

UGSM-Monarch Business School Doctoral Research Plan

An Analysis of the Performance of Monetary Policy
Communication in Developing Countries:
A Case Study of Nigeria

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INTRODUCTION

Central bank communication is an integral part of monetary policy in many developed and emerging economies (Bulíř, Čihák and Jansen, 2012). Researchers generally acknowledge that communication enhances the effectiveness of monetary policy, and assert that the essence of monetary policy is the art of managing expectations (Blinder, 1996; Woodford, 2001).

In 2006, the Central Bank of Nigeria (CBN) introduced a new monetary policy implementation framework emphasizing communication with the public and financial markets to ensure the stability of short-term interest rates. The Monetary Policy Committee (MPC) uses different channels notably the MPC communiqué to convey its decisions. The communiqué contains the decisions and statements of members emphasising the basis of the individual and committee's decisions.

The phrase “central bank communication” depicts a deliberate effort to provide information on the main aspects of the process of monetary policy-making for understanding of the general public. According to ECB (2011), the information needed by the general public and financial markets concerns strategies, macroeconomic assessments and policy decisions as well as procedures of monetary policy communicated in an open, clear and timely manner.

Communications recorded by central bankers during the period of the 1980s were described as being cryptic in conveying decisions which lead to prominent arguments in the 1990s for more communication (Brunner, 1981; Blinder, 1996).

Since 2000 and thereafter, communication clarity intensified with scholars asserting that the essence of monetary policy is the art of managing expectations (Woodford, 2001). In addition, the assertion also elevated communication to a key instrument in the central bank's toolkit (Blinder, Ehrmann, Fratzscher, de Haan and Jensen, 2008).

Accountability and transparency are considered to be the pillars governing more effective and credible monetary policy. Accountability can be understood as the legal and political obligation of an independent central bank to properly explain and justify its decisions, thereby holding the central bank responsible for fulfilling its objective (ECB, 2011, pp.86). Transparency, on the other hand, involves providing the general public and financial markets with all relevant information on the strategy, assessments and policy decisions including procedures in an open, clear and timely manner.

The issues of central bank communication are mostly, discussed in two focuses. The first focus is on how the central bank's communications create news and influences expectations and thereby moves asset prices (Blinder et al). The second discusses the reduction of extraneous noise and on how the central bank utterance increases the predictability of their actions, leading to the reduction in volatility of the financial markets. Quoting William Poole, 2001, pp.9, "The presumption must be that market participants make more efficient decisions.....when markets can correctly predict central bank actions." Both focuses are premised on the notion that the central bank objective is to raise the quality of information provided.

Preliminary results from Ukeje, Odonye, Bala-Keffi, Oduyemi, Smith and Fwangkwai (2013) recommends the surveying of stakeholders to rank the relative effectiveness of monetary policy communication channels. Several research results are available on central bank communication in developed countries (Bulíř et al, 2012). In order to widen the applicability, additional research conducted in developing countries will be advisable to expand the scope of communication and enrich policy effectiveness. However, results are few for developing countries, including Nigeria.

The above lack of available information concerning the communication practices of central banks in developing countries reinforces the need to provide more insight on how to strengthen the framework for monetary policy communication in the country. Studies in developed countries are focused on the delivery of price stability through inflation targeting relative to monetary targeting which also characterises Nigeria's monetary regime. With the above in mind, the relevance of the contemplated research is to address the following:

1. To analyse the feedback from the monetary policy communiques relative to market response and analysts' reactions in Nigeria since 2006;
2. To examine whether communication has elevated the level of signal-to-noise ratio in monetary policy of the Central Bank of Nigeria;
3. To investigate whether central bank communication is universally applicable in practice; and
4. To develop a conceptual model that assists in understanding the relationship between central bank communication and the performance of monetary policy in Nigeria.

It is believed that this research has not been previously completed within the context of developing countries in Africa and it is believed that the contemplated research would provide the opportunity to contribute original knowledge to the domain of central bank communication and monetary policy research.

PROVISIONAL RESEARCH QUESTION

Given the above discourse a provisional research question has been developed as:

“What are the characteristics of a new conceptual model that assists in explaining the relationships between central bank communication and monetary policy performance in Nigeria?”

