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Transparency of the Central Bank as an Inflation Targeting Pillar

***Abstract.** The paper looks at the main characteristics of transparency, communication policy and information disclosure procedures by inflation-targeting central banks around the world. The implementation of an inflation targeting strategy by a central bank involves public announcement of inflation targets and the bank's obligation to achieve these goals. Inflation Reports have thus generally become the central element of communication policy. The article offers an evaluation of the Inflation Reports produced by 15 inflation-targeting central banks. The authors have also investigated the progress that the National Bank of Ukraine (NBU) has made in implementing a transparent and accountable monetary policy that implies the use of an appropriate set of tools supporting transparency under an inflation targeting mechanism.*

Keywords: central bank, monetary policy, transparency, Inflation Report, inflation targeting

Introduction

The relevance of the topic is caused by the dramatic transformation, that has undergone monetary policymaking during the last 25 years. Central banks used to be known for their secrecy, leaving people to guess their intentions. But nowadays most central banks announce their objectives with quantitative targets and publish numerical macroeconomic forecasts. They have also become much more open about their policy decisions and several ones even give explicit guidance about upcoming policy moves. According to Petra M. Geraats [2013] transparency has

become a key feature of monetary policymaking and central banks consider it very important. This is partly because many central banks have become independent, which has been accompanied by formal accountability requirements.

Experts of central banks, international financial organizations and scientists constantly emphasize the necessity of increasing of the level of monetary policy transparency. This fact is evidence of the central bank's social responsibility. Considerable contributions into the study of the problem were made by the following scientists: Taylor Aldridge, Michael D. Bordo, Andrea Fracasso, Petra M. Geraats.

It should be mentioned that an information policy of the central shouldn't has a chaotic character. Therefore, conducting a comprehensive study of the foreign experience in the formation of monetary policy elements (information tools; target audience; volume, quality and depth of provided information) is necessary in the context of our research.

Moreover, in the past ten years a number of countries have adopted inflation targeting. The key advantage of this strategy is that monetary policy is guided by a simple, logical criterion: the gap between forecasted and target inflation. Implementation of inflation targeting strategy by central bank is connected with a public announcement of inflation targets and central bank's obligation to achieve these goals. Inflation targeting central banks use many communication tools. Yet, Inflation Reports have generally become the central element of communication of inflation targeting central banks.

1. Theoretical aspects of the research

The term "transparency" is used in the scientific literature to indicate a state of complete awareness and information disclosure about particular object or process [Chub 2008]. Nowadays this concept is one of the most common and key in various fields of knowledge, but there is no it's generally accepted scientific definition. This is due to multidimensional of transparency, variety of its application in various fields of science and practice. Through the analysis of the relevant economic literature we have gained confirmation of the absence of common approach to the term "transparency" interpretation.

We consider that it is appropriate to analyze following approaches in more details:

- transparency relates to information flow [Stiglitz 2000],
- the system of relations concerning disclosure of information and using it [Khubiiev 2009],

- availability, completeness and accuracy of information [Litovskikh 2006],

- availability, completeness, accuracy, timeliness and clarity of information [Melnik 2010; The Monetary Policy... 2011].

In our opinion, the first approach is not grounded enough, because it is impossible to identify terms “transparency” and “information”. In this case there is no reply to the question “What information means and for whom it is designed?”. It also should be mentioned that some scientist identify transparency as a characteristic feature of public information [Benkler 2006] Transparency can also be examined using a system approach (in a legal field) as a system of relations. Supporters of the third approach consider that transparency is determined by the availability, completeness and accuracy of information. In our opinion, these are characteristic features of openness, defined as a degree of disclosure. However, it is possible to publish information that is unclear for the public. In this case term “transparency” should not be used. Supporters of the fourth approach provide the most comprehensive and wide definition of it.

