David Opiokello: Confidentiality and transparency – the challenge to Bank of Uganda and the media

Address by Mr David Opiokello, Acting Deputy Governor of the Bank of Uganda, at the Bank of Uganda Media Workshop on Confidentiality and the Right to Public Information: Central Banking Communications, Kampala, 24 May 2007.

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The Chairpersons
Resource Persons
Distinguished participants
Ladies and gentlemen,

It is my pleasure to welcome you all to the Bank of Uganda Media Workshop on the theme "***Confidentiality and Transparency: the Challenge to Bank of Uganda and the Media".***

In the past, Central banking was shrouded in secrecy and mystery. There was a tendency to keep the central bank out of the media and the media out of the central bank. Recently, however, there has been greater visibility, transparency and a lot more communication. There are three reasons for this development:

Firstly, increased independence of central banks led to the need for publicly accountable conduct. Secondly, the adoption of inflation targeting required greater public visibility and thirdly, a mandate to the central banks, either explicitly or implicitly, for maintaining financial stability in a world where the financial markets and their expectations matter.

We are all aware that the Access to Public Information Act, to be discussed later in this workshop, gives Ugandans the right of access to information in possession of the State or any of the state organs or agencies except where the release of such information may prejudice state security or sovereignty. Information could also be withheld if the release of that particular information is likely to interfere with the privacy of any person. In the absence of the above two reasons, it is the people's right to know and indeed the journalists' right to gather and publish information.

The growing importance of communications by central banks is on account of their responsibility for maintaining financial stability – which goes beyond the conduct of monetary policy. There is an assumption that well informed market participants would facilitate, if not assure, an improved functioning of the markets and the central bank is in the best position to provide such useful information. However, whether providing information would result in shaping and managing expectations, and if so, whether it is desirable, are difficult issues.

Much has been said about the external communication of central banks in recent years and central bankers have reflected intensively on their external communication. Transparency, candid explanations given to investors, savers, market participants, households and, to our fellow citizens are essential for central banks. It is probably fair to say that communication is an integral part of monetary policy.

A brief history of communication policy: communication of policy objectives, policy framework, and economic forecasts.

In the 1960s, many economists were greatly interested in adapting sophisticated mathematical techniques developed by engineers for controlling missiles and rockets to the problem of controlling the economy. At the time, this adaptation of so-called stochastic optimal control methods to economic policymaking seemed natural; for like a ballistic missile, an economy may be viewed as a complicated dynamic system that must be kept on course, despite continuous buffeting by unpredictable forces.

Unfortunately, macroeconomic policy turned out not to be rocket science! The problem lay in a crucial difference between a missile and an economy – which is that, unlike the people who make up an economy, the components of a missile do not understand and anticipate the forces being applied to them. Hence, although a given propulsive force always has the same predictable effect on a ballistic missile, a given policy action – say, a 2 percent cut in the rediscount rate – can have very different effects on the economy, depending for example on what the private sector infers from that action about likely future policy actions, about the information that may have induced the policymaker to act, about the policymaker's objectives in taking that action, and so on. Thus, taking the "right" policy action – in this case, changing the rediscount rate by the right amount at the right time – is a necessary but not sufficient condition for getting the desired economic response.

Most inflation-targeting and non inflation targeting central banks have found that effective communication policies are a useful way, in effect, to make the private sector a partner in the policymaking process. To the extent that it can explain its general approach, clarify its plans and objectives, and provide its assessment of the likely evolution of the economy, the central bank should be able to reduce uncertainty, focus and stabilize private-sector expectations, and with intelligence, consistency, and persistence – develop public support for its approach to policymaking.

Why are accountability and transparency so important for monetary policy?

The notion of transparency is broad ranging. It encompasses notions of accountability and political legitimacy of decision makers, as well as the legal and accounting infrastructure in which economic decisions are made. But from the operational perspective of a central bank, transparency can be regarded more narrowly in terms of the disclosure of information to a wider audience. Intuitively the release of a greater volume of more precise information in a timely manner seems beneficial because it reduces asymmetric information and uncertainty in financial markets. Information about the financial stability framework and public evaluation of national balance sheets against the yardstick on international codes and standards offers investors an opportunity to assess risk better and arrive at more informed decisions. Moreover, greater clarity about financial stability policy potentially simplifies the task of monetary and fiscal policy by establishing clear lines of responsibility and objectives. In an environment of greater trust, effective communication by the central bank facilitates greater flexibility to act by various agents in the economy.

Over the last few decades, it has been widely recognized that the maximum degree of independence for central banks, together with a clearly defined mandate, is the best way to ensure time consistency in the implementation of monetary policy and therefore guarantee stable prices. Consequently, the 1995 Constitution of Uganda has granted the Bank of Uganda full independence in the pursuit of its mandate. ***In a democracy***, transparency and accountability are the quid pro quo for that independence. In other words, it is the duty of independent central banks to be transparent, accountable and to communicate. The BoU is made more accountable by clearly explaining our objectives and decisions to the general public, media, parliament and to the professionals in the financial markets.

But transparency is not only a duty for the central bank. It is clearly also in the bank's interest to embark on an effective communication as it contributes considerably to the efficiency of its policies. This helps to anchor the inflation expectations of the financial markets and the public. Through efficient communication we can reduce inflation uncertainty and the costs associated with such uncertainty for consumers and investors. Therefore it has immediate economic benefits for society. We achieve this by being clear about our definition of price stability and by being transparent in our actions. The economic agents and public need to be convinced that the central bank's monetary policy decisions are consistently focused over time on achieving the announced aim.