RESEARCH METHODOLOGY

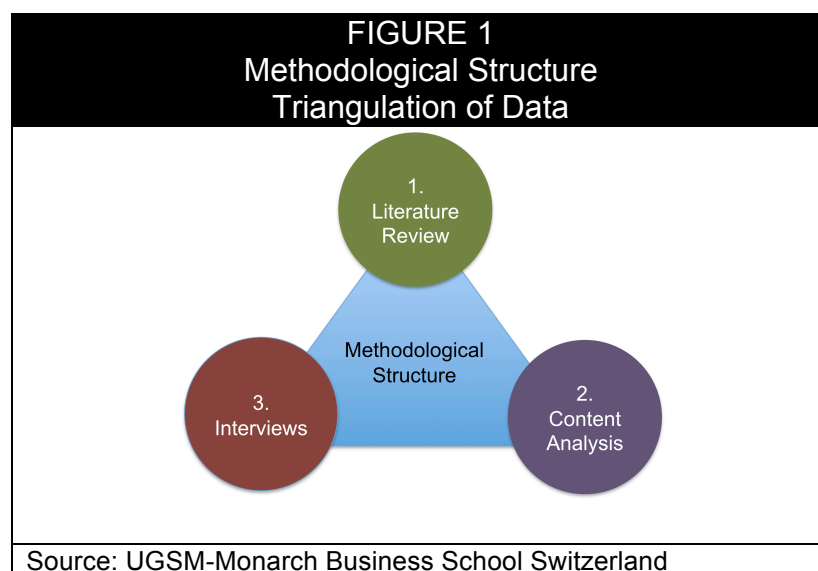


Figure 1 shows that the aim of the contemplated research is to respond to the provisional research question by way of a triangulation of research data, being: 1.

literature review of existing seminal academic authors (desk research); 2. content analysis of existing corporate data (desk research), and; 3. interviews with primary stake holders in industry (field research).

