

Nout Wellink: The Nederlandsche Bank in the media - thorough openness?

Address by Dr Nout Wellink, President of the Nederlandsche Bank and President of the Bank for International Settlements, for the conference of the Association of Editors-in-chief, The Hague, 30 October 2003.

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In the novel "Being There" by Jerzy Kozinsky, Chauncey Gardener is an unworldly gardener who is rather simple-minded. For many years he tended an old man's garden, completely isolated from the outside world. When the old man dies, he leaves the garden for the first time in his life. By chance, he meets the American president, who asks his opinion on the economic recession. Chauncey doesn't understand and talks about his garden in reply: "In a garden, growth has its season. There are spring and summer, but there are also fall and winter. And then spring and summer again. As long as the roots are not severed, all is well and all will be well." The President is so impressed by this unintended metaphor that he uses it in a speech. The illiterate Chauncey thus becomes a celebrity. The media seek his opinion on all kinds of subjects, and his pronouncements are seen as words of great wisdom.

Chauncey's statements went down so well because he unwittingly increased confidence in the economy. Confidence is essential for the functioning of our economy. Confidence in price stability ensures, for example, that incomes policy is not distorted by high inflation expectations. And thanks to confidence in the euro, you could go out and buy an expensive banker's pinstripe suit - if you wanted to, that is - and pay with a wad of paper which cost only a few cents to produce. Promoting confidence may well be the core task of a central bank: confidence in the value of the currency and the stability of the financial system. Unlike Chauncey however, we back up our pronouncements with economic analyses. But we learn from Chauncey that communication is important too. And that's what I want to discuss today. I'll start by showing just how much the work of a central bank is influenced by communication and will then look at the relationship between the Nederlandsche Bank and the Dutch media. I'll conclude with the Bank's image in the press.

Influence of communication on monetary policy

For a central bank, communication goes beyond hiring a press officer. Communication touches on one of a central bank's core tasks: implementing monetary policy. We obviously communicate about our other tasks too, such as the payments system and supervision, but in no other area is communication such an integral part of our objective. Short-term interest rates (money market rates) are controlled via monetary policy, but the economy is influenced largely through capital market rates. Capital market rates not only depend on prevailing money market rates, but also on expected future money market rates. So what is important for monetary policy is that a central bank can influence expected key interest rates. This calls for an open, transparent communication with the financial markets. Transparency enhances the effectivity of monetary policy since it provides more insight as to the way that a central bank interprets economic developments, and why it reaches certain decisions. Transparency hence makes for less "noise on the line" between the central bank and financial markets.

Moreover, an independent central bank in a democratic system of government also has an obligation to observe transparency. I'm inclined to say that the more independent you are, the more transparent you should be. Monetary decisions have an effect on economic development. In addition, inflation reduces the value of assets and the purchasing power of income. Monetary policy therefore influences people's prosperity. Unlike decisions on, say, the budget, monetary decisions are taken independently of democratically elected politicians. This independence enhances the credibility of a central bank. But precisely because of its independence, a central bank must account for its decisions. However, transparency is not an aim in itself, but belongs to the set of instruments needed to realise the central bank's objective.

The importance of transparency is also acknowledged by the European Central Bank. Duisenberg - and as of the day after tomorrow, Trichet - holds a press conference once a month during which he responds to journalists' questions. No other large central bank dares to do the same. The ECB President also speaks to the European Parliament four times a year. In addition, the ECB has a clear objective, namely price stability. This long-term objective of the ECB is clearer than that of the Fed,

which must seek a balance between price stability and economic growth. Citizens and financial markets can be confident that the ECB will keep inflation low. And they do have that confidence, judging by the low inflation expectations that emerge in surveys and are reflected in the price of some financial instruments.

Nonetheless, the ECB is regularly reproached in the media for a lack of transparency. The European Parliament, for example, recently called on the ECB, in announcing a decision on interest rates, to make public the minutes of the relevant meeting and the distribution of votes. I am not certain whether this information would actually enhance transparency. Minutes can also lead to misunderstandings, because the weight given to different arguments is not always clear. Besides, there is a danger that Member States would check out the consequences for their own country of their central bank President's stance. That is not the intention, since all members of the ECB Council decide for the euro area as a whole. Integral publication of the minutes could also change the nature of the discussions. Nonetheless, we take the criticism seriously and regularly explore possibilities for improving communication, one result being a clarification of our monetary approach in May of this year.

