



# MONGOLIA

## TECHNICAL ASSISTANCE REPORT—CENTRAL BANK COMMUNICATIONS

May 2023

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Central Bank Communications

**February 2023**

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## Acronyms and Abbreviations

AQR	Asset Quality Review
BOM	Bank of Mongolia
BRPD	Banking Resolution and Policy Department
CCAMTAC	Caucasus, Central Asia, and Mongolia Technical Assistance Center
COM	Communications Department
CPI	Consumer Price Index
CPIF	Consumer Price Index with a Fixed Interest Rate
FRC	Financial Regulatory Commission
FSC	Financial Stability Council
FSR	Financial Stability Report
GDP	Gross Domestic Product
IAPOC	Independence and Accountability, Policy and Operational Strategy, and Communications
IPO	Initial Public Offerings
IR	Inflation Report
MCM	Monetary and Capital Markets Department
MPC	Monetary Policy Committee
MPG	Monetary Policy Guidelines
MPPD	Macprudential Policy Department
MPR	Monetary Policy Report
PID	Press and Information Division
PIU	Press and Information Unit
TA	Technical Assistance

## Preface

At the request of the Bank of Mongolia (BOM), a mission team from the IMF's Monetary and Capital Markets Department (MCM) provided technical assistance (TA) to BOM on central bank communications. The mission took place in-person in August 2022. The team comprised Udaibir Das (mission chief), Vassili Prokopenko (both—MCM), Florian Gimbel (COM), Altynai Aidarova (CCAMTAC), Marianne Nessén (Riksbank), and John Power (Bank of England).

The purpose of the mission was to assist the authorities in enhancing the existing communication framework of BOM, and to suggest a roadmap for eventual follow-up TA missions. Specifically, the technical assistance requested by the BOM was to better understand global trends in central bank communications and what are shaping up as well-established international practices. The BOM has also sought input on its policy communications organizational design.

The mission met Governor of BOM Lkhagvasuren, management and staff of BOM, several current and former members of Parliament, representatives from Financial Regulatory Commission, commercial banks, Bankers' Association, and think tanks. The mission wishes to thank all stakeholders for their cooperation and candor, which resulted in productive discussions. The IMF Resident Representative office (SeokHyun Yoon, Selenge Sandagsuren, and Ardak Bazarbai) provided excellent support in facilitating the mission's work.

## Executive Summary

**Over the last decade, BOM has significantly intensified the use of communications.** In line with a broader trend at central banks for proactively guiding expectations on monetary and financial sector policies, as well as demonstrating accountability, BOM increased outreach to the public as a tool to build credibility. Several flagship reports have been developed (including Inflation Report and Financial Stability Report); new communication platforms have been launched (including BOM's pages on financial literacy, social media); and the BOM's organizational set-up relating to its communication function was revamped. As a result, communication is now an important aspect of BOM's operations, with numerous reports, articles, statements, and speeches published on the BOM's website and various social media. This is complemented by financial education activities and regular or ad-hoc meetings of BOM management with various stakeholders, including Parliament, banks, journalists, think tanks.

**This report reviews the existing communication framework of BOM.** The analysis focuses on the assessment of the monetary and financial policy communications as well as the evaluation of the internal organization of the BOM's communication function. The organizational arrangements are reviewed in terms of structure, resources, and procedures. The report also highlights the importance of establishing several pre-conditions for effective central bank communications, which include the presence of sound legal and normative frameworks particularly in relation to the mandate and independence of the central bank.

**The report identifies several areas where BOM could enhance the effectiveness of its communications.** A set of specific prioritized recommendations is presented in Table 1. The recommendations aim at improving the coverage, clarity, consistency, and effectiveness of communications.

- On monetary policy communications, key recommendations of the report are (i) to make the BOM's Inflation Report more forward-looking, providing more information supporting BOM's decision-making; and (ii) to streamline BOM's Monetary Policy Guidelines by moving all non-core central bank material into a separate publication.
- On financial policy communications, the report recommends sharpening the focus of the BOM's Financial Stability Report and enhancing internal (inter-departmental) as well as external (inter-agency) communications/collaboration.
- Creating a dedicated well-staffed department in charge of communications and integrating this department into major BOM's policy actions and flagship reports would significantly strengthen the BOM's internal organization of communications.
- Finally, BOM should develop and adopt a framework to conduct regular impact assessments of its communications, which is very important for understanding whether policy messages have traction with its many stakeholders.

**Table 1. Key Recommendations**

	<b>Recommendations</b>	<b>Priority</b>	<b>Timeframe<sup>1</sup></b>
	<b><i>Organization of Communications at BOM</i></b>		
1	Create a Communications Department	High	Immediate
2	Integrate communications into major policy actions and flagship reports	Medium	Short term
3	Upgrade communication tools and guidelines	Low	Medium term
	<b><i>Monetary Policy Communications</i></b>		
4	Enhance consistency on communicating MPC decisions	High	Immediate
5	Upgrade Inflation Report into Monetary Policy Report	Medium	Short term
6	Streamline Monetary Policy Guidelines	Low	Medium term
7	Introduce External Sector Report	Low	Medium term
	<b><i>Financial Sector Policy</i></b>		
8	Upgrade and revitalize the Financial Stability Report and its communication plan	Medium	Immediate
9	Revitalize the Financial Stability Council and the arrangements between BOM and FRC	High	Short term
10	Reshape the BOM set up on financial policy analysis and communications	High	Medium term
	<b><i>Evaluating Outcomes of Communications</i></b>		
11	Start conducting impact assessments of communications	Medium	Short term

<sup>1</sup> Short term: < 12 months; Medium term: 12 to 24 months.

## Context

- 1. Central banks from emerging and frontier market economies are increasingly focusing on setting up communication functions aligned to their local realities.** Traditionally, the central bank communication function is broadly defined as the information that the central bank makes available about its current and future policy objectives, the current economic outlook, and the likely path for future policy decisions. In modern times, this definition is getting tested as central bank roles and charters, and public expectations have begun to expand to macroprudential and crisis management issues. It is well accepted that clear and consistent communication does, over time, build credibility, improve public confidence, and make the reaction function of a central bank more transparent. Like others, the BOM understands that effective communication supports the policy goals. This quest raises, however, questions regarding how best to impact the expectations of different agents in an economy and how best to leverage the expanding array of technology, knowledge, and learning techniques, and communication methodologies.
- 2. Efforts to establish an effective central bank communication function face many challenges.** Lessons from the experiences of developing country central banks suggest that the challenges arise in four areas: (i) knowledge and data rigidities and frictions that complicate effective communication across different audiences—questions remain regarding the channels through which communication has desired outcomes with different audiences and on different topics; (ii) as most theoretical, empirical, and experimental approaches to policy communications are developed in markets where public literacy on monetary and financial issues is more advanced, how to best adjust them for their needs; (iii) it takes time to build policy credibility as internal central bank models are unable to fully capture the behavioral aspects of all agents; (iv) communicating about policies under stressed conditions is particularly difficult. A combination of these challenges often makes it an uphill task to communicate effectively.
- 3. Market views and the BOM's views will not always be aligned.** The goal should not be alignment but understanding—helping markets, external stakeholders, and the public at large comprehend the BOM's policy objectives, a coherent rationale for what it does or does not do. In doing so, the BOM must be transparent about how uncertainties will impact outcomes.
- 4. Finally, mandate-related uncertainty will complicate effective communications by the BOM.** If stakeholders are unclear about the medium- and long-term objectives of the BOM then they will find it difficult to respond to BOM's policy actions. Misaligned or conflicting mandates also raise the prospect of cacophony both by the BOM, as well as in parliament and in the media, detracting from the BOM's overall credibility.



# Organization of Communications at BOM

*BOM's communications function is facing two major operational challenges: (i) organizational fragmentation, which significantly increases the risk of inconsistent messages, and (ii) limited capacity for strategic communications, which reduces the effectiveness of external engagements. That is why the BOM needs to step up fundamental reforms, including the creation of a new Communications Department.*

## A. MULTIPLE CHALLENGES REQUIRE BROADER-BASED COMMUNICATIONS

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5. **The BOM's communications function has been reshaped in recent years to help improve the clarity, consistency, and effectiveness of communications.** This is not an easy task, partly because of the low economic and financial literacy of the public. Senior BOM staff noted that many Mongolians, including a significant number of policymakers, expect the BOM to address economic issues over which it has limited direct influence, including growth, unemployment, and poverty. Senior BOM staff also noted that many Mongolians are less interested in the details of monetary policy and more interested in the BOM's involvement in the subsidized mortgage program, which is mandated by the parliament. Above all, the BOM is facing concerns about high inflation.