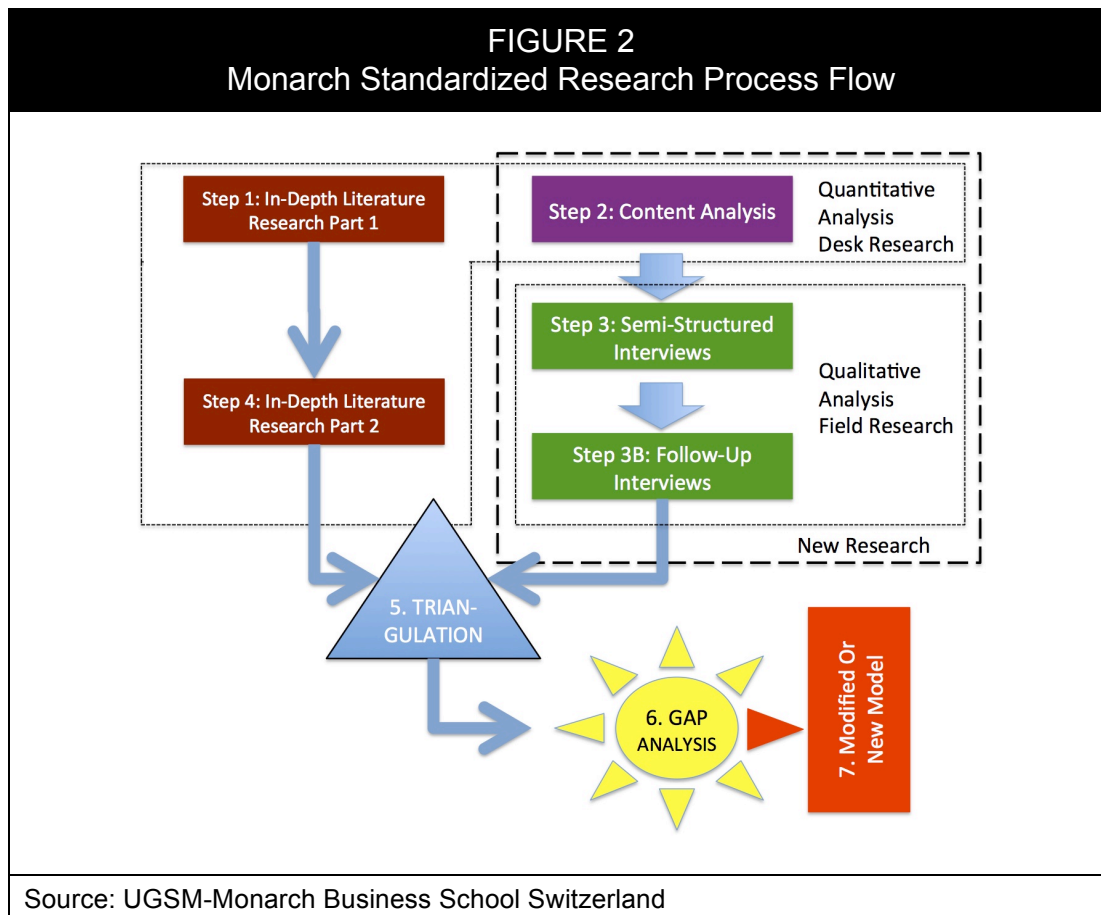


Figure 2 illustrates the steps within the Monarch Standardized Research Process Flow that will be followed within the contemplated research, as:

1. **In-Depth Literature Review-Part 1:** In-depth review of the seminal authors within the study domain will be the first step completed in order to provide a solid academic foundation to the research.

2. **Content Analysis:** An analysis based on data obtained from annual reports, white papers, supporting commercial documents and other commercial data sources will be examined.

3. **Two-Step Semi-Structured Interview Process:**

Step 1. **Preliminary Interviews:** The development of preliminary interview questions will be informed by and synthesized from the review of the literature and content analysis. Stakeholders to be interviewed will be industry participants considered knowledgeable with respect to the research at hand. A minimum sample of thirty (30) unique participants will be interviewed. Interviews will be held in person at a location amenable to the subjects and are expected to be approximately thirty (30) minutes in length. Telephone interviews will be used in the case that physical interviewing is impossible due to resource or time constraints. Interviews will be tape recorded unless objected to by the participant in which case manual notes will be taken.

Step 2. **Follow-Up Interviews:** of a more specific and narrow view informed by the first round of interviews, content analysis and literature review will be concluded with a smaller sub-set of 15 respondents obtained from the first round sample. These interviews will seek to uncover deeply held personal beliefs and understandings on the research subject that will further uncover important aspects in responding to the provisional research question.

4. **Step 4-In-Depth Literature Review-Part 2:** A second more in-depth literature research review will be completed to further refine the scope and consideration of the existing knowledge within the academic field to add more expertise and specificity to the research analysis.
5. **Step 5 & 6 - Triangulation of the Data & Gap Analysis:** A triangulation of the data will be considered and analyzed in order to determine whether or not the existing academic knowledge is congruent with the practical application of the field on a commercial basis. The result of this analysis should dictate whether or not a “Knowledge Gap” exists between the academic (theoretical) and the practical (applied) domains.
6. **Step 7: Development of New Model:** Building on the Gap Analysis a thorough analysis of the existing frameworks within the academic domain will be made. This analysis will inform whether or not the existing frameworks sufficiently address the requirement for practical application within the industry and whether or not they may be further improved or modified.

RESEARCH TIMELINE & BUDGET

The contemplated research is expected to conclude over a 36 month period. A breakdown of the time allocation by the different phases of the research is outlined in Table 3 above.

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TABLE 3 Provisional Research Timeline													
		Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
PART A	Pre-Literature Review												
	Literature Review Part 1												
	Research Plan												
	Chapter 1												
	Chapter 2 & 3												
	Content Analysis												
		Official Submission of Chapters 1, 2, 3 and Slide Presentation To Obtain Authorization To Continue On To Field Research											
PART B	Interviews Part 1												
	Literature Review Part 2												
	Interviews Part 2												
	Data Analysis												
	Chapter 4, 5, 6												
	Manuscript Perfecting												
	Submission												
Source: UGSM-Monarch Business School Switzerland													

The research will be privately funded. No requests for supplementary grants, assistantships or scholarships will be made. The total budget of the project is approximately 12,500 Euros. No additional resources or funding will be requested of UGSM-Monarch Business School Switzerland. The budget is presently funded and research may begin immediately upon approval.

TABLE 4 Research Budget	
	In Euros
Conferences	1,500
Hotel Accommodations	3,000
Travel	4,000
Books & Articles	1,500
Statistical Software	1,000
Miscellaneous Expenses	1,500
TOTAL	12,500

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