Communication not only influences policy, but also the policymakers. Central bankers are continuously subject to media attention. They can hence explain decisions and strengthen the confidence of market parties. But they also need to watch their step, because statements are sometimes interpreted like those of the Delphi Oracle. In other words, people hear what they want to hear. It is completely understandable that journalists enjoy analysing the decision-making in the ECB Council. But as a central banker, you must always be aware of how far these interpretations can go. The press likes to divide the members of the ECB Council into hawks and doves. And I once mentioned in an interview that structural reforms would lead to lower inflation, theoretically giving scope for interest-rate reductions. The next day's headline in the *Financieele Dagblad* was: "Wellink: interest-rate reduction in return for structural reforms". That is obviously not what I meant, but it shows that a slight remark can sometimes have major consequences.

Nederlandsche Bank's relationship with the media

This brings me to the relationship between DNB and the media. The traditional image of central banks as ivory towers is outdated. The Bank has regular contacts with the media, and the days when it only communicated through publications such as annual and quarterly reports are long gone. Over the past year, members of the Bank's Governing Board gave more than 50 speeches, and as many as 150 interviews and television appearances. In addition, during the introduction of the euro, a documentary maker from the Dutch broadcasting company VPRO extensively filmed routine activities within the bank - even the Governing Board at lunch. Our basic premise in these media contacts is complete openness. Obviously, there are limits, for example that we are - rightfully - prohibited by law from publishing information on individual banks. We are even relatively open on this point, witness an information session for journalists about the obligation of secrecy. Though I must admit that the session was off-the-record. In brief, we aim to inform the public in the most honest and open manner. That's why our information officials are always ready to answer questions. But you won't find any spin-doctors such as Alistair Campbell, and leaks to the press are absolutely out of the question.

The best example of the importance of the media is the introduction of the euro. For the Bank, this was not just a major logistical operation; informing the public was at least as important for the success of the euro conversion. The Bank made a concerted effort to provide information, for example on the security features of the banknotes and the exchange of old guilders. My firm impression is that the media also felt directly responsible for the provision of (critical) information. Our contacts with the media during that period were very intensive, since we wanted to reach as many people as possible within a short time. The Bank even used channels which we otherwise rarely encounter, the highlight being my own appearance in the women's weekly magazine *Libelle*. At that point I could deliver the factual message off by heart, but the interest in the colour of my jacket came as a surprise.

Following the euro introduction the Bank was subject to some criticism in the press, notably in respect of the possible inflationary effects. The idea quickly took hold that the euro had made life more expensive. Some 90% of the Dutch population were convinced of this in July last year, according to a Bank survey. Estimated inflation was then as much as twice as high as actual inflation. In itself, this perceived inflation is understandable. People had to become familiar with the new currency and the new prices, while strong economic growth had driven up Dutch inflation. Moreover, price increases were highest in the most visible sectors, such as catering and retail. Unfortunately, the impression arose that the Bank had deliberately underestimated the price-raising effects of the euro. That is not

correct: as early as June 2001 we estimated that the inflationary effects could amount to between 0.2 and 0.7 percentage point. The corresponding increase in retail prices (the effect on daily purchases) amounts on average to between 0.5 and 1.8%. Initially, we thought that the inflationary effects would end up at the lower end of this range, and that is what we made public. This may have been a little premature, because, with hindsight, the inflationary effects appear to be closer to the top end. In my view, the provision of information on this point could have been better.

Besides a source of news, the Bank is of course a consumer of economic news in the Dutch press. I find the quality of financial and economic reporting quite sound. Dutch journalists are generally well-informed and are able to put news items quickly into context. The latter helps us to fine-tune our own analysis. It is good to know how others interpret economic and social developments, such as the consequences of austerity measures for society. But one is obviously extra critical when it comes to one's own profession, so I do have some comments. Compared to the British, American and German press, economic reporting is less in-depth. Newspapers such as the Wall Street Journal, Financial Times or Frankfurter Allgemeine more often succeed in bringing analyses that give a surprising perspective or new insight. The Dutch press could also be a little more critical in the field of economics. I don't wish to directly oppose a recent statement by my fellow supervisor Docters van Leeuwen, as to the reversal of the burden of proof, but if I had been a journalist, I would have gone a little further than simply reporting this standpoint. Just as an independent parliamentary press is essential for the functioning of a democracy, an independent economic press is essential for the functioning of a capitalist society. Scandals surrounding Lernout & Hauspie in Belgium or Baan and Ahold in the Netherlands came to light mainly thanks to the Anglo-Saxon press, and not the Dutch. In the small Dutch market there is obviously less time and manpower available for economic analyses or investigative journalism. But the press does indeed have a curious and critical attitude in other areas. So some improvements may be possible.

