

Yakiv Smolii: Opening speech "Central Bank Communications: From Mystery to Transparency"

Opening speech by Mr Yakiv Smolii, Governor of the National Bank of Ukraine, at the fourth Annual Research Conference "Central Bank Communications: From Mystery to Transparency", hosted by the National Bank of Ukraine in collaboration with the National Bank of Poland, Kyiv, 23 May 2019.

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Dear participants,

I take tremendous pleasure in opening the fourth Annual Research Conference, which the National Bank of Ukraine is hosting in collaboration with Narodowy Bank Polski. Representatives of the central banking community from over 30 countries are gathered here today. That includes Europe, North America, Latin America, Asia, and Africa. I am glad to see more international participants this year than in the past years.

We are all different. We have different economic models. We face different problems and have different ways of resolving them:

Advanced economies are busy fixing the problem of negative interest rates and their normalization.

Emerging markets are worried about a potential capital outflow affecting their currencies.

Exporter countries are concerned that the global economy is cooling off.

Importer countries are keeping a close eye on commodity prices.

But what brings us all together is the need to answer one question: how to make ourselves heard in a world overwhelmed with information? What is more, how are independent central banks supposed to survive in a world of post-truth, where emotions draw more attention than facts and where populism spreads like a virus?

Gone are the days when central banks could afford to be closed technocratic institutions that spoke in numbers and vague terms. In this day and age, central banking is, first and foremost, about transparency, openness, and accountability. In the years to come, central banks will have to be client-oriented and capable of maintaining direct dialogue with the public.

That is why not only central bankers have gathered in Kyiv today. Among those present here today are journalists, analysts, financial market players, academicians, government officials, and representatives of international institutions. All of them are clients of central banks.

Last year, we developed and made public the first-ever medium-term Strategy of the National Bank of Ukraine. To us, this is a milestone document since it identifies seven strategic goals that the NBU as an institution will have to meet in the next few years. Thus, the medium-term Strategy gives the public a simple outline of what the NBU expects to achieve. However, this is not the Strategy's only feature. Also for the first time ever, we have changed the philosophy of our relationship with individuals and institutions as clients with which we interact and for which we work every day.

Paraphrasing what President Kennedy said in his inauguration speech over 60 years ago, I would say, "ask not what your stakeholders can do for your central bank – ask what your central bank can do for its stakeholders."

The need to be client-oriented sets a new and, let's be frank, a high bar for the ability of central banks to build and maintain dialogue. It goes without saying that central banks use communications as an important policy tool. But it is important to remember that transparency must be effective. It must help central bank pursue its mandate, which consists in ensuring price and financial stability. During these two days, we will discuss this aspect of central bank transparency on more than one occasion. But it's time for us to admit that this passive, one-way communication, when central banks used to make everybody listen with bated breath to whatever scanty and vague words they had to offer, no longer works. Ultimately, this approach undermines the effectiveness of central bank policy.

"If you don't understand us, it's your problem" is the rhetoric that is outdated and obsolete. Today, if you – our clients – have difficulty understanding us, it's our problem. Institutions that make themselves heard and understood are the only ones that get public trust. Institutions that have public trust are the only ones that receive support and commitment. Institutions that have public support are the only ones that can withstand the pressure of populism, fake news, manipulations, and attempts to turn these institutions into instruments for certain business interests that run counter to the interests of the people.

Under these circumstances, the central bank should transform taking the corporate sector as an example and begin to finally listen to clients and seek two-way communication. When communicating with clients, the central bank should take an individual approach to every client, choosing words that are intelligible and important and ones that interest the client. At the same time, the central bank must choose communication platforms that are suitable for every party. Long story short, the need to be client-oriented compels banks to transition to targeted communications.

We at the NBU have been moving in that direction for five years running. The groundwork for greater transparency was laid in 2015, when the NBU gained true institutional independence and the mandate to pursue price and financial stability. As with every central bank, we started out with a classic toolkit: banks, experts, and the media with which we communicated through press releases, press briefings, meetings, and interviews. However, the financial and economic crises, which prompted the NBU to develop more rapidly, compelled us to take our communications to a higher level of transparency.

Yes, strangely enough, it took a crisis to inspire that change!

With a large-scale cleanup of the banking system underway, peaking inflation, noticeable depreciation of the hryvnia, international reserves at an all-time low, and the prospect of significant repayments on public debt looming ahead, Ukraine was going through a severe economic crisis. Add to this the fact that public confidence in government institutions was at its lowest, government communications were in tatters, the media market was underwater, and the expert community was stagnating.

Any institution would opt to become even more closed in those circumstances. But we made an opposite decision. We adopted the new culture and values that are built around responsibility to the public. We decided that breaking the silence was the only way to fight back the endless attacks by oligarch bankers, manipulations by politicians, and a downpour of fake news.

Since then, we have strived to explain our actions to the public every step of the way. We have expanded our audience to include businesses, nonbank financial institutions, academia, students, and – most important – the general public. We commit to be accountable before the people for our actions and our words. We clearly declare the opportunities and challenges Ukraine faces.

We not only communicate with clients through our official website and the media, but also gradually learn to be the media, communicating directly with the public on five social media. We

counter fake news with fact-checking and are not afraid to speak up when we see a storm approaching that threatens to engulf the country.

Over time, we came to a conclusion that, when choosing with whom to communicate, central banks must also address the questions of what, how, and where to say. And so, we realized which direction we should take as evolved. This led us to adopt another milestone document last year, which will keep us from abandoning our chosen course. I am talking about the NBU's updated Communication Strategy. Once introduced, the Communication Strategy will rebuild trust to the regulator, maximize the influence of the NBU's policy on the behavior of target audiences, and reduce economic uncertainty through provision of information required to make informed decisions.

The Central Banking Awards 2019 for Transparency, which the NBU's team had an honor to receive, recognizes our progress in moving in the right direction. The fact that the international community placed the NBU on a par with the central banks of Sweden, Canada, Czech Republic, Ireland, and Israel is undoubtedly a recognition of our achievements.

But the road ahead is long and winding. The world is changing by the day, and central banks must keep abreast with it. The difficult time that the global economy in general and Ukraine in particular are going through is the best time for change. Now that central banks have found themselves outside their comfort zones is the best time for change. The NBU is ready to evolve alongside you. I hope that this conference will give us a boost and inspire us as we evolve together.

But before I give the floor to our honorable speakers, let me take the NBU one step closer to a future that is more transparent. Let me open my personal Twitter account and send my first tweet as we speak! On second thought, let's do it together! Here comes my first tweet!

Thank you for your attention! I wish you many interesting speeches and live discussions in the following two days!