alternate Chairperson of the MPTC or Director, Communication and Protocol.

### **5.1.4 Current communication modalities**

#### ***Press briefing***

Press briefing on monetary policy decisions and factors that lead to the decision is held by the Governor, and his Power Point presentation is concurrently posted on the Bank's website.

#### ***Press statement***

A press statement is distributed during the press briefing and concurrently posted on the Bank's website.

#### ***Monetary Policy Report***

A summary of the discussions and the resolutions made at the MPC Meeting is released through a Monetary Policy Report which is published on the Bank's website three days following the MPC resolution. The report highlights economic developments and prospects, forecasts and basis for the monetary policy decision.

#### ***Governor's quarterly meetings with CEOs of financial institutions***

The Governor meets Heads of Financial institutions quarterly to discuss economic developments as well as to explain how and why certain policy decisions were taken.

#### ***Governor's quarterly meetings with Members of Parliament***

The Governor meets the legislature including the Budget and Finance Committee of the National Assembly quarterly to apprise them on economic developments.

#### ***Monetary policy technical fora***

A monetary policy forum comprising of the technical experts from the Bank and the

financial institutions and the private sector is held soon after MPC Meetings. The forum was established to apprise, discuss and obtain feedback on monetary policy matters.

#### ***Various RBM publications***

In addition to the generic monetary reports and statements the Bank publishes various documents on economic developments. These documents include *inter alia*: monthly economic review, quarterly financial and economic reviews, report and accounts of the Bank, and financial stability report.

#### ***Work with the press and general public***

The Bank responds to various queries from the media and general public.

### **5.1.5 Communication during the planned transition from the current framework towards inflation targeting**

To enhance communication during the transition period the Bank is institutionalising and strengthening the following existing communication modalities:

*Pre-announcement of MPC meetings dates*; An MPC meetings calendar for the year is pre-announced to allow stakeholders to plan for the announcement of monetary policy decisions. The calendar is published on the Bank's website in January each year. Any changes to the calendar are communicated in advance through the Bank's website and other modes of communication.

*Press briefing*; The Governor will continue holding press conferences to announce decision(s) of the MPC immediately after the MPC Meetings. A PowerPoint presentation will be made to the media outlining decision and factors that lead to the decision. This will add clarity to the process.

#### ***Press statement***

A press statement is distributed during the press briefing and concurrently posted on the Bank's website. This statement is also sent to the media houses through email. The press release contains the decision, summary of factors leading to the decision, current inflation, inflation projection, and medium-term inflation target. The statement also indicates the date of the next meeting of the MPC.

*Monetary Policy Report*; this report is published within 3 days following the MPC resolution.

*Monetary Policy Technical Forum*; the technical forum was introduced to bridge the information gap between policy makers and the private sector experts. The forum is convened within one week of the MPC resolution, and will continue functioning during the transition period.

Furthermore, a number of additional communication modalities will be considered. These aim to explain to the press and the public the inflation targeting regime and its benefits, including:

*Frequently Asked Questions*; This explanatory material, written in simple language for non-expert audiences, will be posted on the Bank's website and made available at various events for the press and general public.

*Seminars for the press*; these seminars will be organized to discuss the new monetary policy framework and enhance the quality of reporting.

*Briefings for the press off the record*; these briefings will be held to enable deeper discussions, especially at particular junctures, as warranted.

*Policy speeches by the Governor and senior staff authorised to speak publicly on monetary policy*; these would help to deliver key messages in a more personal way. The speeches would also be posted on the Bank's website.

*Interviews with the press by the Governor and senior staff authorised to speak publicly on monetary policy*; this is a more interactive format. Selected interviews would be posted on the Bank's website.

Risks to the transition process include uncertainty about consistency of decisions and clarity of processes. Additional risks emanate from insufficient central bank operational independence and dominance of supply shocks such as terms of trade and weather shocks.

A firm adoption of inflation targeting is expected in the medium term. Meanwhile, the Bank is undertaking some key steps towards this framework. These include; capacity building, improving financial markets operations, amending the Reserve Bank of Malawi act to reflect the new roles and objectives and adopting use of Forecasting and Policy Analysis System (FPAS).

#### **5.1.6 Plans for strengthening monetary policy communication during the transition period**

An external communication plan will be developed for the official announcement of the transition to an inflation targeting regime as the new monetary policy framework. The plan would include the following key elements:

- a. preparation of key messages about the new regime, its functioning, benefits, and ways to address potential criticism;
- b. definition of the timeline and milestones of activities proposed;
- c. identification of key target groups, as well as their interest and motivation to generate broad support;
- d. review of instruments and platforms to ensure various stakeholders are

- engaged via effective vehicles; and
- e. preparation of internal communication to staff to secure buy-in within the Bank.

In preparation for the announcement, all existing and new modalities to be developed for the transition period will be reviewed, updated, and coordinated to support the announcement, both before and after it is made.

## **5.2 Communication on financial stability issues**

The Bank considers financial stability as a condition represented by a strong financial system capable of withstanding shocks to the economy, one that is able to allocate savings into investment opportunities, facilitate the settlement of payments efficiently and manage risk in a satisfactory manner.

### **5.2.1 The financial stability report**

The Bank publishes on its website the Financial Stability Report (FSR) biannually. The FSR provides an overall assessment of risks to the financial system and also describes the system's resilience to risks. The report covers all areas of financial system stability including macroeconomic, financial institutions, financial infrastructure and regulation, and regulation and oversight of the national payment infrastructure.

The Bank conducts bank stress tests and assets quality reviews. The results are contained in the FSR and feedback is received by the Bank from the market participants through the Governors consultative meetings with Heads of financial institutions.

## **5.3 Communication during times of crises**

Crisis situations present a unique challenge to the Bank in the pursuit of achieving its objectives. The Bank has a crisis communication plan in place for the Incident Management Team to manage crises. The Governor, or the person acting on his/her behalf, is the main spokesperson for the Bank. However, depending on the nature of the incident, he/she may delegate this responsibility. Only officials authorised by the Governor may represent the Bank to the media and serve as an authorised point of contact for the media.

## **6. Bank Brand Management**

All communication from the Bank should follow laid down procedures that clearly and uniquely identifies the Bank. These include:

- a. A prescribed format for font, font size, line spacing and margin size,
- b. Numbering of pages,

- c. Headers and Footers,
- d. Labelling of diagrams, photographs and tables and acknowledgement of source,
- e. Alignment of text,
- f. Position of logo and use of corporate colours,
- g. Standard format of PowerPoint presentations, and
- h. Standard cover page.

## **7. Training and Professional Development**

The Bank shall ensure that staff implementing this Policy are well trained and retrained to cope with the dynamic nature of the field. All employees will be oriented with the Policy and encouraged to familiarise themselves with it.

## **8. Compliance with this policy**

The Bank will ensure strict adherence to this Policy in accordance with the rules and regulations governing the operations of the Bank.

## **9. Monitoring**

- 9.1** Executive Management will monitor and evaluate implementation of this Policy.
- 9.2** Evaluations will be conducted by the Internal Audit and Strategy & Risk Management Departments to assess the effectiveness of the Bank in meeting the Policy requirements and to assess the effectiveness of the Policy in helping the Bank to meet its objectives.
- 9.3** Evaluation findings will contribute to a formal review of this Policy and provide input to the development of best practices.

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