The main controversial issue among researchers is characteristics of transparency, which include:

- accessibility (openness) of information – provision of information in the open access or on the first request,

- completeness of information coverage – provision of sufficient volume of information to explain past and future actions of a central bank,

- timeliness – information should be provided with a minimum delay (including forecast for future),

- integrity of information – tools and channels of information policy should be consistent and coordinated with each other [Melnik 2010; Migus 2013].

2. Toolkit of supporting central bank transparency under inflation targeting

Recent research by Bordo [2014] shows that, in the past ten years a number of countries have adopted inflation targeting. Inflation targeting central banks use many communication tools, such as press releases, press conferences, a variety of written documents and, increasingly, websites. In table 1 we compared the information policy of central banks according to the information that is disclosed.

Table 1. Information disclosure by central banks

Country	Publication of minutes			Publication of forecasts		Decisions are announced immediately	Press conferences	Press Releases	Accountability
	Time lag	Identification of votes		Frequency	Frequency				
Australia	+	2 weeks	–	+	Quarterly	+	–	+	Once in six months
Canada	–	–	–	+	Quarterly	+	+	+	Quarterly
Czech Republic	+	8 days	–	+	Quarterly	+	+	+	Once in six months
Hungary	+	2-3 weeks	+	+	Quarterly	+	+	+	Once in six months
Iceland	+	–	–	+	Quarterly	+	+	+	Quarterly
Israel	+	2 weeks	–	+	Quarterly	+	+	+	Once in six months
New Zealand	–	–	–	+	Quarterly	+	+	+	Quarterly
Norway	–	–	–	+	Quarterly	+	+	+	Annually
Poland	+	2 weeks	+	+	Quarterly	+	+	+	Quarterly
South Africa	–	–	–	+	Once in six months	+	+	–	Quarterly
Sweden	+	2 weeks	+	+	Quarterly	+	+	+	Once in six months
Switzerland	–	–	–	+	Quarterly	+	+	+	Regularly
Thailand	+	2 weeks	–	+	Quarterly	+	+	–	Regularly
Ukraine	–	–	–	+	Quarterly	+	–	+	Quarterly
United Kingdom	+	2 weeks	+	+	Quarterly	+	+	+	Every two months

Source: compiled by authors based on data of official websites of central banks (the cut-off date 16.05.2016).

We followed the similarities in the practice of information disclosure by central banks: information is announced in all material aspects. It should be noted that regulators of some countries do not publish minutes of the meetings, but this applies only to legal part. In fact, central banks announce the decisions taken at the meetings, but not in the minutes – just in the information sheets.

The Inflation Report is the central element of communication policy of inflation targeting central banks. Recent research by Andrea Fracasso, Hans Genberg and Charles Wyplosz [2003] assessed the quality of the inflation reports of inflation targeting central banks by using the following criteria: convincing, completeness, writing style, quantity of information provided in the Report. Using the Fracasso, Genberg, and Wyplosz [2003] approach to inflation reports assess as a broad inspiration, we've analyzed Inflation Reports produced by 15 inflation-

Table 2. Overall assessment of Inflation Reports
(1 = min, 10 = max)

Country	Convincing		Completeness		Writing Style		Quantity of Information Provided	
	Value	σ	Value	σ	Value	σ	Value	σ
Australia	4.75	1.84	3.46	1.40	8.21	1.84	4.54	1.40
United Kingdom	9.38	0.41	9.08	0.20	10.20	0.15	9.38	0.41
Iceland	8.11	1.77	7.49	0.83	7.70	1.56	6.86	1.14
Israel	7.13	0.43	5.40	1.51	7.99	0.97	8.21	2.05
Canada	5.83	1.84	4.75	1.19	9.72	0.76	7.99	0.97
New Zealand	9.07	0.43	8.21	0.54	9.94	0.86	9.07	0.54
Norway	7.34	1.84	6.05	1.62	8.21	0.97	7.78	0.43
South Africa	6.00	0.41	4.76	1.35	7.25	0.72	5.38	1.35
Poland	5.38	1.76	4.35	1.14	7.25	1.04	6.00	1.33
Thailand	7.83	0.41	8.03	1.34	7.21	1.24	7.83	0.93
Ukraine	6.06	1.72	4.44	1.52	6.87	2.83	4.14	1.92
Hungary	7.38	0.42	5.41	2.29	7.49	2.39	8.94	2.39
Czech Republic	7.04	1.73	7.34	1.33	7.75	1.12	8.16	1.02
Sweden	7.14	0.41	5.71	1.94	7.75	1.12	7.34	1.33
Switzerland	6.03	1.77	4.16	2.39	8.53	1.14	4.99	2.91

