

COMMUNICATION AND TRANSPARENCY POLICIES PERSUADED BY THE CENTRAL BANKS IN ORDER TO REACH THE RESPONSABILITY REQUIREMENTS

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Through the past decades, there has been a deep transformation in central bank's communication strategy then the previous ones when their intentions regarding the monetary policy and the following proceedings were shrouded in secrecy. These days, nearly all central banks announce publicly their intentions towards the monetary policies and they also provide constantly detailed information for the mass media about the periodic forecasts regarding their own monetary policies interest rates, projections that can facilitate the assembling of expectations on financial market and can also enhance the macroeconomic results. Today, transparency is not only an obligation for the central bank but it is also seen as a great asset to its policies. This paper aims to analyze the communication and monetary policy practiced by the central banks and how this facilitates the society's directive.

Keywords: the central bank's communication, monetary policy transparency, functional independence, credibility

The JEL classification: E52, E58

1. Introduction

After the '90s, central banks communication policies have undergone important transformations, reaching a general understanding between it selves, meaning that transparency does not come as an obligation but it is also a great asset to its policies. In the past, central banks fallowed different traditions when it came to the caginess towards the public. They kept secretly the intentions for the monetary policies and the measures that they wanted to apply. Nearly all central banks now announce publicly their monetary policy actions in the form of conferences, press briefings or transcripts. Furthermore, they explain their monetary policy intentions by announcing the inflation targets and they make publicly their economic projections and not to say the last, they also provide their periodic projections for their own monetary policy rates. We encounter here different practices, some central banks opted for the transmission of the interest rates for monetary policies, on determined periods, where others made publicly all their monetary policy intentions.

It is even more necessary to publish the projections for the monetary policy, with the increase in the economic agent's necessities to form prospects for the financial market and these can also improve the macroeconomic result.

The strategies for the monetary policy as well as the direct targeting of the inflation imply certain communication tasks. In this situation, the central bank has the maximum liberty to choose the way to adjust correspondently towards the desired rate. The communication and transparency represent freedom problems for the central bank and this has to evaluate the statement impact with regard to the monetary policy's efficiency, which has an important role related to the market's viewpoint, on medium and long term and which finally conducts to the strengthening of the monetary authority.

It is very important if the central bank's communication is understood as the unconditioned announcement for the future decisions on short term, and that the financial markets will reveal this expectations. Moreover, an important task is set for the central bank in the communication process, it is the responsibility to explain to the public the limits of its reign and the possibilities to complete the associated objectives. Today, the fundamental objective that the central bank has,

whether it is alone or in association with the other ones, in general it is to assure price stability and a low inflation level.

For a central bank to follow its primary and natural objective it presumes the existence of its functional independence being usually defined through a precise mandate and which it assures the use of the most adequate instruments specific to this institution. The functional independence for a central bank presumes the responsibility assumption towards the procedures followed to reach the primary objective (the obligation of „report”, liability which reinforces the credibility of an institution with independent rank).

Most of the central banks cases received independent status to fulfill their mandate. Consequently, the public communication does not represent the primary objective for central banks and transparency is not an objective in definition. Therefore, the central bank's responsibility is concentrated on fulfilling its mandate, which had been prearranged by the society by law, subordinating the tasks transparency and its final objectives. On this premises, a central bank has to be interested in demonstrating that it realizes a convincing communication policy so that the monetary policies should be efficient and in the end these should be a proof of its credibility.

2. Central Bank's approaches regarding transparency and communication

There has been manifested a profound and rising interest for the central banks communication policies and for the effects of the bank's transparency regarding the market player's expectations. Many theoretical papers from the specialty³⁰¹ literature, on the subject of the effect made by the central banks transparency procedures have been focused more on the effects felt by the exogenous variables and those upon the economic projections and less on the projections for the monetary policy interest rate published by the central bank. Swanson believes that it is advisable to reach for a higher rate of transparency, because this reduces the uncertainty about the central bank's objectives and increases its responsibility grade.

