



Transparency of the central banks

Experience of the NBRNM with Central Bank Transparency Code Assessment

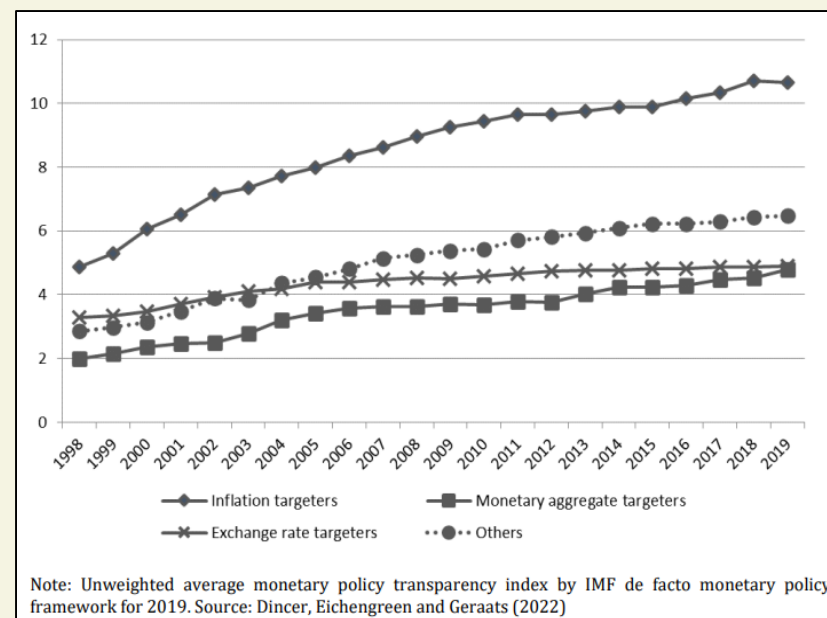
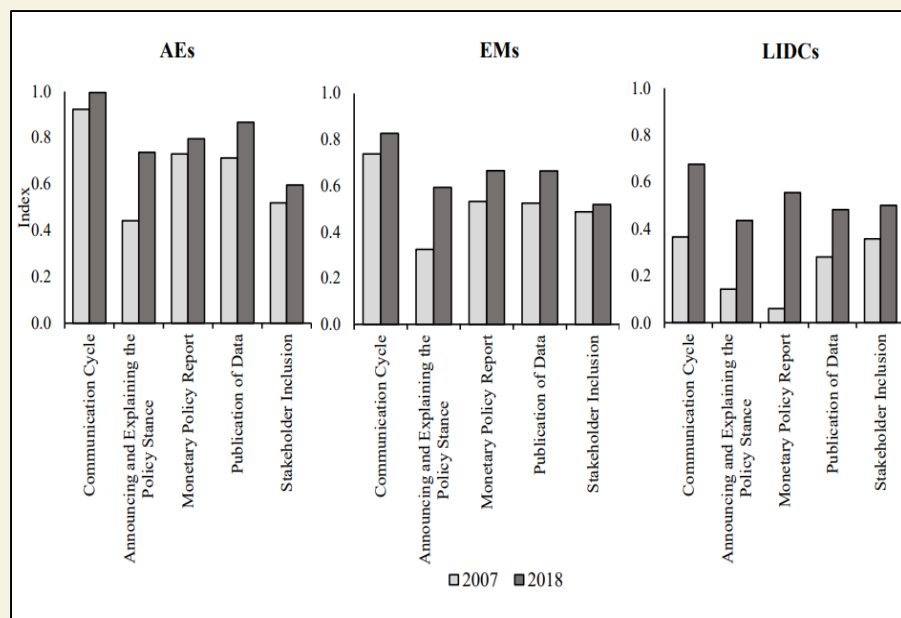
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Peer-to-Peer Workshop
IMF-CCAMTAC-Swiss National Bank (SNB)-Joint Vienna Institute (JVI) Workshop for Caucasus, Central
Asia, Moldova, and Mongolia Central Bank Practitioners (CCAMM-CBP)
Vienna — June 18-19, 2024