In a market-based economy the central bank can directly influence only short-term interest rates through its monetary policy instruments. *However, consumption and investment decisions, and thus medium-term price developments, are to a large extent influenced by longer-term interest rates, which depend on private expectations regarding future central bank decisions and future inflation. It is important that these developments in longer-term rates support the objective of maintaining price stability over the medium term.* This in turn requires that the central bank is regarded as credible and predictable. A central bank which does not succeed in communicating the principles underlying its monetary policy and is perceived as acting in a non-systematic, discretionary manner will over time endanger its reputation.

Therefore, the central bank's communication should ensure that markets understand the systematic responses of monetary policy to economic developments and the current assessment of the central bank. Successful central bank communication supports predictability and correct price formation in financial markets, contributes to efficient allocation of funds and reduces uncertainty about future interest rates. In an environment where the predictability of interest rate movements and their relation with key macroeconomic developments is well understood, firms can better manage their balance sheets. This reduces both their vulnerability to economic shocks and their risk management costs and creates the conditions for better investment decisions.

Transparency of the BoU

Let me now turn to the BoU and its concept of transparency and external communication. In the BoU, it was understood at an early stage that external communication would be crucial for the activities of the bank. Consequently, the BoU management adopted some communication policy objectives and principles. Since then we have communicated to enhance the effectiveness and efficiency of our monetary policy and to make the BoU, accountable.

On this score, the publication of the key elements of the monetary policy strategy constitute in itself a major step towards monetary policy transparency. One element of the strategy is to quantify what the BoU is aiming at in terms of price stability, namely a below 5% inflation rate.

It is also important for the BoU to clearly communicate what monetary policy can, and cannot, achieve. For example, monetary policy cannot offset short-term changes in the inflation rate, which are caused by economic shocks, such as sharp oil price increases or higher administrative costs. It is thus a permanent challenge to explain any deviations in inflation from the definition of price stability. At the same time, it is essential for the public to be confident that such shocks do not call into question the determination and ability of the BoU to deliver price stability over the medium term.

Bank of Uganda's communication in practice

The BoU, use a wide range of communication tools. I will mention only a few of them here:

The BoU publishes a large array of reports ranging from monthly, quarterly and annual reports on key economic developments. We also use press briefings as a way of communicating the bank's position and future actions. Lastly, the BoU management gives interviews and makes speeches to many different audiences. Most of this information is also posted on the BoU website. In them they explain the decisions taken and the BoU's view on current topics within our sphere of competence.

In all this communication, it is the intention of BoU to send out various messages to the public on wide ranging issues and events. We for example at periodic intervals, issue papers on the state of the Economy. We also issue annual Banks Supervision reports. It is our expectation that in the near future we shall begin issuing regular reports covering developments in the payment system.

I should finally inform you that much as the media and indeed the public have the right to access public information, the nature of our operations sometimes compels us to keep to ourselves some of the information that comes to our knowledge through the execution of our work.

Banking, by its very nature, revolves around confidentiality. To give a practical example, one can only imagine how one would feel if details of one's personal bank account were to be given out to a third party without the account holder's express permission.

Likewise, Bank of Uganda, as banker to Government and to commercial banks is bound by the confidentiality and trust that exists between a bank and its customers. Most important of all, the Central bank as the supervisor and regulator of the financial sector is charged with the responsibility of ensuring that the financial sector is healthy and sound at all times so that depositors' funds are safe. The relationship between the financial institutions we supervise and the Bank of Uganda can, in this regard, only be compared to that of a patient and his or her doctor. Reckless disclosure of information about the financial sector can end in disruption and in the end cause a run on a bank. You should be informed that while it takes decades to build and attain depositor confidence in the financial sector, it only takes a wink to get this confidence shattered through irresponsible disclosures.

There have, therefore been occasions when we have had thoughtful inactions. In brief, we have had open market operations, open mouth operations and open only eyes and ears operations in regard to threats to financial stability.

Let me now address myself to what I regard to be the challenges to the media. In assessing the contribution of the media to the financial sector as a public good, I would like to distinguish among at least four types of effects. The first type is characterized as **"*the news effect*"**, which would normally reflect factual or formal positions or events. In a sense, the media's reporting would be faithful and non-controversial.

A second type can be identified as ***rumour effect***. Often rumours carry with them a destabilising effect and in some cases have the potential to degenerate into self-perpetuating or self-fulfilling events. The rumour effect can result into unintended losses or gains and people may suspect that there are some vested interests behind such rumours. Needless to say, the media's role will, on the whole, tend to be negative in this channel.

The third type is ***the survey effect***. It is common for the media to carry out opinion polls. These polls or surveys could have methodological and other problems in terms of reflecting the true picture. These surveys have a tendency of influencing the perception of markets and at times, the general public. In such a case, the contribution of the media would depend on the scientific methodology adopted, transparency of assumptions and objectivity in the presentation of results. Adequate care is a pre-condition to ensure a positive effect through this channel.

Lastly, there is the ***interpretation effect***. Here the media tries to interpret the stand taken by policy makers or markets. The interpretation effect may be positive or negative depending on professional skills as well as commitment to objectives. Responsibility and accountability would be key to ensure positive effect through this channel. It is my conviction that the media's responsibility is not confined only to their shareholders or to their subscribers, but extends to a larger section of the public. It is therefore apparent that the challenges before the media are not less than those before the central bank.

It is also fair to recognize that the media faces several dilemmas. There are always pressures to be the first to report – a race to be the Number One and they also have several stakeholders to cater for.

Let me end with a quote from the late Dr. I. G. Patel, former Governor of the Reserve Bank of India:

"Communication is not just about transparency. It is also about education, guidance and steering this in the right direction. In this, the central bank can be an honest broker between government and the public and even the parliament".

I thank you.