Rudebusch and Willians (2006) consider that in the economic frame where economical agents detain imperfect information with regard to the course of the monetary policy, it would be necessary for the central bank to communicate the predictions for the interest rate, because these can form the expectations for the financial markets, having increased performance on a macroeconomic level.

Important authors from the advised literature mention frequently the fact that the central bank's forecasts on the topic of monetary policy interest rate imply the risk of a nonfunctioning market. These statements have been pointed out firstly asserting that informational efficiency can be reduced by the indicators related to the evolution of the monetary policy interest rate, by the fact that the financial markets give too much importance to the central bank's forecasts, not taking into consideration the uncertainty and the conditionality of it, and by their own analysis of the economical evolution. Secondly, there it is the possibility that the deviations from the monetary policies projections, which the market players trusted very much, can agitate the financial markets, this could make the decisional factors to follow a wrong calculated path. This is the reason why the clues with regard to the future monetary policy must always be seen as conditioned arguments, with sufficient clarity. The more direct the "statement" and the more simplified the used code is, the more difficult will be to explain ex ante the conditioning of it, Issing(2005)³⁰².

Moreover, Richhild Moessner and William Nelson(2008) have evaluated the two risks for the functioning of the financial markets in USA, Euro Zone and New Zealand, in the light of the

301 Swanson, Eric, „Federal Reserve transparency and financial market forecasts of short – term interest rates”, Finance and Economics Discussion Series, No 2004-6, 2004.

302 Issing, O, „Communication, transparency, accountability - Monetary policy in the twenty – first century”, Federal Reserve Bank of St.Louis Review, No: 87(2, Part 1), 2005, p. 70.

central bank's communication strategy. The results of this analysis reveal the fact that the forecasts about the monetary policy interest rates influence the practiced prices on the market, but there have not been found records that will confirm the fact that forecasts change the market performance.

There exists the possibility that the regular publishing of the forecasts will have different implications towards the occasional publishing of it. The central banks that periodically publish forecasts for the interest rates do not take a tactical decision each time, this having said the forecasts elaborated by the central banks from the first category can seem more unconditioned arrangements than the predictions created by the central banks from the second category.

3. The impact of monetary policy over the healthiness of business environment

The monetary policy does not always offer (give) immediate satisfaction for the business environment, it can even be in contradiction with this on short term, but on long and medium term, it does not exclude a crossroads of their interests. This explains the fact that, sometimes, the monetary policy, in the National Bank of Romania (NBR) case is identified as „reserved”, from the general accessibility and understanding point of view, and sometimes „excessively prudent”, without carrying about its real grade of restrictiveness. The two characteristics can sometimes motivate the attitude of the commercial agents towards appreciating on short term that the monetary policy can cause looses for the interest channel and also for the currency rate³⁰³.

These observations conduct to the idea that the business environment has started to realize the main objective for the NBR, which is the price stability, as an essential condition for the business stability through the stability of the financial system.

Today, the effects of the financial and economic crisis are becoming more and more present through the export decreasing and also the external finance help, all in an increasing volatility on the foreign currency market correlated with the regional tendencies and with the foreign investor's missing appetite, conditions NBR to maintain a detailed supervision over the internal evolution of the global economic environment, all this to reach the desired objectives. This process can be seen as an inconvenience for the commercial agents and can encourage their critic interest regarding the monetary policy. All in all, we can reckon the fact that the economic agents have improved their perception over the monetary policy, meaning that this helps and does not deform the business environment. This thing could conduct in the end to the achievement of a strict partnership which is needed for the central bank and the main actors of the business environment to both assume their mutual responsibilities.

4. Instruments and channels used in the communicational practice of national banks

The promotion of a coherent informational policy for the public is essential for a central bank, because this fallows two elements: to consolidate the credibility and also the transparency of the institution's actions. Both contribute to the efficiency, effectiveness and credibility of the national bank's monetary policy.