Trend of rising transparency

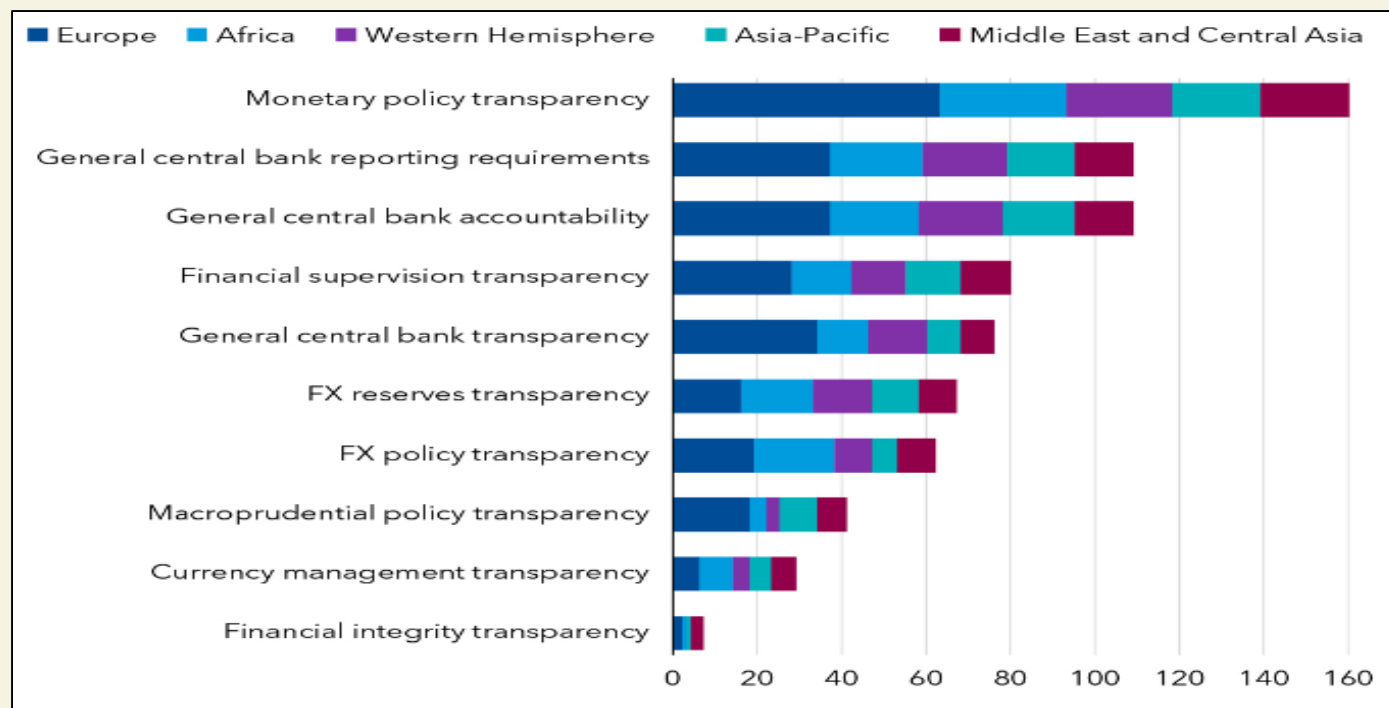
- In the recent decades there has been remarkable progress in transparency
- Blinder calls this process "**quite revolution**"- "While in the past central banks believed in secrecy and even mystery, greater openness is now considered a virtue"
- A number of transparency indexes document this progress:
 - **IMF Index on Monetary Policy Frameworks** (50 countries, 2007-2018) points to a significant improvement in communication, with LIDC and EM making forceful progress and narrowing the gaps to AE
 - **MP Transparency Index of Dincer, Eichengreen and Geraats** (1998-2019, 112 countries) indicates that rise in transparency has been a world-wide phenomenon, regardless of the level of development and monetary strategy
- This trend has continued during the recent crisis episodes





