



THE ROLE OF COMMUNICATION IN TRANSPARENCY AND ACCOUNTABILITY OF CENTRAL BANKS (CBs)

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Carlos Gustavo Cano
Director
Banco de la República, Colombia

Personal opinions that not necessarily coincide with those of the
rest of members of the Board of Directors of the Bank



Credibility is the key asset of any central bank. It is crucial in controlling inflation

- Credibility is the core determinant of any successful monetary policy. Whenever the public trusts and believes that the rate of inflation will be on average low and stable, the mechanisms of formation of prices and wages will tend to reflect that expectation.
- Independence, transparency and accountability given the inflation targets previously announced to the public by the monetary authority, constitute the three axes of credibility.



The strategy and communications for controlling inflation

- The inflation targeting strategy is based on the public announcement of specific quantitative targets for the evolution of the consumer price index (CPI) during one or more years. Those targets are the guide for the design and implementation of the monetary policy.
- The centerpiece of the Best Practices in Central Banking for the fulfillment of its fundamental mission is influencing inflation expectations through communication with the public. There is nothing more relevant in monetary policy than expectations (Woodford).



Coverage and audience

As information is power, particularly in this age of knowledge we live in, communication of CBs must be for all parties of society, without any piece of privilege. That means that if CBs release any kind of information, it should be public under basis of opportunity and non discrimination. Not only for the media or the academic and business communities, but also for labor unions, students, housewives, rural workers, the common citizen. It is the only way to ensure credibility and public support.



Dissemination and transmission

- **Communication is not simply 'let them know it'. CBs must also perform an special effort in terms of active and pedagogic divulgation of the monetary policy, its rationality and the logic of its decisions, directed to the widest possible segments of society.**
- **The lack of symmetry in information is a source of deepest market failures (Stiglitz).**

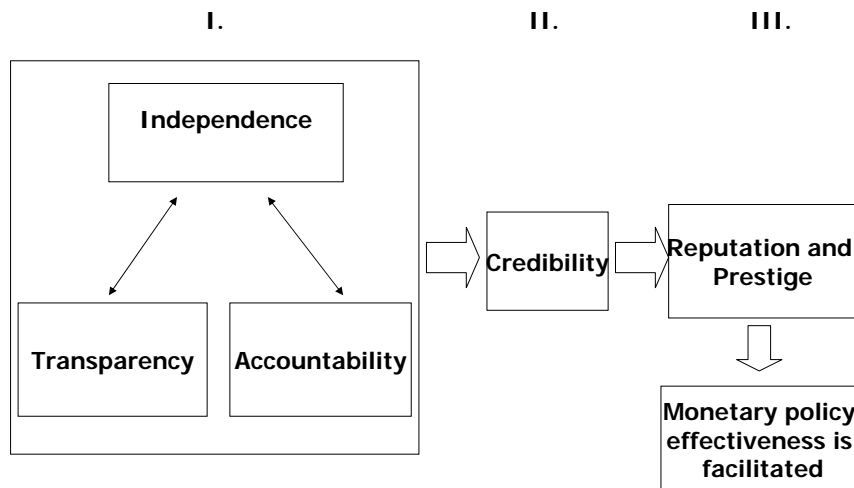


Independence, transparency and accountability

"Transparency can be seen as an implicit corollary to central bank independence: in exchange for the broad authority conceded, the CB owes the public transparency and accountability. And communication is at the heart of both" (Blinder).



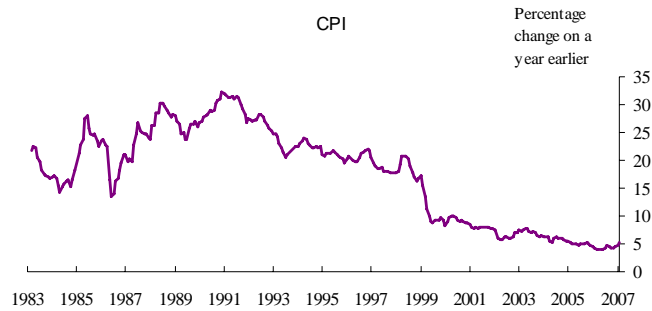
In graphic terms



The measure of communication effectiveness

- As inflation is one of the phenomena least understood by the public, the communication effort must begin by building an anti-inflationary social consensus.

Colombia has a recent history of low inflation



The measure of communication effectiveness

- The better the public understands and becomes capable to predict monetary policy, the more effective it will be.
- Then, the final product of communication must be the monetary policy effectiveness, which in turn reflects its own usefulness.



Means of communication

The periodic inflation reports are the main communication instrument. These constitute the basic ingredient for transparency and confidence building and understanding of monetary policy.

- The financial stability reports.
- Occasionally press releases, technical notes and reports, explanatory brochures and educational handbooks, conferences.
- Except the former, all publications must be periodic and calendar-based. It is also indispensable that a single message be designed and transmitted. "One voice in various mouths" is the fundamental rule.



The specific case of mass media

- Informational equity among all media.
- No *off-the-record* interviews.
- Language employed in drafting press releases should be simple, direct and with minimal use of technicalities.
- Formal and systematic training should be offered to reporters covering CBs.
- The areas where transparency and dissemination of data must be limited should be clearly specified.



The specific case of students and general public: the Colombian experience

- We are involved in different educational projects on economic topics through the development of didactic material for primary and secondary students.
- Also, we have developed an Interactive Money Museum in order to explain to people topics related with money, inflation and monetary policy in an entertaining way.
- These projects are very important within the Bank's communication strategy, since they have the longest lasting effect in the long run. Besides, there is no communication without education.



The specific case of the Congress: the Colombian experience

- Our CB must present a Report to Congress twice a year, in which it points out policy actions and future trends.
- The experience has been quite positive in terms of our fundamental values: independence, transparency and accountability. Regardless of the political affiliations and the personal opinion of its members about the monetary policy, my feeling is that a growing majority shares those values. With few exceptions, this exercises have had a good multiplier effect on public opinion.



The specific case of industrial leaders and businessmen: the Colombian experience

- Traditionally, the Governor of the Bank and the members of the Board of Directors meet periodically with groups of entrepreneurs from various regions of the country, for the purpose of exchanging opinions on the situation and prospects for the economy, as well as to explain policies adopted by the Bank in greater detail.
- We speak to the general public at various educational centers around the regions and grant interviews to local media.



And last but not least, the communication of the Monetary Policy Committee's decisions

- More questions than answers: Should we publish the records and when? If not, the minutes? If not, only a short statement of no more than one page? Should we inform about the votes? The names of members in each corner?
- In any case the wording, even the punctuation, are extremely important for all the economic agents and the results the MPCs pursue in each case.
- Let's open the discussion in this Forum.



THANK YOU!