

Ardian Fullani: Does central bank transparency reduce interest rates?

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the seminar: Does Central Bank Transparency Reduce Interest Rates?, Tirana, 22 August 2007.

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Honourable ladies and gentlemen,

It is a special pleasure for me to introduce Mr. Sylvester Eijffinger, an academic that is well-known for his research into central banking institutional and practical issues. Today he is going to share with us one of the latest experiences of his work in monetary policy transparency and its effects on the economy.

This activity is a follow-up of the lectures with distinguished personalities from academy and finance world, part of the program on enhancing transparency through public education. Undoubtedly, we have to do with an initiative of the Bank of Albania to contribute to the enlivening of academic and scientific research in Albania.

Over the last decade, there is noticed a tendency of central banks to be more and more open to the public concerning the decision-making in economic and financial policies. Transparency has become an important issue of monetary policy. The important changes occurring in central banking since the beginning of `1990 have led to interesting and contemporary topics of academic studies in monetary policy. Transparency and opening to the public became a necessary practice in the framework of adopting inflation targeting, as a good practice of communicating with the public and for meeting the final objective of monetary policy. Moreover, this practice was extended in other central banks of advanced and developing economies. The rationale behind such policy stands at the belief that central bank transparency prevents the asymmetric information that exists between policy-makers and other economic agents. From this viewpoint, transparency increases clarity on monetary policy and allows the private sector and the economy to make rational decisions.

Central bank transparency enhancement has been reflected in the publication of monetary policy objective, often defined in numeric form; in the publication of inflation report and the expected inflation forecasting; in the description of monetary policy decisions, together with the analysis and assumptions leading to such decisions; and in extreme cases, in the publication of minutes of monetary policy meetings, and the voting result in the decision-making process. Significant examples may be found in the European Central Bank, the Federal Reserve, the Bank of England, the Central Bank of Canada, of New Zealand, of Sweden.

These tendencies indicate that central bankers have strong reasons to believe that central bank transparency carries over the potential to increase credibility and reputation of the institution and of the monetary policy, why not even its flexibility. Simultaneously, transparency helps the economy to achieve low inflation and interest rates. It is very important that scientific academy and researchers investigate this confidence of ours, providing their contribution and conclusions.

The Bank of Albania has assessed the importance of monetary policy transparency and has made substantial steps for raising its level, especially in the recent year. Let me briefly mention some of these improvements:

I believe that you share the same opinion with me, that currently the decision-making process in monetary policy area and in that of financial stability has undergone a significant improvement, not only in terms of the analysing process but also from the viewpoint of its communication. Presently the Supervisory Council has disclosed the calendar of meetings dedicated only to monetary policy decision-making.

Also, since a long time, the process of its implementation, of analysis and of proposals passes through the Committee for the Implementation of Monetary Policy, a consultative body which has not only raised the quality of analysis but has also contributed to a new updated format of the Bank of Albania's communication with the market and with economic agents in general.

No doubt, the whole above-mentioned framework passes through an analytical process of assessment and forecasting, which is synthesised in monetary policy reports, part of which are the inflation forecasting models and baseline assumptions for possible economic events to which monetary policy should response.

I may elaborate this point even further, but I believe that in my public presentations, in many press releases of the Bank of Albania Supervisory Council, and in our periodical publications we have made it clear that the one-digit numerical inflation target, the explanation of both operational and monetary policy framework are a central part of the Bank of Albania transparency.

Personally, I am confident that this is the core of central bank transparency. I also believe that, thanks to this increased transparency, we have been relatively successful even in the achievement of another major central bank objective, i.e., that of anchoring the inflationary pressures at the programmed levels.

Enhancement of transparency to such levels indicates clearly the Bank of Albania's obligation to be an entirely accountable institution. We are confident that only in this way we will raise our credibility, will maintain and strengthen the confidence of the public and of economic agents in the Bank of Albania and its commitments.

An aspect of transparency I would highlight is that of public understanding of central bank related issues. No effective communication exists without succeeding in understanding each-other reciprocally. No matter how broad and clear the information given by central bank is, the positive effects of transparency may not be fully benefited if this information is not interpreted fairly by economic agents. This is particularly necessary for countries of a short history of market economy, where the degree of public involvement in the country's economic life is still low. Therefore, the Bank of Albania has been very aggressive in terms of designing and developing various programs for public education. Numerous meetings with market participants, with financial and banking community, with the business, with the academy, with the media and beyond, with the public, have been regularly carried out and I assure you that they will continue with the same intensity even in the future.

I would like to emphasise that the argument of transparency enhancement remains equally valuable also for the rest of financial system. Transparency, without becoming an end in itself, and without damaging the achievement of final objectives of the business is a necessary market element for building confidence and expanding business relations, in products and volume, maintaining the financial system equilibrium and stability. In this framework, transparency should become a global concept of the financial market for products, services and actions taken by it. **To this end, I would request from the banking system to further enhance its transparency with the public, particularly in terms of explaining simply and sincerely the products it provides, the commissions it applies, without leaving behind the publication in due time and quality of financial results, pursuant to legal obligations. In this context, I would like to let you know that the Bank of Albania will be rigorous in meeting all the obligations arising from the observance of laws and regulatory basis.**

As my friend Eijffinger states: "Transparency seems to mean different things to different people", it is understandable that the debate remains open to both, academic and practical plane. New elements, quantitative indicators, empirical models are constantly added to it. The material to be presented today, adds a new value in this regard, with practical importance for central banks. I am confident that today we will have the opportunity and

pleasure to expand our knowledge and consolidate our confidence in transparency effectiveness. I invite you to be full of attention for the presentation.

Honourable Professor Eijffinger,

I thank you for accepting my invitation to present your research in Tirana, and I wish you have a pleasant experience during your stay in Albania.