Progress in transparency has been underpinned by legal framework

- IMF's central bank legislation data base shows that **all countries have legal provisions** for transparency
- However, they **mostly refer to monetary policy**, general central bank reporting and accountability, and less so to other functions
- **In our case**, legal provisions have been expanded over time, but still mostly relate to monetary policy, financial stability and financial reporting





Progress in transparency has been also underpinned by rising awareness of central banks

- IMF Survey (2021): about 80% of central banks find introduction of international transparency standard and transparency review useful
- This is relevant for EE, but also AE-the average number of speeches per month of ECB doubled in the last two decades.

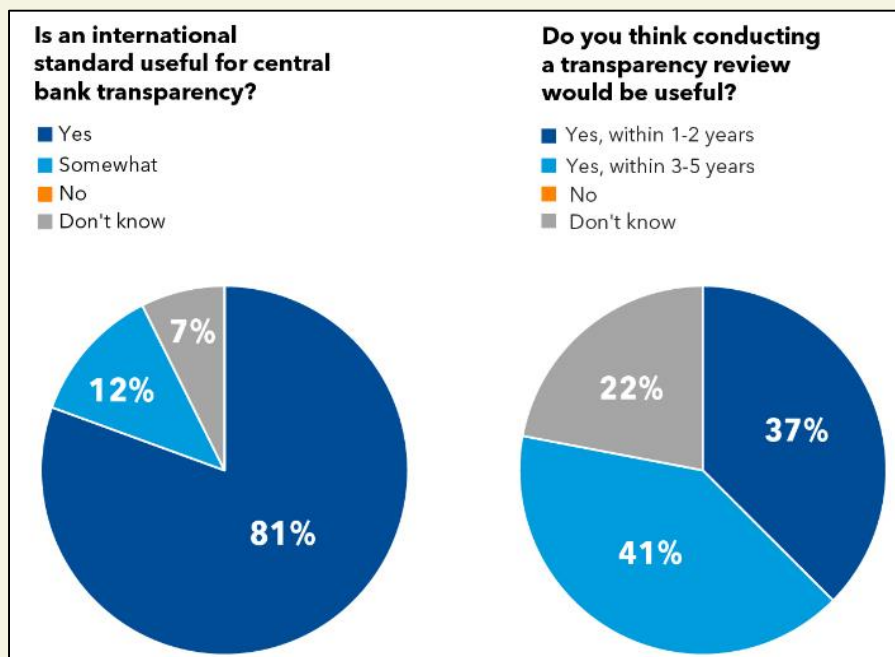


Figure 1: Speeches held by ECB Executive Board members

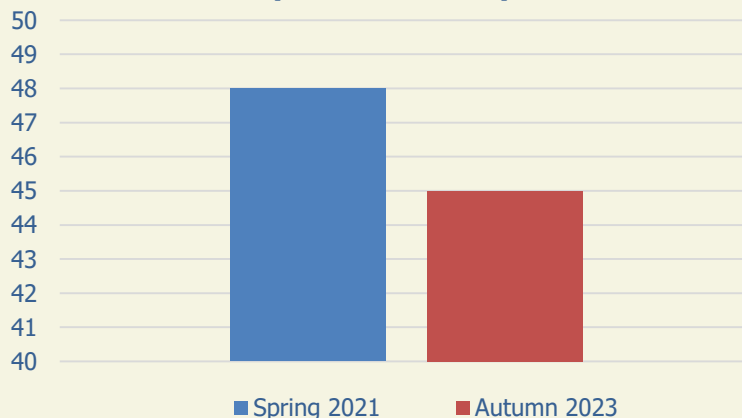




Why is transparency important?