Source: compiled by authors based on data of official websites of central banks.

-targeting central banks in second quarter of 2016 (table 2). The first assessment criterion is “Convincing” of the reports. It reflects the level of credibility to central banks by determining the level of argumentation of central banks’ decisions. The overall rating is satisfactory.

The next evaluation criterion is the “Completeness” of the reports (did experts get answers to all the questions concerning implementation of monetary policy?). The results show that central banks of some countries (Switzerland, Australia) don’t include all necessary information to the inflation reports and announce it through other communication tools. In addition, some important information is published once a year in the annual report of the bank. The writing style, which matters because it shows whether the content of reports is conveyed clearly, is generally found to be of high quality with few exceptions (which may be related to the translation into English).

The last evaluation criterion is “Quantity of information provided in the Report”. Most central banks have achieved close to the ideal disclosure information

about inflation. Inflation Reports are nearly as good regarding the providing data about evolution of detailed price series. Thus, at least through their Inflation Reports, the central banks have established themselves as specialists in the analysis of the inflation process, an objective that every inflation targeting bank ought to have high on its list of communication objectives. The performance is less impressive regarding growth. The amount of information which describes growth tends to be significantly less than information about inflation. This may reflect a genuine emphasis of the central banks on inflation. Alternatively, it may be a desire to underplay the role of growth in shaping monetary policy.

3. Communication policy of the National Bank of Ukraine in the context of transition to inflation targeting

Representatives of the Reserve Bank of New Zealand published in 2014 a comparative analysis of decision making process about monetary policy publication in some developed countries (US, Eurozone, UK, Japan, Canada, Switzerland, Israel, Sweden, South Korea, Norway, New Zealand) and developing countries (Brazil, Chile, Mexico) [Aldridge, Wood 2014]. In particular, following important aspects of central bank communication policy were studied: publication of economic forecasts, publication of transcripts of the Monetary Policy Committee meetings, accountability to legislative bodies, functions of the higher authorities of central banks, using of informal methods of communication, etc. The authors concluded that decision-making process in the field of monetary policy and mechanisms of governance and accountability in the surveyed countries differ significantly. Many of these differences are due to historical peculiarities and differences in views on an optimal structure of public sector management in general. However, over the past two decades convergence of approaches in the issue of balancing of central bank operational independence and effective accountability mechanisms was achieved. The economic essences of central bank's monetary policy objectives, despite formal differences in their formulation, are very similar. According to the results of analyzed research, we can make a conclusion that the ECB follows some of the world's best standards of monetary policy transparency. It often acts as a pioneer in this field.

The Ukrainian banking sector development during 2009-2014 years was discrete and disproportionate by its nature. At the same time Ukrainian economy

for years has been suffering from volatile and unpredictable inflation that undermined trust in hryvnia causing: high interest rates; incentives for dollarization; impediments for economic growth. Thus, inflation targeting regime, consisting of a set of practices to perform a rule-based and transparent monetary policy, is the most suitable prospective regime for Ukraine. The Treaty on the Functioning of the European Union (Article 127) clearly establishes that the primary objective of the European Central Bank is to maintain price stability. Consequently, the ECB's best practices in the sphere of inflation targeting are very useful for reforming Ukrainian monetary policy. Considering the above mentioned and also socio-political consensus on the European vector of economic integration achieved in Ukraine, it is reasonable to study directions of raising the monetary policy transparency level of the NBU. We have identified four such areas. First three areas started to be implemented in practical terms:

- holding Monetary Policy Committee meetings and operative publication of the results;
- activation of Internet communication channels;
- complete disclosure of information about key central bank operations;
- implementation of explicit monetary policy rules.