The concept of periodic, detailed and in real time explanation, in some cases for some decisions and evaluations of monetary policy constitute an unique approach towards an open perspective and transparency at the communication level of the central banks. Usually, the central banks must address to heterogeneous groups, such as mass media, public authorities, academic communities, financial experts and large public which own different levels of knowledge in the financial-economic field. In this direction, central banks usually use a large variety of communication tools starting with short press releases after important monetary decisions, at the vote publishing; from

303 The economic agent's performance can be influenced through the access costs for financial support for the investments and production, as well as through the economic and financial results outcomed from the currency course fluctuation of the national currency, as an effect of a flexible currency policy and/ or of market volatility. The effects of the exchange course upon the active and passive of the commercial agents are usually of wealth and balance.

monthly transcripts to quarterly or annual reports as well as organizing interviews, speeches and other relevant contributions from the central bank's representatives.

The Central European Bank's decisions are explained during a press conference organized immediately after it has been approved by the Governor's Council, but the press hasn't got access to the legal documents of the council's meetings and also not to the information related to the member's vote. Moreover, the monthly conference of the president of the BCE offers an comprehensive abstract upon the monetary policy strategy over the Euro Zone. The content of that abstract can be researched on the BCE's website.

During the NBR's practical communication, one's the „inflation targeting” is implemented there have also been introduced new public communication instruments and through it has been followed the improvement of the monetary policy transparency; the most important ones are: The Inflation Report, which represents the main document produced by the Administrative Board (CA), being elaborated with quarterly periodicity starting from august 2005 and press releases³⁰⁴ which represent the result of the evaluation for the current situation and also the decision of maintaining/ modifying the parliamentary parameters. Starting from November 2007 and until present NBR makes publicly its monetary policy actions utilizing a certain communication style, especially regarding the press release after the monetary policy meeting. In this way, if the monetary policy becomes more challenging, there are used certain expressions such as: *vigilant supervision, determined management, supplementary prudential measures*, and in the situation of a continuous monetary policy there are used certain expressions such as: *attentive supervision, particularized administration* so that the message will be best understood by the market players.

NBR publishes a series of periodic studies and reports such as: The Annual Report, and starting from 2006, The Report on financial stability, Monthly Report and a Circumstance Report. From 1995, numerous studies realized by NBR specialists and others from the academic background are published in Study Notebooks. Furthermore, to mark the respect for the national history and for the people that have achieved it, at the level of the Economic Studies Directive there have been realized a few papers consecrated to some memorable personalities: Victor Slăvescu, Virgil Madgearu, Eugeniu Carada, Mitiță Constantinescu, Ioan G. Bibicescu and Radu Dudescu, which have been published in *Restitutio*. There are published annually the NBR's Audited Financial Situations and also the Financial National Accounts³⁰⁵.

The organization of interviews, radio and TV debates with the BCE representatives represents another modality of communication with the large public, as well as the development of seminars and conferences organized in collaboration with the financial institutions from Romania or from outside, which usually have as target public, the mass media representatives, in the scope of familiarizing them with certain concepts and with the evolution of the economic phenomena on an international perspective.

The observations presented before this, conduct to the idea that NBR has made special efforts in the direction of adapting its communication practice to requests and levels of the European institutions communicational environment.

5. Conclusions

Considering as the fundament of this paper the elements that have been presented, we can conclude that over the past decades the communicational practices of the central banks have changed dramatically, evolving in the sense of diversification of the techniques and tools used, furthermore concentrating on reaching the final target for the directive that had been assumed

304 The NBR's press releases are usually discharged after each meeting of the CA, which take place at least once a month, and starting from 2006 these are preannounced.

305 To realize some correct, detailed and available macroeconomic and financial statistics in real time, at the EU level, there has been elaborated The European System of the National and Regional Accounts (SEC'95) which imposes an uniform architecture of statistical fallowing of the economies belonging to the member states.

through the law. In this way, the central bank has to be interested and to demonstrate that it realizes a convincing communicational policy so that the monetary policies would be efficient and would have an essential role for the market's expectations on medium and long term.

The central bank must provide clear and simple messages and in the same time must show that the monetary policy decisions are complex and that the operational environment is uncertain and changeable, especially during these days when the effects of the financial and economic crisis are been felt more and more at a global scale.

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