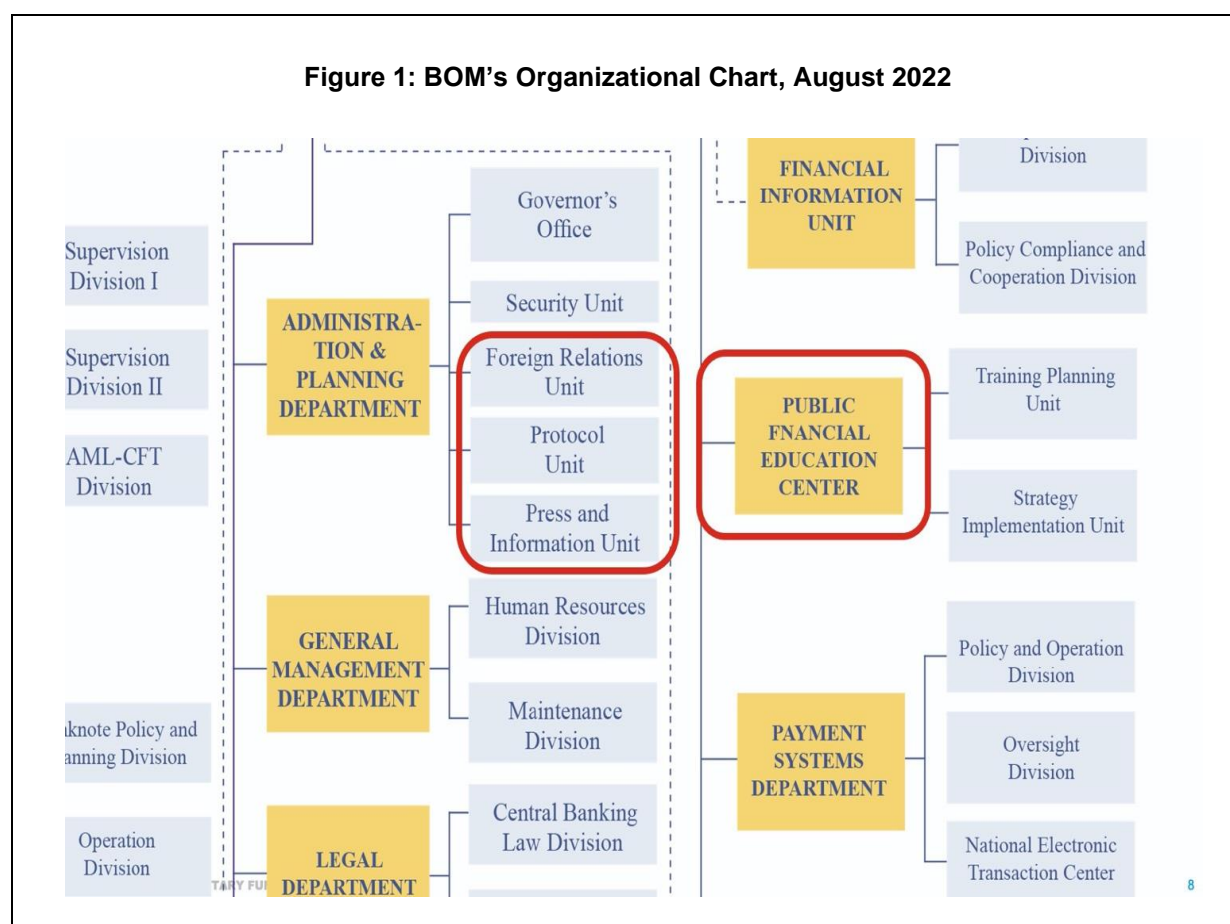
6. **Given these multiple challenges, the BOM has moved beyond the traditional approach of simply issuing press statements and organizing press conferences to broader-based communications.** This includes financial literacy programs aimed at students, economic education courses for journalists, and regular or ad-hoc meetings of BOM management with key stakeholders (Parliament, banks, journalists, etc.). Communication has become an important aspect of the BOM's operations, with flagship reports, interviews, and speeches being published on the BOM's website and amplified through social media, including infographics, short videos, etc.

7. **The BOM's communications staff are highly motivated; they are working very hard to overcome capacity and resource constraints by using a wide range of low-cost tools and creative approaches.**

- A case in point is the continuous stakeholder engagement through Twitter and Facebook, which are the dominant social media platforms in Mongolia. This relatively low-cost engagement is critical—not just because of a young and smartphone-equipped population, but also because of frequent online rumors and rapid misinformation that require BOM staff to remain vigilant.
- Another example is the significant media impact of recent initiatives: publicizing the launch of a commemorative coin featuring a Mongolian rock band, *The Hu*; and amplifying the BOM Governor's interview on crypto coins. The BOM now has a regular interview slot on Bloomberg TV Mongolia, and there are Twitter Space/Clubhouse talks aimed at younger audiences. All this reflects creativity and agility in leveraging new tools and promoting BOM messages in new and smarter ways.

## B. A FRAGMENTATED COMMUNICATIONS FUNCTION

8. **The BOM's communications function is facing a major operational challenge: organizational fragmentation.** About 23 BOM staff are focused on communications. But they are spread across the institution, mostly in Units that do not report directly to the Governor (Figure 1). This includes the *Press & Information Unit* (5 staff), the *Foreign Relations and Protocol Units* (7 staff), the *Public Financial Education Center* (8 staff), plus two *Money Museum* guides (in the Market Operations Department) and one website expert (in the Information Technology Department). Within the policy departments, staff also work on crafting the economic and financial messages through various publications.



9. **The organizational fragmentation has significantly increased the risk of inconsistent messages and communications mishaps.** As mentioned in the following section of this report, there have been inconsistent messages in recent monetary policy communications due to the existing organizational setup.

10. **Because of its fragmented organization, the BOM's communications function has a relatively weak internal standing.** It is not empowered to ensure message consistency across the institution. It is generally not involved in the final review of major communications products. Other Departments can easily decline its requests.

11. **All this has affected the effectiveness of BOM messages.** For example, it has also made it more difficult to respond to media requests in a timely manner. Instead of providing a well-calibrated version of the latest information, communications staff are often forced to *gather* information in an overly bureaucratic internal process. In some cases, delayed external communications allowed misinformation to spread fast and unchecked.

## C. THE IMPORTANCE OF STRATEGIC COMMUNICATIONS

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12. **The BOM’s communications function is facing another major challenge: limited capacity for strategic communications.** As discussed above, BOM’s communications are mostly reactive, rather than proactive and strategic. This could reduce the effectiveness of both internal interactions and external engagements.

13. **One important factor is the shortage of highly qualified communications staff who have the time and capacity for strategic planning.** It has been difficult for the BOM’s communications function to attract and retain economists, journalists, public relations experts, and digital content creators. This is partly because of more lucrative opportunities in the private sector, and partly because economists prefer to work in the more prestigious BOM Departments. It does not help that communications staff are largely excluded from policy development and decision making. But this is only part of the strategic challenge.

14. **Even as BOM Departments recognize the growing importance of communications, many have yet to fully integrate this tool into their daily operations and longer-term strategies.** BOM does not have an overarching communications strategy for the institution. Nor does it use fully-fledged communication plans for specific policy decisions and products. A case in point is the flagship Financial Stability Report, which is published on the BOM’s website without any bespoke advertising or outreach. For many BOM staff, the implicit message in the past has been: “Communications is not my job!”