- **Enhances accountability** - by informing all stakeholders on central bank mandate and its fulfilment, *which is particularly relevant when mandate is broad, expectations on central banks are high and the risk of potential conflict among objectives is elevated* (trade off between price and financial stability)
- **Enhances trust and credibility** - key in convincing public that central bank acts in the public's best interest and thus preserve public trust, which was in particular *challenging in the last couple of years, even for advanced economies* (ECB, FED)
- **Enhances independence** as Brunnermeier said "...the public is the ultimate source of central banks power and independence". And risk for central bank independence in the recent period have increased given complex macro context
- **Enhances policy effectiveness.** Transparent communication **helps public at large to better understand** policy measures and act in line with the expectations of the CB

Trust in the European Central Bank
(% tend to trust)



Source: Eurobarometer - Public opinion in the European Union

Confidence in Federal Reserve Chair to
Do/Recommend the Right Thing for the U.S.
Economy
(%, Great deal or Fair amount)



Source: Gallup



Macedonian experience

- High level of transparency - one of the **key institutional principles**
- Gained importance in the period following the GFC as our central bank **was granted wider mandates and tools**, including ones that have re-distributional effects, prompting public calls for greater public scrutiny and transparency
- **The case was further strengthened in the last couple of years of complex macroeconomic environment:** Inflation increased to levels not seen in the recent decades overshooting the forecast (20%), response was aggressive tightening, high borrowing costs, which is not popular measure
- **We could not enjoy anymore “capital of inattention”,** as we were the spotlight in the public discussions

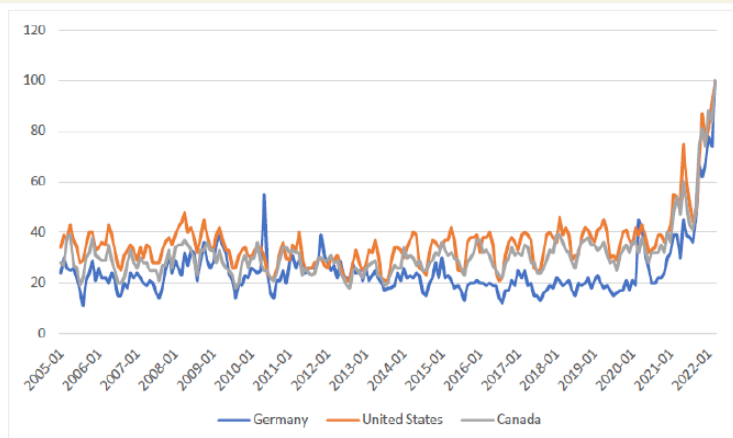
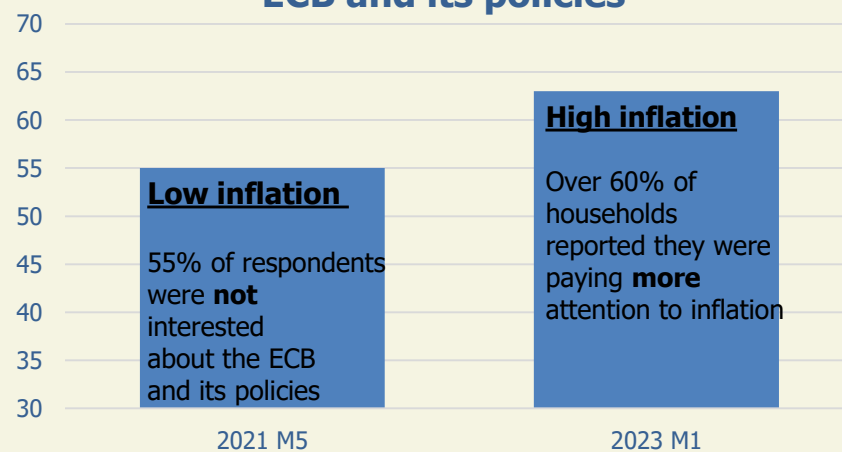


Figure 2: Searches for inflation on Google trends

Source: Google trends. The chart reports the number of searches on Google for the term Inflation, originating in the different countries. The data for each country are normalized to 100 at the country-specific peak. Sample period: January 2005 – March 2022.

