



CENTRAL BANKS UNDER PRESSURE OVER TRANSPARENCY

As they work towards more accessible, clear and regular engagement with the public, central banks are taking different approaches to improving external communications. By Taylor Pearce.

CALLS for more transparency around central banks' policies and practices are not new. But they have been catalysed by the uncertainty brought to the global economy by successive exogenous shocks, first with the pandemic and more recently with impact of rising inflation and the war in Ukraine. This raises important questions for central banks. Is greater transparency with the public necessary? Is it desirable? And how can central banks best ensure accessible, clear and regular engagement with the public?

To explore these themes, OMFIF spoke with Sheila M'Mbijewe, deputy governor of the Central Bank of Kenya, and Vincent Bignon, adviser to the general director of research and international relations of the Banque de France. This chapter draws on both GPI 2022 survey data as well as the insights from these interviews to investigate the reasoning behind this deeper and broader engagement with the public. It also looks at the practical implications, both for reserves managers and for the policy objectives of central banks more broadly.

INSTITUTIONAL RESPONSIBILITY OR POLICY TOOL?

There are two main arguments in favour of increasing central banks' transparency and communication with the public. The first relates to central banks' democratic accountability and legitimacy as public institutions, which is the heart



of the matter for M'Mbijewe. 'The central bank is an institution of the people and an institution of the government,' she stated. 'Accountability is desirable and necessary.'

Accountability has become especially important as central banks have grown their policy toolkits. For Bignon, the key questions for the Banque de France in reconsidering their public communications have been: 'How can we listen to what people have to say? How can we adapt and react to their demands?' To strengthen its accountability to the public, the central bank has introduced virtual and live 'La Banque de France à votre écoute' ('the Banque de France at your service') events to engage with the public directly. Many other central banks are now conducting their own consumer and citizen surveys to receive input from the public.

The second justification for increased communication – related but distinct from accountability – is to improve monetary policy effectiveness through forward guidance and inflation expectations management. 'If you communicate with the public, you have the ability to influence future variables,' explained Bignon. 'Then there is the possibility they will better understand, and the central bank will be able to influence consumption and investment.'

However, this task is more challenging. Because of the technical language which central banks often use, communicating with the public is more difficult than with markets. Consumers and non-financial businesses also make choices based on future guidance, but while central bank watchers and market practitioners have the time and resources to invest in the policy language, the same cannot be said for the broader population.

To address this knowledge gap, many institutions have begun rolling out initiatives to better communicate with the public and improve financial and economic literacy through, for example, simplified language reports and data visualisations. The European Central Bank has redesigned its monetary policy statements to include 'non-technical' terms on how and why decisions were made. Many institutions are increasing the accessibility of their websites and publications,



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and social media has been a key tool in managing forward guidance and inflation expectations of the population. The latter has been especially important for monetary authorities operating in developing economies, as OMFIF explored in GPI 2021.

Central banks' communications initiatives are often predicated on both greater accountability and improved policy effectiveness. For example, the ECB's redesigned public communications strategy overtly aims to address both the concern for institutional legitimacy and public trust as well as effectiveness of monetary policy operations. In a July 2021 white paper, the ECB stated the governing council's intention to 'modernise' its communications strategies. The paper expressed the need for the ECB to 'explain better what it does to all the people it serves' in order to 'ensure public understanding and trust' and 'to have a stronger influence on interest rates and inflation expectations.' The Bank of England has also emphasised its intentions to 'build accountability, trust and create a more effective policy-making environment' through its external communications.

TAILORED ENGAGEMENT, TARGETED AUDIENCE

The specific aim of public communications is also shaped by the particularities of their jurisdictions. This is why, for M'Mbijewe, it is imperative 'to understand the transmission mechanisms and connection to the economy in any given market.' In Kenya, 'people ask a lot about macroeconomics, people don't ask a lot about monetary policy... Kenyans understand monetary policy through its effects on the exchange rate,' she noted. This differs to the transmission mechanisms in advanced economies, where rate policy is much more politically sensitive – and more closely followed – due to its impact on mortgages, to give one example. In this way, the Central Bank of Kenya's public communications strategy revolves around 'identifying what it is about central banks that people need to understand.'

The political pressure for greater transparency has coincided with calls for many central banks to address a wider range of issues, including non-monetary considerations ranging from climate change to inequality to digitalisation (see Chapter 4). For an increasing number of institutions, this means having to communicate clearly and consistently on interrelated issues which are growing in size, scope and complexity.