15. **If the BOM is to meet the multiple external and internal challenges, it will need to follow a more integrated communications approach.** One priority is for all parts of the BOM to “speak with one voice”. Another priority is to reach all stakeholders in the best possible way (Table 2 lists BOM stakeholders). Again, this is not an easy task, given the wide range of stakeholders both at home and abroad:

**Table 2. BOM Stakeholders**

<b>Domestic stakeholders:</b>	<b>External stakeholders:</b>
<ul style="list-style-type: none"> <li>▪ Parliament &amp; other public authorities</li> <li>▪ Media: press, broadcast, social media</li> <li>▪ Financial Sector: banks, non-bank financial institutions, investors</li> <li>▪ Corporates: from small and medium-sized enterprises to big mining groups</li> <li>▪ Students: high-schools, universities</li> <li>▪ Think tanks, academics, researchers, other influencers</li> <li>▪ General Public (urban-rural divide)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Global financial sector: banks, non-bank financial institutions, investors</li> <li>▪ Rating agencies</li> <li>▪ International media</li> <li>▪ Multinational corporations</li> <li>▪ Trade partners</li> <li>▪ International organizations</li> </ul>

## D. RECOMMENDATIONS

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*Fundamental reforms of the BOM's organization are needed to improve the clarity, consistency, and effectiveness of communications. Three priorities can be highlighted. First, BOM should turn its fragmented communications function into a fully-fledged Communications Department. Second, it should integrate communications into all major products and decisions. And third, it should upgrade its communications tools and guidelines.*

### **Recommendation 1: Create a Communications Department**

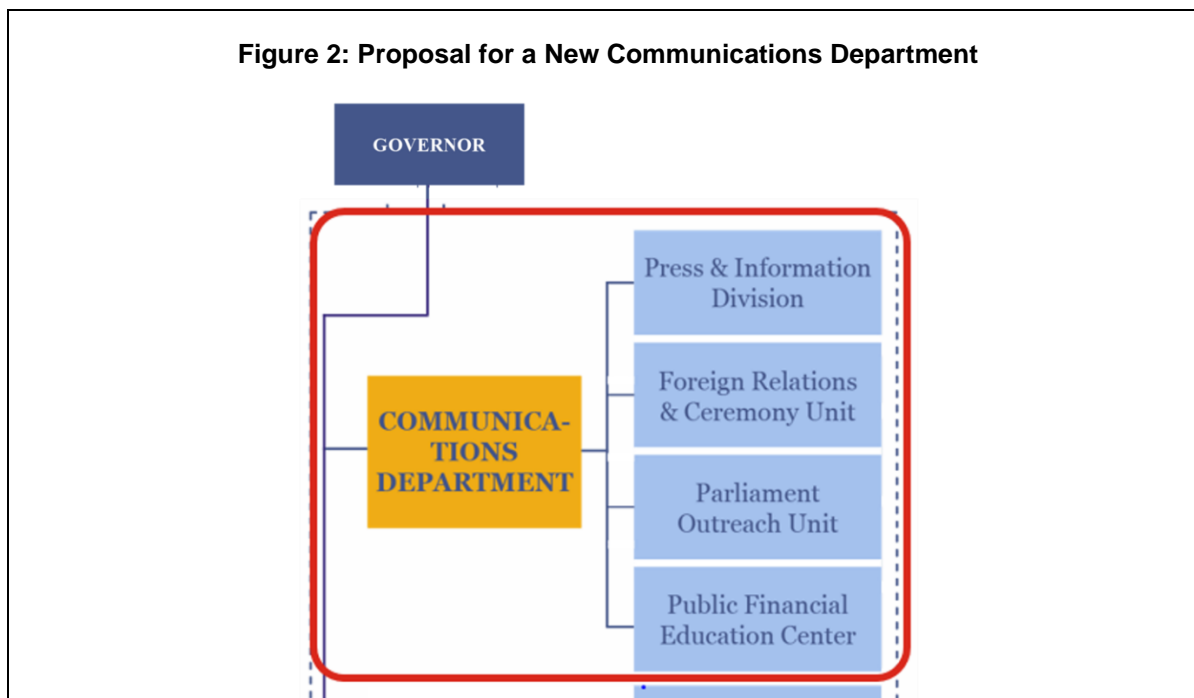
16. **The BOM should turn its fragmented communications function into a fully-fledged Communications Department.** This reorganization could be started immediately, although some elements may need to be implemented over the medium term (e.g., increased staffing). The BOM has a strong track record of implementing significant organizational changes across the institution. It originally drew inspiration from the Bank of Korea by creating a *Public Information and Education Center*, which included most communications activities. In 2020, this function was split into two parts—the *Press & Information Unit* and the *Public Financial Education Center*—in a move that contributed to major operational challenges. While there is no one-size-fits-all, the BOM would greatly benefit from an approach that has served other central banks well. By centralizing its communications function—and by elevating the new Department's standing within the institution—the BOM can create a more effective instrument to help achieve its objectives.

17. **The proposed reorganization would significantly improve the consistency, clarity, and traction of BOM messages.** The new Communications Department should be empowered to ensure message consistency across the institution. This means breaking up internal “silos,” improving the flow of information and ideas between Departments, and flagging inconsistencies—especially during the review of layered communications (from the flagship report to the Governor's speech, to the press statement, to the Tweets and Facebook posts). These are critical operational reforms that would increase message traction among external audiences. They would also help reduce the risk of misunderstandings, misinformation, and mishaps.

18. **The reorganization would also create immediate synergies by streamlining some internal processes.** The various parts of the current communications function are already working together on many projects, events, and initiatives: from engaging with rating agencies to organizing the regular meetings with economic journalists. But coordination is often cumbersome and time-consuming. These processes would be optimized through clear reporting lines and procedures within the new Department.

19. **The new Communications Department should be built on broader foundations, with increased responsibilities and enhanced capabilities added over time (Figure 2).** It would include a revamped Press & Information Division (details below), a Foreign Relations & Ceremony Unit (managing relations with rating agencies, central banks, international organizations), a newly created *Parliament Outreach Unit* (details below), and the *Public Financial Education Center* (focused on consumer protection & financial education activities).

**Figure 2: Proposal for a New Communications Department**



20. **The new Communications Department should have a direct reporting line to the Governor.** This change—which could be implemented in the short term—would signal the Department’s enhanced internal standing and increased responsibilities. For the Governor, the new setup would mean better visibility into the views of stakeholders in a fast-moving political and public discourse. The new COM Director should be a counselor to BOM’s management on the effectiveness of their communications. This, in turn, requires both qualitative and quantitative assessments, including more frequent surveys of key stakeholders and more refined impact assessment.

21. **The Press & Information Unit (PIU) should be transformed into a fully-fledged Press & Information Division (PID), with increased responsibilities and resources added over the medium term.**

- **Current responsibilities:** the five-strong PIU is focused on managing and monitoring social media, managing traditional media relations (via press statements, press conferences), and supporting the BOM Governor in drafting speeches and articles.
- **Additional responsibilities:** the new PID would have full control over the content and management of the BOM’s website. It would further enhance its capacity to assess the impact of BOM communications across multiple tools and platforms. And it would oversee a new team of translators, who would significantly improve the quality of English translations.
- **Increased focus on internal communications:** the new PID should step up internal engagement. Regular internal communications are essential to help staff understand management’s priorities and policies. The PID could also facilitate townhall meetings for staff to give direct feedback to BOM’s management.

22. **The new Communications Department should include a newly formed *Parliament Outreach Unit*.** This new team could be established over the medium term. It would lead the BOM's engagement with a key stakeholder, advising BOM's management and briefing parliamentarians. Here the BOM could take inspiration from the *Parliamentary Affairs Group* at the Bank of England. This non-partisan team has expert knowledge on Parliament and its processes, a deep understanding of how the political context could affect the BOE's work, and strong relationships with parliamentarians and their staff—including informal relationships.

23. **To unlock its full potential, the new Communications Department will need a greater number of highly skilled staff.** The enhanced internal standing of the new Department would make it easier to compete for internal and external talent. Expanding communications resources and building up capacity will be critical for the BOM's mission—but it will take time.

***Recommendation 2: Integrate communications into major policy actions and flagship reports***

24. **The new Communications Department should be “at the table,” contributing to the BOM's work at all levels of the institution.** For example, the new COM Director should be fully involved in policy formulation and decision-making. This change should be implemented in the short term, because of the pressing need for a broader perspective. *How would key stakeholders react to a larger-than-expected interest rate increase? How can the BOM communicate difficult financial stability messages? How can BOM staff simplify language—without changing the meaning—to facilitate a better understanding of policies across a range of audiences?* By addressing these types of issues, senior communications staff can help improve the effectiveness of policy measures and communication products. Moreover, by being more involved in the decision-making process, communication staff can deepen their understanding of policy actions and improve the quality and timeliness of communications around these actions.

25. **In partnership with policy department staff, senior communications staff should drive the development of specific communications plans for major policy actions and flagship reports (Monetary Policy Guidelines, Inflation Report, Financial Stability Report).** This change should be implemented in the short term, given the pressing need to communicate critical messages in the period ahead, especially on banks' asset quality review (AQR) and initial public offerings (IPOs). These communication plans should cover key areas:

- **Message formation:** there should be close interdepartmental collaboration at the early stages of key projects. This would include holding brainstorming sessions on the topics of flagship chapters and explaining to other departments how proposed messages might be received by the public.
- **Message determination:** this includes finalization, nuancing, and clearing by BOM management of the key messages prepared by staff for communication to various audiences. Communications staff should be empowered to support BOM management in this process, especially in the nuancing of messages.
- **Message dissemination:** there should be close interdepartmental collaboration in preparing a range of outreach products for layered messaging. Communications staff should play a leading role in these outreach efforts.