We propose to consider in more detail above mentioned four trends in increasing of the level of monetary policy transparency. These trends consider the best practices of leading central banks around the world.

The main channel of the developed countries communication is the monthly press conferences about problems of formulation and implementation of the monetary policy. In Ukraine such events were not practiced yet. These functions were performed by the NBU Board, which dealt with all current and strategic questions of the National Bank. However, as international experience shows, it is useful to differentiate basic functions of the central bank connected with the formation of monetary policy from other (auxiliary) functions.

The Monetary Policy Committee was established in the National Bank of Ukraine within the organizational reform. It had its first meeting in the late 2014. The powers of this body include development of proposals for the formulation and implementation of the monetary policy. The Board of the National Bank of Ukraine will approve these proposals. Amendments to the legislation that planned for the nearest future will provide delegation of these functions to the Monetary Policy Committee.

It should be noted that the establishment of the Monetary Policy Committee is a part of comprehensive reforms of the organizational structure of the National Bank of Ukraine. These reforms are directed at optimizing staff and organizational structure of the central bank by reducing its functions. Also reforms provide focusing of organizational and administrative structure on the implementation

Table 3. Analysis of modern Internet communications used by central banks of leading countries and the NBU

Country	Twitter	YouTube	Facebook	Flickr	LinkedIn	RSS	E-mail	Videos	Audios	Function share	Mobile version	Chat
Australia	+	+	-	-	+	+	+	+	-	-	-	-
Canada	+	+	-	+	+	+	+	+	-	+	-	-
United Kingdom	+	+	+	+	+	+	+	+	+	+	-	-
Belgium	+	+	-	+	-	+	+	+	-	-	+	-
Sweden	+	+	+	-	+	+	+	+	-	+	-	+
USA	+	+	+	+	+	+	+	+	-	-	+	-
Eurozone	+	+	+	+	+	+	+	+	-	+	-	-
Hungary	-	+	+	-	-	+	+	+	-	-	-	-
Ukraine	+	-	+	+	-	+	+	+	-	-	-	-
Georgia	+	+	+	+	-	+	+	+	-	-	-	-
New Zealand	+	+	+	-	-	+	+	+	+	+	-	-
Japan	+	-	-	-	-	+	+	+	-	-	+	-

Source: compiled by authors based on data of official websites of central banks (the cut-off date 26.06.2016).

of the main NBU's task – to ensure stable inflationary environment in the medium term. We are positive about establishment of the Monetary Policy Committee. However, the complete positive effects from functioning of this body will be achieved only by providing the maximum level of transparency of the Committee member's discussions and decision-making. It is reasonable to hold press conferences and publish summarized minutes after the Monetary Policy Committee meetings.

Another way to increase the level of monetary policy transparency of the NBU is intensification of using Internet communication channels. Central banks experience of using modern Internet communications are summarized in table 3.

We can conclude that the National Bank of Ukraine uses channels of Internet communications not as active as central banks of leading countries. However, the positive aspect is opening in 2014 the official page of the National Bank of Ukraine on Facebook. This resource is replenished operatively by messages on actual topics. Significant share of this information is connected with an explanation of measures concerning reformation of the monetary policy and current problems of its realization.

The third direction of improving transparency of the NBU monetary policy is to provide a full disclosure of key operations of the central bank on money market. The National Bank of Ukraine traditionally publishes qualitative summary information regarding using of monetary instruments in its statistical compilations. However, detailed information regarding the volume of refinancing in the context of individual banks until recently was closed. Inaccessibility of this information entailed permanent discussion about transparency of the National Bank and reduced the level of trust to its decisions.