Are the calls by the public for greater transparency being conflated – to some extent – with calls for greater action on the part of central banks? Bignon remains sanguine: 'I think it's a call for greater research, especially in connection to output, growth and monetary policy... It is imperative that central banks understand and take into account the channels through which climate

change affects the output gap and growth.' He added that this tendency is 'the same for inequality and digitalisation,' noting the need for research on inequality in relation to 'unconventional' monetary policy. In this sense, such non-monetary factors are important to consider, but primarily in relation to the central mandate of price stability.

This variation in the concerns of citizens in different jurisdictions demonstrates Bignon's point that 'there is no one-size-fits-all for central bank communications.' As such, central banks need to adapt how they communicate based on their target audiences and objectives, which are specific to the markets in which they operate.

IMPLICATIONS FOR RESERVES MANAGERS

Corresponding with the public's increased attention to central banks' policies and practices, successful reserves management is also key to central banks' credibility and for building public trust. This year's survey found that nearly all respondents (98%) view reserves management as a factor in central banks' public reputation, and the majority (60%) view successful reserves management as 'critical' to the public's perception of central banks (Figure 1).

An additional 38% of reserves managers reported that reserves management impacts the central bank's reputation to some extent. One survey respondent clarified: 'Reserves management plays an important role in influencing public reputation, but the critical factor arises from the fundamental objective of the central bank, which is to maintain price stability.'

For central banks operating in developing market economies, reserves management is even more pertinent. One such respondent noted that, specifically, 'the level of the reserves, rather than the reserves management practices, is critical to the central bank's reputation.' M'Mbijewe offered an explanation: 'Revenue from reserves is the source of a bank's independence... If you're not looking after the balance sheet, you're not looking after the institution.'

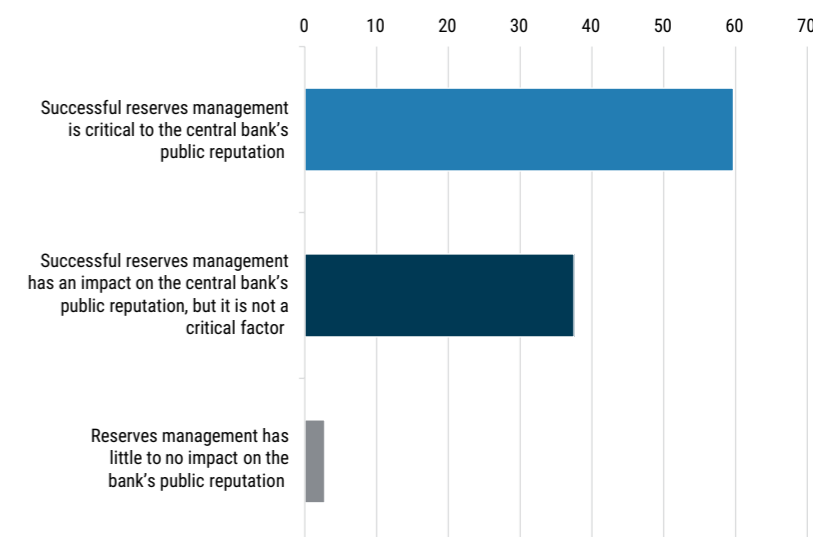
Central bank reserves managers face the dual challenge of operating under an increasingly volatile macro environment, while also facing more intense scrutiny at home by the broader population. A significant drop in the level of reserves could erode public confidence and trust in the central bank.

TOWARDS ACCESSIBLE, CLEAR AND REGULAR COMMUNICATION

While much progress has been made on strengthening the link between central banks and markets, engaging with the broader public has been more challenging. That should not deter monetary policy-makers and reserves managers. The merits of central banks communicating with the public are manifold, both due to the responsibility of central

1. RESERVES MANAGEMENT IMPACTS CENTRAL BANKS' PUBLIC REPUTATION

How important is reserves management to maintaining or protecting the central bank's public reputation? Share of respondents, %

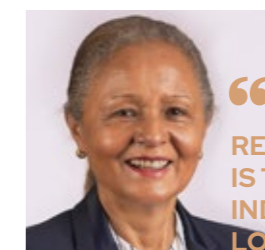


Source: OMFIF GPI survey 2022

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banks as public institutions and the need to improve policy effectiveness. Though more attention is being paid to central banks' actions and intentions given the current volatility and uncertainty in the macroeconomy, the trend towards greater openness is unlikely to reverse.

The resulting strategies, measures and initiatives will vary by jurisdiction, but as they develop public communications initiatives and strategies, the trade-off between parsimonious communication and effectively expressing the uncertainty of monetary policy-making will continue to pose challenges for central banks globally. As their policies and practices are shared more with the public, reserves managers will face even more pressure to perform. •



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