26. **Over the medium term, the new Communications Department should put in place dedicated staff to support “Flagship Departments”.** These staff members would need to engage with the policy experts from other departments (who would take the lead in drafting flagship reports) on a continuous basis, building up knowledge and mutual trust. This, in turn, would improve the flow of information and ideas between departments. It would facilitate interactions and improve the quality of communication plans. It would allow communication experts to moderate the MPC press conferences and similar events. And it would help increase the understanding of communications among other Departments. The explicit message should be: “Communications is everyone’s job!”

27. **Over the medium-term, the new Communications Department should hire more economists and financial sector experts.** While most communications staff have a background in journalism or public relations, there is a need to hire at least a small number of economists and financial sector experts. Their expertise and credibility will be key, especially when it comes to strategic communications and working across Departments and products. Again, the enhanced internal standing of the new Department would make it easier to attract and retain economists/financial sector experts. Some could be hired as senior advisors and through secondments from other BOM departments.

28. **The BOM should create an institutional communications strategy in the medium term.** Many central banks in emerging and developing countries, including The Bangko Sentral ng Pilipinas and the National Bank of Ukraine, have benefited from this type of framework. A strategy that is owned and internalized by the BOM’s management and staff would make it easier to achieve fully consistent institution-wide messaging. The new Communications Department should take the lead in developing and implementing this new strategy.

#### **Box 1. Key Attributes of an Effective Central Bank Website**

***Ease of finding key information.*** How easy is it to find the most important information on monetary policy objectives, monetary policy decisions (on policy rate, calendar of future policy meetings), and core economic analysis (inflation report)?

***Focus of information.*** At the initial point of entry into the website, is only the most relevant information presented, with no extraneous information?

***Clarity of information and readability.*** For each type of information, is the presentation clear, concise, timely, and easily understandable, not just to economic and financial professionals, but also to a broader public?

***Layering of information.*** Are high-level messages presented up front, with links to more in-depth information? Is detailed technical information segregated from high-level information to avoid overwhelming the reader, while still being easy to locate?

***Attribution of information.*** Is each piece of information clearly identified as to its official status and source, showing clearly whether it is endorsed by the government or based on law, whether it reflects a decision by the BOM Board, or whether it is a staff or unofficial view? Is a source given for all statistical tables and figures?

### Box 1. Key Attributes of an Effective Central Bank Website Continued

**Accessibility of historical information.** Is all historical information (such as past monetary policy decisions, past inflation reports, past press releases) organized in a way that allows it to be located easily and quickly?

**Use of graphics, videos, and podcasts.** Does the website use graphics (pictures, charts, and videos) and podcasts effectively?

**Public education.** Is there a section on the website that aims to help teachers and students, as well as other members of the general public, learn about the functions and activities of the BOM?

**Mobile-friendliness.** Is the website easily usable not only on larger screens, but also on mobile devices?

### Recommendation 3: Upgrade Communications tools and guidelines

29. **The new Communications Department should take the lead in upgrading communications tools and guidelines.** The following measures should be implemented in the short term:

- **Upgrade the BOM's English-language website.** Reaching a wider audience—including nonresident investors in domestic financial markets—requires better and faster translations of key online documents. The BOM should build in-house capacity in the new *Press & Information Division* to ensure high-quality English translations.
- **Modernize website design, with more visual information.** The BOM is currently revamping its main institutional website. The goal should be to make it more mobile-friendly and to significantly enhance its visual impact. The website should feature more (no-jargon) infographics and basic-concepts videos (e.g., “What is inflation?”). Box 1 discusses key attributes of an effective central bank website.
- **Create formal guidelines.** This means drafting and implementing guidelines for interactions between staff and media, especially interviews. The BOM also needs clear social media guidelines for staff, including on the use of their private accounts. These measures will be critical to improve BOM communications and reduce reputational risk.



# Monetary Policy Communications

*BOM has key elements of an effective monetary policy communication framework. Most importantly, BOM staff and management have advanced technical and analytical skills, appreciate the challenges being faced, and are willing to address these challenges.*

## A. CURRENT SITUATION

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30. **Key elements of an effective monetary policy communication are in place in Mongolia.** As part of the forecasting and policy analysis system, which BOM uses for the conduct of its inflation targeting regime, the policy decisions are communicated to the public.<sup>2</sup> BOM publishes an Inflation Report (IR), which is widely regarded as an excellent source of analytical information not only on monetary policy but also the overall economic developments in Mongolia. There is also a regular engagement of BOM with different stakeholders, and BOM is actively promoting transparency as discussed in more details in Annex I.

31. **Monetary policy is framed by the Monetary Policy Guidelines (MPG) with operational decisions taken by the Monetary Policy Committee (MPC).** The MPG are approved by the Parliament and published on an annual basis. The legal basis for the MPG is set by the constitutional clause, whereby Parliament can “determine monetary and fiscal policy”. The MPC is headed by the Governor and has 3 internal and 4 external members. There are four pre-scheduled MPC meetings per year, and there may also be unscheduled meetings. With the objective of fulfilling its monetary policy objective, the MPC sets the BOM’s policy rate and reserve requirements and can decide on foreign exchange interventions. The regulation guiding the work of MPC is published on the BOM’s web site and is broadly consistent with conventional practices in peer central banks.

32. **Monetary policy decisions by the MPC are communicated in several ways.** Straight after the MPC meeting, a short Monetary Policy Statement is published, and a press conference is organized. The comprehensive IR is published four times per year, typically a few weeks after the pre-scheduled MPC meeting. The Monetary Policy Statement typically summarizes the economic assessment made by the central bank, the action taken, and the reasoning behind it. The press conference is held with prepared (and published) remarks from the Governor, with time for questions from attending media. The IR contains more in-depth motivations for the economic assessments made, and a fuller account of the policy deliberations. In addition, MPC members hold periodic speeches communicating policy decisions.

33. **BOM refrains from active public communication on exchange rate issues.** Given the small and open nature of the Mongolian economy, there is a significant public focus on the exchange rate. BOM also observes that public confidence in the Bank of Mongolia has often been conditional on the nominal exchange rate stability. Although public communication on foreign exchange issues is rather infrequent, key information on the foreign exchange operations is communicated to banks in advance as BOM serves as the price-maker on the market. An analytical unit within BOM’s Monetary Operations

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<sup>2</sup> The inflation target is currently set at 6 percent, with a tolerance range of +/- 2 percentage points. The inflation target is set by the Parliament, based on the suggestion from BOM.

Department supports internal information flow between management and the monetary operation and policy departments.

34. **The lack of clarity on the BOM's mandate represents an important challenge to monetary policy communications.** The statement in the Law on the Central Bank that the “main objective of Bank of Mongolia is to sustain stability of national currency – togrog” is interpreted in two different ways. While BOM interprets this objective as meaning price stability when measured by changes in the Consumer Price Index, other important BOM stakeholders (members of Parliament, business leaders, parts of the public at large) interpret the law as meaning stability of the nominal exchange rate of the togrog. The interpretation of the central bank's mandate affects the clarity and coherence of what the BOM says and what the public thinks it should communicate. This can potentially undermine public confidence in the central bank. Any future review of the Law should strive to resolve this lack of clarity in the mandate.

35. **Communications of BOM with foreign observers are made more difficult by the lack of English translations of important documents.** The only communication channel available in English in a timely manner is the Monetary Policy Statement. The IR is also translated into English but with a long delay (as of August 2022, the latest available English version of the IR was as of March 2021). The lack of official translations complicates the evaluation of BOM monetary policy communication, making it conditional on the accuracy of the unofficial translations.

36. **Communication is also made more complicated by the quasi-fiscal activities of the BOM.** As mentioned above, the Parliament has traditionally been involved in discussions of the future course of monetary policy in Mongolia. The Parliament often assigns to the BOM tasks that are fiscal in nature (for example, the subsidized mortgage program), complicating BOM's monetary policy decision-making and communications.