A comparison with the Anglo-Saxon press also reveals some positive aspects. I think the Dutch press is generally neutral and balanced. Some English newspapers, say, take a consistently anti-EMU approach, in which the Stability Pact and the ECB's monetary strategy always have to take the rap. Fortunately, you encounter that kind of prejudice far less in the Netherlands. This objectivity also holds true for more complex and politically sensitive issues. That struck me in the reports on the new distribution of votes following the accession of the new EU Member States to EMU. And on looking at a completely different section of the British press (the tabloids), then I appreciate the Dutch media's total lack of interest in my private life.

DNB's image in the Dutch press

So the Bank has an opinion about you, but we are also curious about your opinion of us. To communicate well, it is important to know how our message comes across. Another factor is that the role of the Nederlandsche Bank has been changed by EMU. We are no longer the guardian of the guilder, but the co-guardian of the euro, in line with the deliberately chosen federal structure of the European System of Central Banks. In addition, we supervise banks and - following the merger with the PVK - also the pensions and insurance sector. We also advise the government on numerous issues.

The Bank commissioned a survey of its image among Dutch journalists. The results were not disappointing, but our efforts leave room for improvement. A surprising amount of journalists find that the Bank has a clear profile. Many mentioned our role as supervisor and the merger with the PVK. I also found it surprising that most people ascribe a wide role to the Bank, seeing it as an "important knowledge institute", which "presents its opinion in many areas" and as a "cautious, critical observer of economic developments". Critical notes were sounded too, of course. Many journalists have the idea that our set of tasks has been reduced, judging by statements such as that we are a "branch of Frankfurt", "dull, without a clear function" and even "a 19th century phenomenon". These comments are tough, but, as I see it, show that we still have much to explain. We are all too well aware that we need to adapt to a changing environment. For one, we are now in the process of a far-reaching reorganisation and merger. The positive reactions show that we are on the right path. I'd like to mention one other outcome from the survey. Some journalists found that the Bank had become more open and more approachable in recent years. Moreover, the Bank still has plenty of credibility. Words such as trustworthiness, soundness and independence clearly resonate in our image.

The Dutch and European economy

A speech for the Dutch media would of course not be complete without some news, but the news I had has been somewhat overtaken by the publication of the latest Commission forecasts for the European and Dutch economy. Our open economy has suffered considerably from the recent worldwide economic downturn. We are also contending with the after-effects of the boom in the late 1990s which eroded our competitiveness. This was a contributory factor in the abrupt reversal in Dutch growth from well above the EMU average to the lowest in the euro area. But there is light at the end of the tunnel. The American economy is clearly picking up. The crucial question now is whether the euro area, and the Netherlands in particular, can benefit from this revival. Owing to the poor growth figures in the first two quarters, the Netherlands will this year see a significant economic contraction. Growth is expected to be more negative than our last projection of -0.4% in the June Quarterly Bulletin, and will hence be closer to -1% than -0.5% over the whole year. According to the latest DNB projections, next year's growth will barely exceed 0.5% . Despite these setbacks, the nadir of the recession is now behind us. Producer confidence has now reached its highest level this year, having shown an increase for four months in a row, while industrial order books and capacity utilization have slightly expanded. Although 2004 will still be a year of adjustment, solid foundations will be laid for a sustainable economy recovery. Wage moderation and cost-reductions will restore corporate sector competitiveness, renewing growth in business investment for the first time in four years. Thanks to this and other factors, growth in 2005 will return to its potential, a potential that will in due course benefit from the range of structural measures now in the pipeline. Despite the hesitant start, the economy will hence eventually gain full speed.

Whereas the economic signals are green, all warning lights in the budgetary area in Europe are flashing bright red. Three countries have already crashed the red light, with a deficit exceeding the 3% ceiling under the Maastricht Treaty. France will do this next year for the third year in succession, and should hence be penalised. The penalty for France could reach 0.3% of GDP, representing more than EUR 4 billion. However, this fine need only be paid if France fails to narrow its deficit to below the 3% ceiling within two years. So France would have to break the rules until end-2006. Until that time, the amount of EUR 4 billion merely takes the form of an interest-free deposit, meaning that France only forfeits the interest on that sum. At an interest rate of 5%, that is equivalent to around EUR 200 million a year. Having driven through a red light, France should not look for excuses but should simply accept the penalty. Why should Italian farmers pay a total of around EUR 1 billion in European fines (for exceeding the milk quota), and a government that pays no heed to the rules be spared?

I hope that I have given you enough material for further discussion. But I can't say for certain since, as the story of Chauncey illustrates, messages can sometimes come across very differently than intended.