According to the Article 68 of the Law of Ukraine “On the National Bank of Ukraine” from January 2015 the National Bank of Ukraine has started publishing information about loans were given to banks (for more than 30 days). It should be noted that this Article was changed according to the Law of Ukraine “On measures to promote the capitalization and restructuring of banks” from 28.12.2014 year [Pro zakhody spryamovani... 2014]. These changes include process of legislative fixing of NBUs obligation to publish key parameters of provided by commercial banks loans: bank name, amount and type of loan, type of securities, dates of the relevant decision of the National Bank of Ukraine.

The last direction of improving transparency of the NBU is to use explicit monetary rules. Central bank should find a balance between discrete measures and monetary rules during implementation of monetary and communication policies. Exclusively discrete (situational) use of the monetary policy instruments will lead to: closeness of decision-making mechanisms, active use of administrative methods of regulation and impossibility to influence the phase of the economic cycle. On the other hand, following explicit monetary policy rules (for fiscal sphere – budgetary rules) will provide substantial transparency and take into account market trends (including phases of economic cycles).

In our opinion in current conditions of economic liberalization policy in general (and monetary policy in particular) the relevance of using monetary policy rules, which are the main alternative of completely discrete regulation in the field of monetary policy, increases. The key idea of John Taylor’s article (in which he proposed a formula of monetary policy rule for key central bank interest rate) is substantiation of advantages of policy rules in comparison with discretionary regulation [Taylor 1993]. Focusing on application of monetary policy rules provides reducing the weight of subjective (voluntary) component in monetary policy decision making process. Voluntary steps are necessary for reforming of existing approaches, and in the case of necessity to applicate extraordinary measures in response to the force major circumstances.

Conclusions

In terms of intensification of globalization process and significant volatility in world financial markets, the central banks communication policy should be systematic and responsible. It is necessary to use a wide range of information policy tools for transferring quality information about monetary policy to society in a way that allows getting it in time and correctly interpreting its content. The main characteristics of transparency were analyzed in the article.

Tools and channels of information disclosure were analyzed in the paper. It is necessary to use wide range of information policy tools for transferring quality information about monetary policy to society in a way that allows getting it in time and correctly interpreting its content. The comparative analysis of information disclosed by 15 inflation-targeting central banks and assessing of the Inflation Reports produced by this banks shows constant improvement of requirements to the level of monetary policy transparency.

Ways of improvement the transparency level of the National Bank of Ukraine monetary policy in the context of implementation of inflation-targeting regime were investigated. During the last year the National Bank has implemented a number of projects that will contribute to a significant increase of its transparency level and will be a reliable basis to ensure the necessary level of efficiency in the context of achieving the inflation targets. However, transparency itself is only a prerequisite of the high quality of monetary policy which enhance the positive effects from professional, responsible and timely monetary decisions of the National Bank.

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Przejrzystość banku centralnego jako filar sterowania inflacją

Streszczenie. W artykule przedstawia się najważniejsze cechy polityki przejrzystości i komunikacji oraz procedur udostępniania informacji stosowanych przez banki centralne na całym świecie. Wdrożenie strategii sterowania inflacją wiąże się z ogłaszaniem przez bank celów inflacyjnych oraz zobowiązaniem do ich osiągnięcia. Kluczowym elementem ich polityki komunikacyjnej stały się wobec tego raporty o inflacji. Artykuł podejmuje próbę analizy raportów publikowanych przez 15 banków

centralnych sterujących inflacją. Autorzy ocenili ponadto postępy, jakie poczynił Narodowy Bank Ukrainy we wdrażaniu przejrzystej i odpowiedzialnej polityki pieniężnej – a więc takiej, która zakłada posługiwanie się odpowiednimi narzędziami służącymi zachowaniu przejrzystości mechanizmu kontrolowania inflacji.

Słowa kluczowe: bank centralny, polityka pieniężna, przejrzystość, raport o inflacji, sterowanie inflacją