37. **There are sometimes inconsistent messages across the different communication channels of BOM.** For example, the reason for increasing the BOM's policy rate in June 2022 was perceived by the mission team as being summarized quite differently in the different communication channels. More specifically, the IR summarized the decision as “necessary to stabilize inflation in the medium term”, in line with what nowadays is expected from an inflation targeting central bank. But the monetary policy statement, published on the day of the MPC meeting, and the subsequent remarks by the Governor were less focused on the supremacy of the inflation target. The statement noted that the policy rate was raised “with the aim to stabilize inflation expectations in the medium term, ensure external and domestic balance at an appropriate level and maintain relative yield on togrog in an environment of rising external benchmark rate”. The remarks by the Governor noted that monetary policy was tightened “in order to maintain external and internal balance of the economy at an appropriate level”.

## B. RECOMMENDATIONS

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*The effectiveness of monetary policy communications in Mongolia could be enhanced in three specific areas.*

### **Recommendation 4: Enhance consistency on communicating MPC decisions**

38. **Clear and consistent communications are very important in an inflation targeting regime.** Monetary policy communications should be implemented in such a way that the credibility of the inflation target is enhanced. This entails putting the inflation target at the central stage and making sure to explain

how policy actions will lead to the target being fulfilled. The multiple communication channels for monetary policy decisions should be made public in a consistent manner.

39. **The organization of more pre-MPC meetings focused on communications and involving all MPC members should help enhance consistency of communicated messages.** In addition to assigning the responsibility for all communications to the new department as discussed above, BOM should set up more pre-MPC meetings with the objective of distilling the most important aspect of policy decisions, building consensus regarding the main message, and deciding on how to communicate it in the most efficient way. Experience from other central banks indicate that this process can take several weeks. The period of two days currently devoted to the MPC meeting may be insufficient for an in-depth discussion of the communication aspects of the monetary policy decision that the MPC intends to take. More pre-MPC meetings would give MPC members the time to discuss and agree on key messaging.

***Recommendation 5: Upgrade Inflation Report into Monetary Policy Report***

40. **The Inflation Report (IR) should be upgraded into a Monetary Policy Report (MPR) with more forward-looking material and discussions on policy decisions.** At present, the IR consists mainly of backward-looking material, with a detailed account of past macroeconomic and financial developments. There are some graphs with forecasts of inflation and GDP growth, together with uncertainty bands, but these forecasts are difficult to interpret for outside observers because the assumptions on the stance of monetary policy are not clear. Overall, there is little information in the IR that can help the reader to discern the reaction function of the BOM. With a few editorial changes and analytical additions to the IR, the BOM can start producing an MPR which is currently done by most central banks (Box 2). The Monetary Policy Department already has the required analytical skills to do so, as is manifest by the material sent to the members of the MPC ahead of the monetary policy meeting. For example, internal alternative scenarios are presented to the MPC, but these are not published.

41. **The MPR will help enhance the credibility of BOM.** With the suggested changes, the MPR will reinforce BOM's focus on stable inflation as the goal of monetary policy and help clarify the BOM's reaction function. The MPR can eventually become the flagship monetary policy publication of the BOM, if its publication is brought forward so that it is published together with the monetary policy statement.

***Recommendation 6: Streamline the Monetary Policy Guidelines***

42. **In the short term, the MPG should be streamlined.** At present, the MPG contain long sections about non-core central banking issues. All non-core central bank material should be moved to other publications prepared by other authorities.

43. **In the longer term, the MPG could be merged with the new MPR.** The new MPR—as described above—can gradually replace the MPG as an accountability mechanism for monetary policy. The inflation targeting central banks normally have accountability mechanisms in place, ensuring that the parliament or the government can evaluate monetary policy ex post. In contrast, the annual discussion of MPG in Parliament appears more like ex ante recommendations. The rearrangement of the existing institutional set-up would help delineate fiscal and monetary responsibilities, making BOM a modern, strong and credible central bank.

## **Recommendation 7: Introduce External Sector Report**

44. **Launching an External Sector Report would improve BOM's communications on the exchange rate and other issues relating to the balance of payments.** An External Sector Report would bring several important benefits, including: (i) clearer communications on the exchange rate regime and rate, foreign currency markets, auctions, and interventions; (ii) more granular monitoring and analysis of capital account issues; and (iii) deeper proactive dialogue with international stakeholders. Thailand, Korea, and India are some example where central banks are pro-actively communicating on external sector risks and vulnerabilities.

### **Box 2. Considerations for a Future BOM's Monetary Policy Report**

A Monetary Policy Report (MPR) is the flagship publication of most central banks around the world. The title and content of MPR fully reflects the core function of a central bank, which is the conduct of monetary policy. The MPR is usually published on a quarterly basis and synchronized with MPC meetings. MPC decisions on the key policy rate are supported by data and analysis in the MPR. The MPR usually contains comprehensive and detailed information on the conduct of monetary policy, economic conditions, and discussions on future developments.

While the MPR is often a technical document, targeted for a professional audience, it also typically includes introductory non-technical summaries aimed at broader audience. An MPR might include sections that are repeated in every report, such as (i) the central bank mandate, (ii) numerical inflation target, and (iii) the strategy that guides central bank decisions. The structure of an MPR is relatively similar among different central banks, and usually includes:

- Monetary Policy Decision
- Executive Summary
- Economic Conditions: External and Domestic
- Macroeconomic Forecasts: Baseline Forecast and Alternative Forecasts
- Monetary Policy and Operations
- Annexes / Boxes on Topical Issues

The BOM's future MPR could begin with an introductory section summarizing the monetary policy deliberations. This would include qualitative summaries of the alternative scenarios and other relevant analyses. The purpose would be to convey to the reader the nature of the monetary policy discussion in the MPC—what were the trade-offs faced at the monetary policy meeting? What were the main concerns?

Forward guidance should be included in the MPR. The monetary policy statement already includes some elements that may be regarded as forward guidance. However, BOM should strive to make it more informative, including through being more explicit about the direction and possibly size of the next policy move envisaged in the main scenario.

The MPR should also include more material on inflation expectations than is currently the case in the IR. The BOM already produces a 4-5 pages report on a survey of inflation expectations that is conducted regularly. This material should be included in the MPR, together with analysis of the results. This seems particularly relevant since the monetary policy statements already refer to inflation expectations. The BOM should also extend the scope of the survey to include longer-term expectations, which will help measure the credibility of the inflation target.

Lastly, the MPR can contain short articles (2-3 pages) on topical issues which affect the conduct of Mongolian monetary policy. At present, these could include, for example, the effect of higher oil and energy prices or the impact of a depreciating currency on domestic inflation.

# Financial Policy Communications

*Financial policy communication is a young area and serves multiple stakeholders. BOM has started using financial policy communications as a policy instrument both in peacetime and crisis times. BOM has an opportunity to move towards the frontier by warning financial market participants and other authorities about the risks and incentivizing them to act, set out expectations, and provide a calming influence particularly under stressed conditions. This will require closer and more effective collaboration with the other financial sector authorities.*

## A. COVERAGE, CLARITY, AND CONSISTENCY OF COMMUNICATIONS IN PEACETIME

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45. **The BOM’s financial stability function is maturing as is its communications approach.** According to the central bank law, the BOM must ensure “stability of financial markets and the banking system” with the objective to contribute to the balanced development of the national economy. Together with the Financial Regulatory Commission (FRC) and the cross-authority Financial Stability Council (FSC), BOM is responsible for financial stability and supervision of the financial sector in Mongolia. The BOM’s Macroprudential Policy Department (MPPD) conducts macroprudential analysis, houses the FSC secretariat, and supports macroprudential policy making as decided by the MPC. The Banking Resolution and Policy Department (BRPD) conducts microprudential risk assessment and supports policy making as decided by the BOM Supervisory Council. Both departments are responsible for financial sector communications. The MPPD takes lead in producing the flagship Financial Stability Report (FSR) with input from BPRD and FRC.

46. **The FSR reflects a shared cross-authority effort.** It covers all the important sectors of the financial system, allowing all the authorities the opportunity to give a view on the state of the financial system. It includes policy-relevant information. For example, the September 2021 FSR included informative material on the risks to the financial system from cybercrime, the underlying causes of the vulnerability, and the actions the authorities were taking. The report also contains nascent efforts by the authorities to call out the risks and vulnerabilities in the broader financial system, such as those arising from asset price inflation/leverage, as well as from non-performing loans in the banking sector. Style-wise, the visual aides in the report are professional and compelling.