Source: Blinder et al. (2022)

ECB and its policies



Sources: ECB Knowledge & Attitudes Survey 2021 and WP Weber, M. et al. (2023) "Tell Me Something I Don't Already Know:



IMF CBTC review at the National Bank

- When the IMF CBTC was adopted in **2020, we were one of the first countries that volunteered** to be part of the IMF pilot project
- **The conducted review was second of total of 7 reviews within the pilot project** (it included a diverse set of countries)
 - Europe: North Macedonia
 - Africa: Seychelles, Uganda
 - Western Hemisphere: Canada, Chile, Uruguay
 - Middle East and Central Asia: Morocco
- CBTC is a **comprehensive diagnostic tool (5 pillars)**:
 - Transparency in governance
 - Transparency in policies, operations and outcomes in all critical central banking functions
 - Transparency in official relations

The mission was conducted in the period May –June 2021 in two phases:

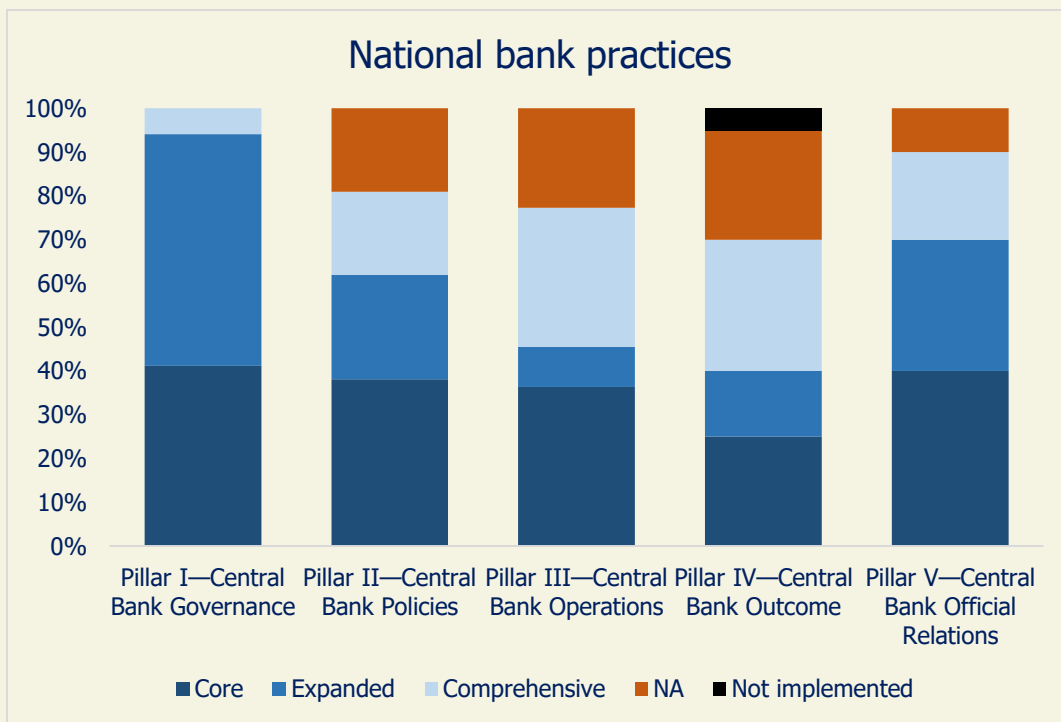
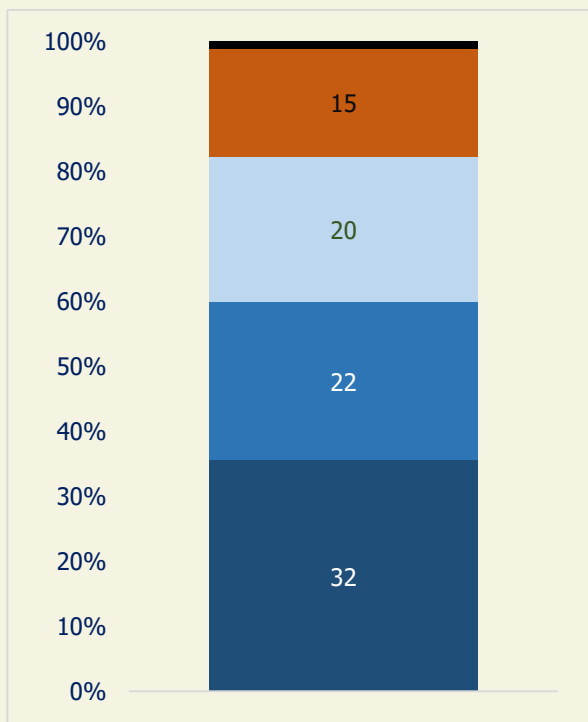
1 phase: self-review by the staff of the National Bank (critical component requiring substantial effort from the central bank staff)