47. **However, there is scope to improve the coverage, clarity, and consistency of the FSR.** In particular, the FSR content is too long and overly skewed towards reporting on domestic and international macroeconomic developments, with little reference back to the financial system. This is unlike peers, which typically tend to provide in-depth assessment of the macro-financial linkages (Appendix II describes a recent FSR produced by Bank of England which follows that structure). Moreover, the chapters of the report appear to differ in style, tone, and extent of disclosure. That detracts from clarity and gives rise to consistency issues. For example, one chapter of the 2021 FSR appeared to imply that risks from household indebtedness were rising, but there was no analysis of whether previous policy actions taken were sufficient to manage these risks. In other words, there are inadequate links between analyses and policy recommendations. Another chapter of the report focused on reporting banking sector data but with little reference back to macro-financial risks. To its credit, the report articulates a stress test. But the message is not managed leaving the reader to draw their own conclusions: how big was the stress, how

does it relate to the current articulated risks, how well capitalized/resilient are the banks should the stress materialize?

48. **There is a keen and receptive audience for the FSR.** International institutions, credit raters, journalists, domestic bankers, and even parliamentarians are all interested in the BOM's views on the financial system. This is despite little fanfare in publishing the report, which is currently posted on the BOM's website without any bespoke advertising or outreach. Therefore, the FSR has the potential to allow the BOM to become a credible influencer on financial sector issues across several audiences.

49. **The periodic statements of FSC on the health of the financial system are thin and cryptic.** For example, the most recent statement articulated "international settlement" and fuel reserves as areas of concern but without any detail on the underlying issue. That also represents a missed opportunity for the authorities to act as a credible influencer on financial sector issues.

50. **Business-as-usual regulatory communications between the BOM and the banking sector appear to be working well.** Banks particularly appreciated the BOM's efforts to consult on new initiatives, including regulatory changes. There is, however, some concern about the prospect of uncoordinated messages post-IPO from the BOM and the FRC. This reflects that the banks will be dually regulated by both institutions.

## B. COMMUNICATIONS DURING STRESSED CIRCUMSTANCES

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51. **BOM has experience of communicating during circumstances of elevated financial stress.** In general, central banks are required to act as anchors of stability during stressed times as communications need to play a powerful complementary role in calming households, firms, and financial market participants' behavior. Stakeholders praise the BOM's communications efforts during the COVID-19 outbreak, which served to reinforce policy action. More recently, the Governor's interview on banking sector reform was an example of excellent communication efforts, making it clear why the banking reform is needed and confirming that BOM was not backing away from the reform, despite the extension of the IPO deadline.

52. **However, BOM tends to be in reactive rather than proactive mode with respect to communications during stressed circumstances.** This was suggested by a spot survey of BOM staff as well as little evidence of the AQR/IPO issues teed up in the flagship products: FSR and FSC statements. An ex-ante reassuring golden source of information on the health of the banking system could prove invaluable in these circumstances. But the anxiety of BOM staff about possible negative media reporting is apparently the main cause of that reactivity.

53. **Cross-authority commitment to shouldering communications during potential stress situations also appears underdeveloped.** The FSC, for example, has not issued any public statements on the AQR/IPO, despite its terms of reference noting its role in discussing "action plan for crisis prevention and its mitigation plan implementation, its implementation and organization", as well as bank recapitalization. That lack of cooperation hinders the ability of the BOM/authorities to communicate with confidence to its stakeholders: the public, the banks and the international investor community.



## C. STRUCTURE AND TALENT TO SUPPORT QUALITY COMMUNICATIONS

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54. **The BOM has the talent and drive to improve its financial sector communications.** BOM staff in the policy areas recognizes that communication is an important part of *their* toolkit and that they need to develop expertise complementing that of the central communication function. Crafting the messages to support ultimate policy goals would be particularly useful in linking AQR to the policy goal of maintaining confidence in the banking system. A credible quality analysis is also needed to support the delivery of clear messaging.

55. **Within BOM financial policy and financial stability issues seem to have lower prominence than monetary policy.** That manifests itself in financial stability communications, with macroprudential analysis and policy decisions having little publicity or promotion. At the same time, the supporting structures and resources risked the prospect of inconsistent internal messaging. For example, the analytical units in MPPD and BPRD were both (laudably) trying to upskill their stress testing capability. But data confidentiality was acting as a blocker to the sharing of supervisory information for macroprudential analysis and assessment. And at the decision-making level the MPC and the Supervisory Council appeared to make their financial policy decisions in isolation of one another.

56. **At the intra-authority level, the FSC is perceived as bureaucratic and ineffective coordinating authority.** Technical staff appear risk averse in escalating matters to FSC, either with respect to crisis issues such as the AQR, or in business as usual. For example, on the latter, the macroprudential measure on bank debt-to-income could give rise to risk leakage to the non-banking sector, but there is little evidence of this issue being addressed across the authorities. More generally, there seems to be reluctance amongst BOM staff to call out or force the dialogue when necessary. For example, staff coordinating the production of FSR do not appear empowered to question or change the narrative submitted by different contributors. Taken together, these structural issues inhibit the authorities from developing a credible shared narrative on the risks in the financial system, its resilience, and the actions needed to support financial stability.

## D. RECOMMENDATIONS

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*The BOM/FSC should develop a plan to realize the policy benefits of financial stability policy communications. That should recognize the Mongolian context and be realistic that the journey to more effective policy communications will take time. It should also recognize that effective financial policy communications need to be shouldered by the wider set of authorities and not just the BOM. Such a plan should involve upgrading the FSR as the authorities' flagship/golden source publication; revitalizing the FSC and the arrangements between the BOM and FRC; and reshaping internal BOM arrangements for supporting financial policy analysis and communications.*

### **Recommendation 8: Upgrade and revitalize the FSR and its communication plan**

57. **The FSR should be shortened and made more financial sector focused.** The executive summary could be refreshed so that it focusses on the key risks to the financial system, insofar as it can be assessed its resilience, and the policy actions that the authorities are or should be pursuing. The outlook and scene setting chapters could be shortened. As an internal rule the authors might challenge themselves on how each aspect of the outlook affects the health of the banking system. That would help

determine its merit for inclusion. The authors could also usefully cross-refer to the MPR for supporting analysis/reporting.

58. **BOM should also empower a skilled editor to work with the Communications department and stakeholders across the BOM and FRC.** The editor would help identify the most important themes for inclusion in the report and ensure clarity and consistency of messaging across different chapters of the report. It would be important to empower the editor to make those calls and ensure adequate guidance in case of difference of view. That may require culture change both at the technical staff level and also in the operation of the FSC.

59. **Over the medium term, the FSR should be re-designed to provide the authoritative FSC/BOM's view on the risks to the financial system and its resilience to shocks.** The aspirational goal should be to make it the “golden source” of information for BOM to use in its engagement with all stakeholders. A layered communication approach could be considered taking into account the needs of different audiences such as:

60. **Households and firms** want to get simple messages on the health of the financial system, reassuring them that their money is safe and/or that BOM is doing everything possible that this is the case.

- **Journalists and the media** could be used to lever to deliver the simple messages to the public; the journalists may need more context and education in order to absorb the arguments.
- **Regulated firms and financial market participants** need to raise their awareness of systemic risks in order to influence their behavior, set expectations for the regulated firms when particular policy actions are being taken; this requires analytical heft and credible analysis in the published reports.
- **Parliament and politicians** need sufficient information to scrutinize and examine the authorities' activities. That requires credible supporting analysis.
- **Researchers and academics** need to be enthused by the work of the authorities and inspired to research some of the issues under review.
- **International community** appreciates to be confident that the local authorities understand the risks and are on top of them.

61. **The publication of FSR should be supported by outreach to the media and the public.** The publication of FSR on the BOM's web site should be accompanied by a press release and interviews of senior BOM management. In addition, it might be useful for BOM to organize a conference bringing together representatives from the media, academia, and financial sector. This would help set the tone that BOM is a credible influencer on financial sector issues.

#### ***Recommendation 9: Revitalize the FSC and the arrangements between BOM and FRC***

62. **In the short term, FSC should recommit to its mandate to coordinate monitoring and mitigation of systemic financial risks.** It should go beyond discussion and provide real oversight of the system – for example actively sponsoring the FSR and empowering it as a means to call out the risks. It should provide for a nimble cross-authority clearing house in the face of financial sector issues where



there is a need for coordinated responses, for example, in the current environment handling the IPO and AQRs.

63. **In the medium term, FSC should empower joint BOM-FRC working on shared financial sector issues.** For example, post IPO, there will be a need for the BOM and FRC to coordinate on their approach to supervision as the banks will be jointly supervised. The FSC could also support work between the authorities to consider the prospect of financial risk arbitrage between the banks and the non-banks. A more authoritative and credible FSC should help the authorities fulfil their financial stability mandates and allow them to communicate more confidently. The FSC should support quicker and more effective crisis communications.

***Recommendation 10: Reshape the BOM arrangements for supporting financial policy analysis and communications***

64. **In the short term, BOM should convene joint sessions of the MPC/Supervisory council to consider common financial sector issues.** It should also coordinate or endorse a prioritized joint work program between MPPD and BPRD. That would help exploit synergies between the analytical areas supporting financial sector analysis and help develop more integrated policymaking. This could include areas that are ripe for joint work and collaboration such as the implications of leverage/stretch in real sector balance sheets, as well as developing shared scenarios for the purposes of stress testing the banking sector. In turn that should help BOM speak with one clear, credible, and consistent voice to its core constituents.

65. **Over the medium term, BOM could consider creating an analytical hub supporting analysis on macroprudential, supervisory, and resolution policies.** This could be done by combining MPPD and BPRD. It would be important to ensure that its analytical ethos remains forward-looking in nature. In tandem with this BOM could also develop a controlled data system that would for secure access to sensitive supervisory information for those who need it. In the interim it might consider ways to make the data between departments more seamless.

# Evaluating Outcomes

## A. CURRENT SITUATION

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66. **BOM does not have a framework to regularly assess the effectiveness of communications.** Despite the intensification of communications in recent years, BOM has not yet developed a process to evaluate the impact of monetary policy or financial sector policy communications. For example, it remains unknown who are the readers of the BOM's flagship publications (Inflation Report and Financial Stability Report) and whether these publications generate any traction.

67. **There is no formalized channel to gather feedback from the public on the BOM's published reports.** The feedback from the public is generally limited to ad hoc surveys on specific topics. For example, a recent survey of commercial banks focused on the deposit interest rates, with the objective of better understanding the monetary policy transmission. Another recent ad hoc survey of public opinion focused on the trust in state institutions—BOM was rated among the top-5 most trusted state institutions in Mongolia.

## B. BEST PRACTICE

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68. **Evaluation improves the effectiveness of central bank communications.** Effective central bank communication involves not only speaking but also listening. Evaluation is essential for understanding whether the policy messages (i) reach the targeted audiences, (ii) generate traction, and (iii) help achieve the intended outcome. The same message may be interpreted differently by different audiences—ranging from sophisticated market participants to those with no solid knowledge of monetary or financial sector issues—who may have different expectations or beliefs. Evaluation helps assess these differences and inform strategic and tactical decisions.

69. **Communications should be evaluated systematically as well as on an ad hoc basis.** Systematic evaluations involve the use of tools such as targeted communications assessments, central bank confidence surveys, expectations assessments, and web surveys. An operational assessment is a one-time analysis of the impact of certain communication events on the understanding, expectations and actions of stakeholders. A one-time assessment can be in the form of a stakeholder opinion survey, internal surveys at the Central Bank, follow-up interviews, analysis of the media space, etc.

70. **There is no universal standard of evaluating central bank communications.** The results of central bank communications are often intangible and difficult to measure even within one country, let alone to compare across the countries. It may also take a long time for the impact of communications, especially financial policy communications, to manifest. At the same time, achieving the same outcome may require a significantly different degree of communication efforts from a well-established central bank with a solid reputation and public trust than from a central bank that lacks these characteristics.

71. **Central banks need to be proactive collecting data from various sources within any country-specific limits on data availability.** The evaluation cannot rely on a single dataset. Central banks should collect relevant information from various sources at the highest frequency possible. The

regular data reporting by financial institutions should be complemented by surveys of market professionals and households on key macrofinancial variables and credit conditions as well as the collection of data from other sources, including media news and formal or informal meetings with various stakeholders. At the same time, the authorities should resist the temptation to gather an excessive amount of data, whose collection and maintenance costs may exceed the benefits.

72. **The information collected from various sources would help the central banks understand whether its reaction function is clear to different stakeholders.** By including as many stakeholders as possible in its analyses, the central bank would be in the best position to assess the degree of tiering that is necessary to successfully reach and engage various audiences. For instance, the distance between the path of policy rates projected internally and of those produced by external forecasters is a key measure of the effectiveness of the central bank communication regarding its policy rules and reaction function.

## C. RECOMMENDATION

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### *Recommendation 11: Start conducting impact assessments of communications*

73. **BOM should develop and adopt a framework to conduct regular impact assessments of its communications.** It is important to understand whether policy messages have traction with the audience. The assessment framework should specify the communications subject to evaluation and the methodology to be used. The results of assessments should regularly feed into the decision-making process.

74. **The impact assessment should include (i) outcome evaluation and (ii) audience reaction assessment.** Outcome evaluation allows to quantify the media exposure of the central bank communication. It might include qualitative as well as quantitative indicators such as audience outreach, number of articles / mentions in the media, number of reposts / tweets, website users, including breakdowns by topic, etc. The audience reaction assessment provides signals on the effectiveness of communication. Assessing the reaction of stakeholders can be complicated and is traditionally implemented through surveys on (i) the audience's understanding of the content and the tone of communication, (ii) confidence in the central bank, (iii) expectations on monetary or financial developments.

## Looking Forward

75. **No one report can cover all the ground and provide a practical guide to improve the use of communications for effective policy making and the long-run credibility of central banks.**

Moreover, consensus on optimally designing communication strategies for a central bank with multiple objectives and tools has not been reached yet. The goal is to achieve what Blinder (1998) describes as a virtuous cycle: (monetary) policy becomes more predictable to the markets, and, in turn, market reactions to monetary policy become more predictable to the central bank, facilitating the fulfillment of its mandate.

76. **The impact of BOM's communications on market reactions and economic agents' expectations will have to be the cornerstone of communication strategies going forward.**

As part of its research and analytical work, the BOM's work plan should allow the ever-evolving understanding of the complex interplay of monetary policy and financial stability and the broader macroeconomic and development policies in Mongolia to be ready for new and yet unknown challenges for central bank policy making. Where the BOM assumes secondary mandates under times of exigency, it must develop a culture and practice to communicate both separately and how the primary and other mandates interact and specially in terms of the cost it must assume on its balance sheet. In some cases, the different objectives may complement each other, but there will be difficult and costly trade-offs in others. It is vital therefore that greater transparency on BOM's accounts and balance sheets becomes a norm and used as a tool to demonstrate credibility of actions. Communication on the relative importance of the different objectives and how these may change over time as economic circumstances vary is essential to foster proper understanding among target audiences of the central bank's intentions, thus minimizing surprises.

77. **Finally, the IMF will remain available for any follow up in all areas where strengthening is proposed.**

Given limitations on absorptive capacity, the BOM may clearly benefit from future TA from MCM. This TA—in the form of in-field missions or desk review—would aim at helping BOM to implement the report's recommendations. A follow up MCM TA may be particularly useful with respect to the recommendations on developing a communications strategy, upgrading the Inflation Report, and assessing the impact of communications. There is also room for further TA on financial policy communications.

## Appendix I. IAPOC

Several indicators are used for quantifying the level on transparency, communication and independence, and overall monetary policy frameworks of central banks. There are three well-known indexes to reflect legal independence (known as Cuikerman Index), transparency and de-facto independence (known as Dincer and Eichengreen Index), general monetary policy framework (called as IAPOC index).

Cuikerman index quantifies the level of legal independence of central bank. It was developed by Ciekerman, Webb, Neyapti (1992) and reflects legal independence of the central bank. Basically, it uses 16 criteria grouped into four clusters: (i) legal procedures related to the appointment, dismissal, etc. of the governor of the central bank, (ii) legislative procedures of monetary policy formulation, (iii) mandate and objectives of the central bank, (iv) independence of the central bank. The most legally independent central banks have the highest score equal to 1 and the opposite is the lowest index is 0.

With introduction of amendments to the central bank law in 2018 the BOM modernized its legal framework. As a result, improved level of independence and transparency reflected in higher Cuikerman Index. According to calculations in paper of Dincer and Eichengreen (2019) the Cuikerman Index in 2010 was 0.58. The mission calculated the Cuikerman index for 2022 and it reflects de jure improvements—up to 0.63. The index points to some room for improvement in the area related to mandate/objective setting and government lending practices at the BOM.