2 phase: in-depth discussions between IMF team and CB staff, as well as between IMF team and key stakeholders (journalists, parliamentarians, government agencies, the Ministry of Finance, think tanks, academics, banks) conducted without presence of the National Bank staff



IMF CBTC review at the National Bank

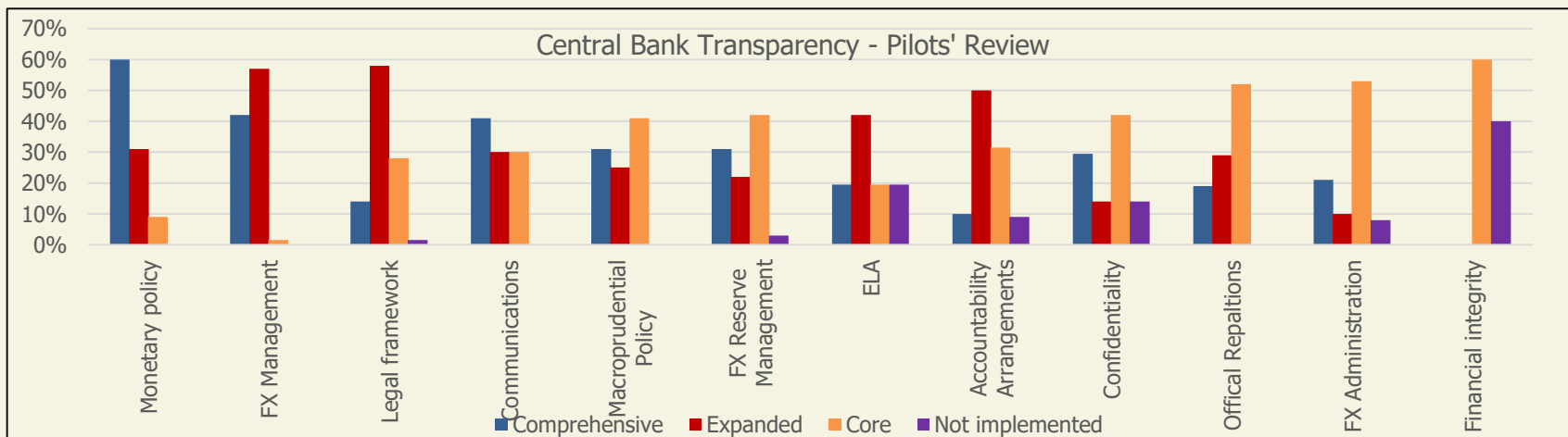
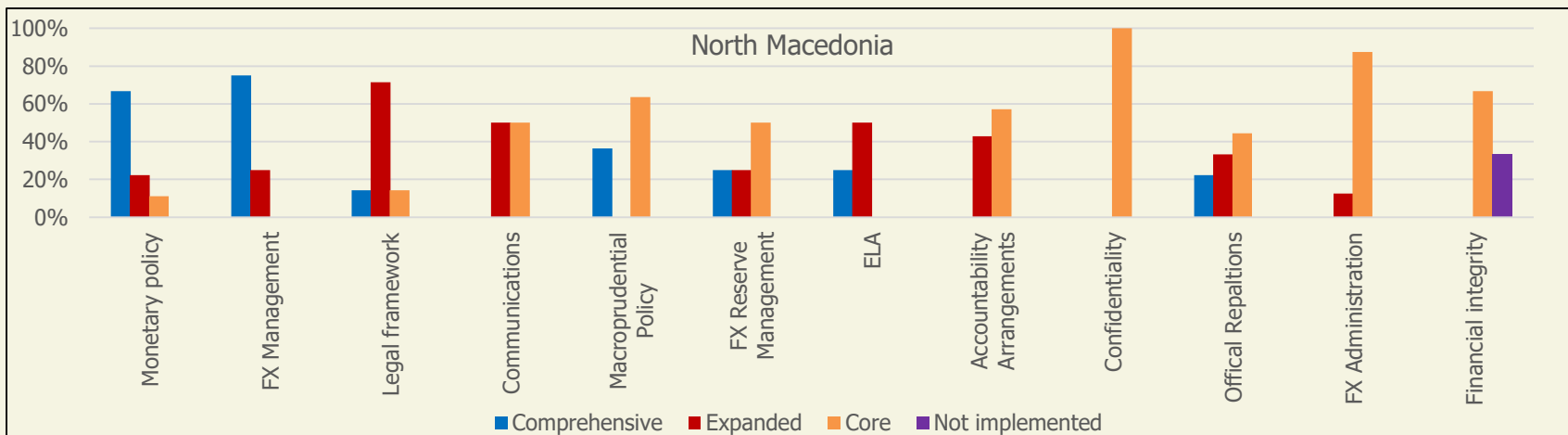
- IMF general conclusion: **advanced transparency practices** implemented, including during the pandemics
- **The review was done principle by principle** (90 principles) covering all 5 pillars
- Across all principles (with exception of one), **core transparency practices** are applied and for some of the principles even expanded and comprehensive (56%)