The Dincer Eichengreen Index quantifies monetary policy transparency issues at the central banks. The minimal level is 0 and most transparent maximum level is 15. The Index accounts for de jure as well as de facto issues of transparency. It considers several aspects of transparency:

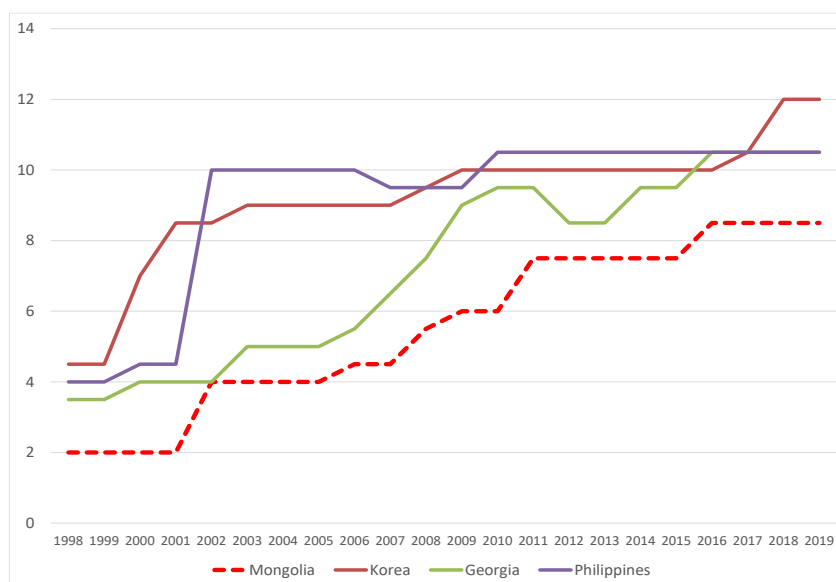
- Political transparency.
- Economic transparency related to transparency in information used in monetary policy decision-making as well as transparency in forecasts.
- Procedural transparency means transparency in procedures of monetary policy decisions.
- Policy transparency is about disclosure and communication of policy decisions.
- Operational transparency related to the implementations of central bank's policy.

Recent paper of Dincer et al<sup>1</sup> recalculated the Index for more than 100 central banks. Globally the Index has improved reflecting higher transparency in central banking both de jure and de facto. Countries from the region demonstrated persistent and stronger growth (Figure 1) than the one observed at the BOM. BOM has been consistently improving its transparency over last two decades. The Index increased from 2 which was extremely low in 2000 up to more than 8 in 2020 but there is still room for further improvement.

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<sup>1</sup> N. Dincer and B. Eichengreen "Central Bank Transparency and Independence: Updates and New Measures", 2021

**Figure 1. Dincer-Eichengreen Index**



Source: N.Dincer and B. Eichengreen "Central Bank Transparency and Independence: Updates and New Measures", 2021

The IMF recently developed a new holistic index which allows to quantify the monetary policy framework and monitor its development over time. The Index characterizes three pillars of the monetary policy framework: Independence and Accountability, Policy and Operational Strategy, and Communications (IAPOC).<sup>2</sup>



The IAPOC Index encompasses transparency, consistence, and coherence aspects of the monetary policy framework. Transparency reflects availability of the relevant information on the monetary policy to the public. Consistency captures alignment of monetary policy and operations with communication. Coherence reflects smooth and logical features of monetary policy. The Index is constructed based on quantifying 225 criteria.

The IAPOC estimated in the IMF working paper covers 50 countries, 11 of which are LIC, and Mongolia wasn't in the list. For the BOM the mission calculated the IAPOC Index for 2022. Overall, the Index demonstrates improvement of the monetary frameworks in all countries, but development was stronger in low-income countries, particularly the most prominent development was observed in communication pillar.

The metrics is applicable for all countries despite their regimes. As BOM plans to switch to the inflation targeting which implies clear, consistent, and transparent legal foundations, monetary policy design and

<sup>2</sup> The metrics is described in detail in IMF Working Paper by F. Unsal, Ch. Papageorgiou, H. Garbers "Monetary Policy Frameworks: An Index and New Evidence" 2022.

implementation and communication, the IAPOC index could be useful tool to monitor its development and compare to peer-countries. The Index for the Bank of Mongolia is 0.63, which is above the mean for low-income countries, but the range for the LIC is broad (Figure 2).

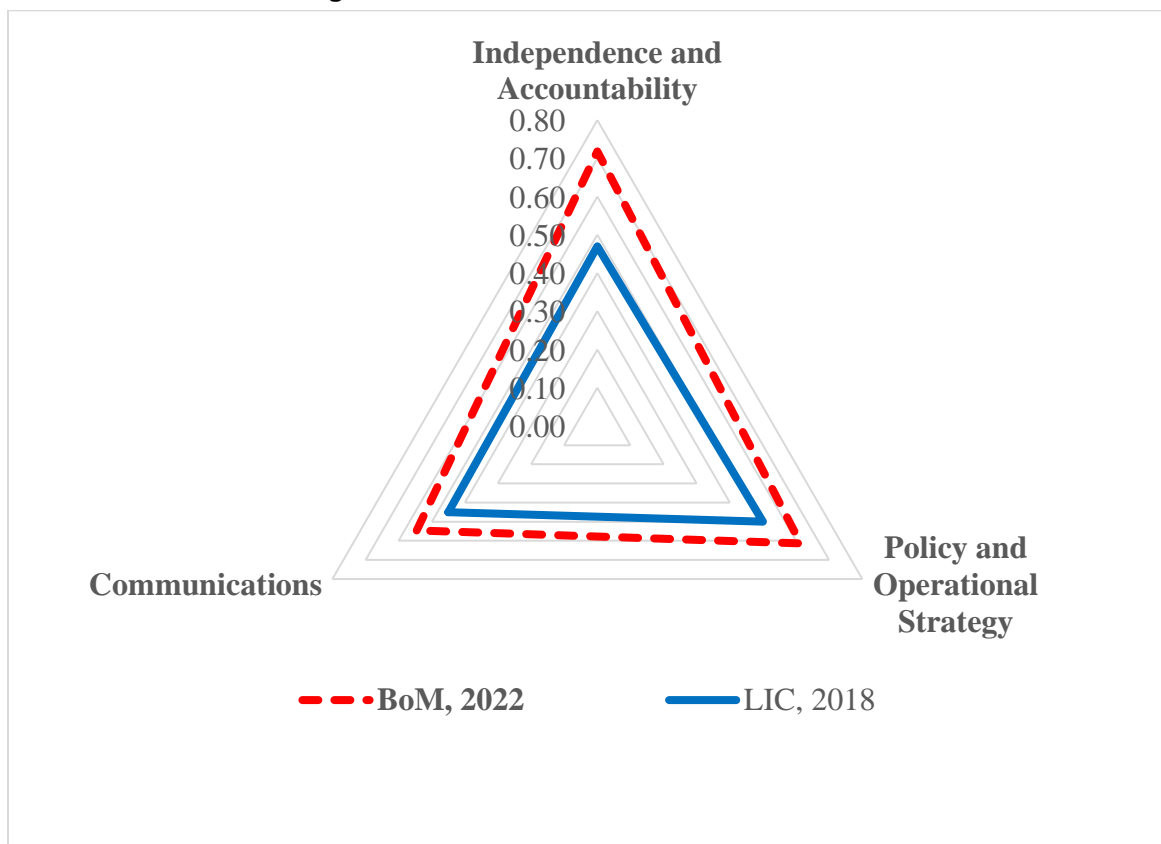
**Figure 2. Mean IAPOC Index for group of countries**

Variable	Mean	Range
<b>(a) IAPOC Index</b>	0.59	[0.20,0.82]
AEs	0.71	[0.51,0.82]
EMs	0.57	[0.20,0.80]
LIDCs	0.48	[0.22,0.69]

Source: IMF Working paper.

Within three pillars, the IAPOC index advises to strengthen BOM's communication and policy and operations strategy (Figure 3), which is related to consistency and coherence of the monetary policy with its communication.

**Figure 3. IAPOC Index for BOM and other LIC**



Source: IMF Working paper and staff calculations.

## Appendix II. A Recent FSR Produced by Bank of England

### EXTRACT FROM THE BANK OF ENGLAND FINANCIAL STABILITY REPORT

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#### Key points

- The report is 60 pages long
- The introductory and context/outlook chapters are short—drawing on the Monetary Policy Report
- The chapter also links the risks in the outlook to the banking system and gives a clear view of its resilience.
- There are clear sign posts to the rest of the report.