IMF CBTC review at the National Bank

- We demonstrated highest transparency in **MP, FX management and legal framework**, similar to other central banks that participated in the pilot





Why was it a useful exercise?

- The assessment brought a **number of benefits** for our transparency arrangements:
 - Further increases **awareness** of our staff on the importance of the transparency
 - **Well structured and consistent methodology** was applied
 - It was a **comprehensive exercise** covering all core central bank functions
 - Transparency practices **were mapped against international standards and best practice**, but having in mind the **country specifics** (feedback from other domestic stakeholders)
 - **Balance** between confidentiality and transparency was maintained
 - **Publication of this report** reinforced the public trust in the central banks
 - **Areas for improvement** were highlighted in all central bank functions:
 - **Governance arrangements**
 - **Internal risk management** - non-financial risk
 - **Audit function**
 - **Financial integrity** - AML supervisory control and internal AML controls
 - **Macroprudential policy**
- **Main challenges that we faced during the assessment (room for improvement):** online exercise, relatively short time-span for very broad coverage of all core functions (self-assessment and discussions), improvement of transparency practices during the assessment was not reflected in the report



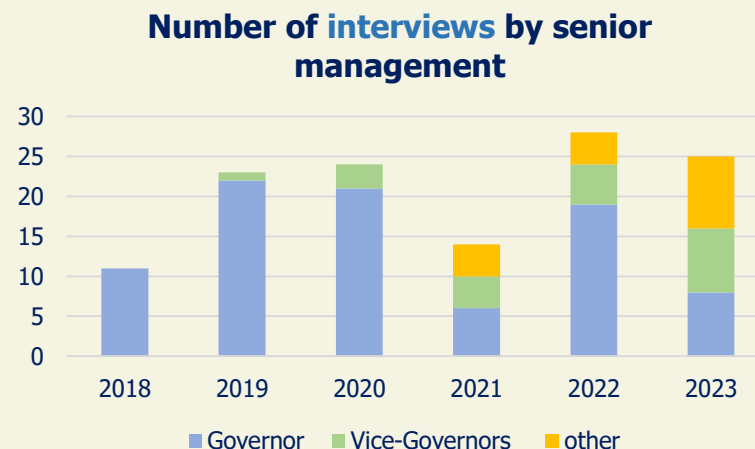
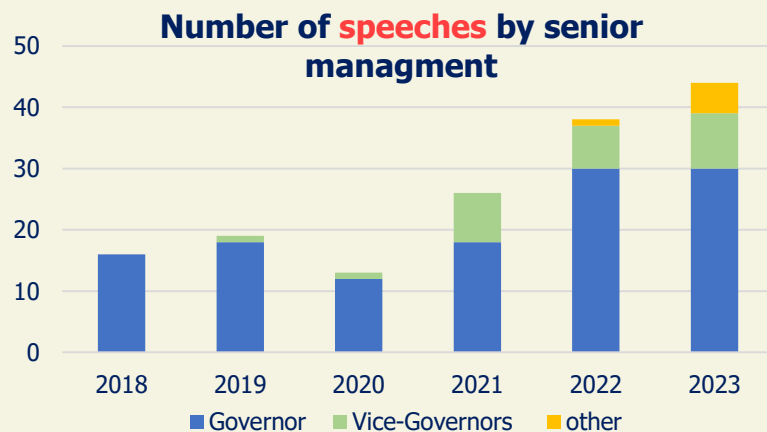
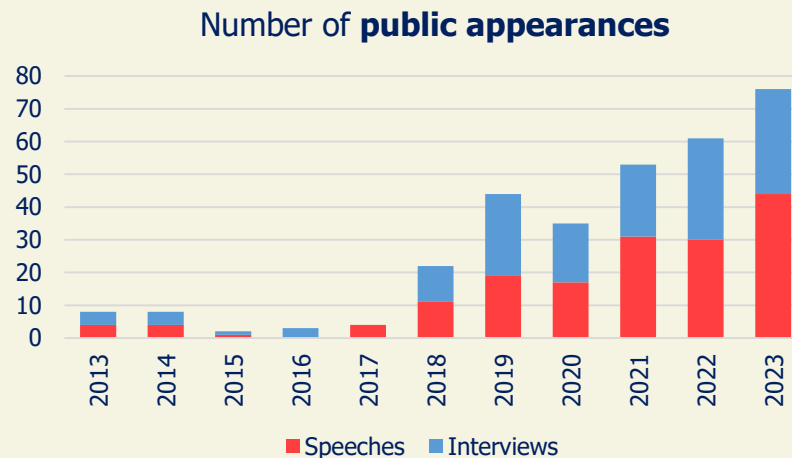
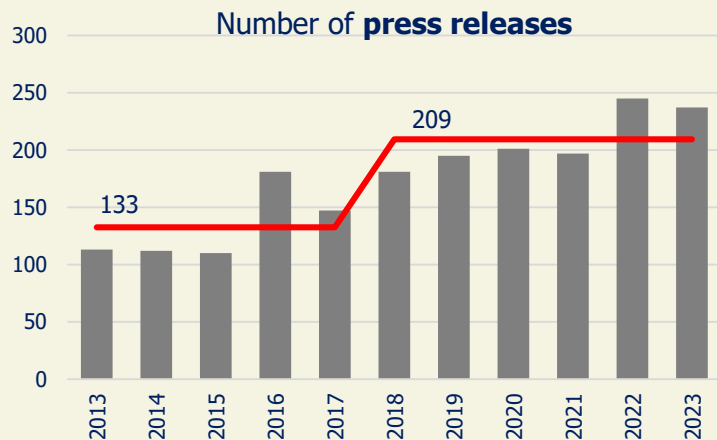
Assessments helped us to further advance transparency

- Most of the recommendations have already been implemented
- In a changing environment we had to change how we communicate:
 - We enriched our website (macro prudential function, operational risks and audit)
 - Press release increased by 25%, and public appearances of high officials by 40%
 - Introduced better tailored messages for different stakeholders, simplified our language
 - Visualization and social media
 - Financial education (journalist)
 - We enlarged statistical data sets fully complying with the SDDS plus standard



Assessments helped us to further advance transparency (2)

- The trend of rising number of press releases and public appearances (speeches and interviews) has accelerated in recent period



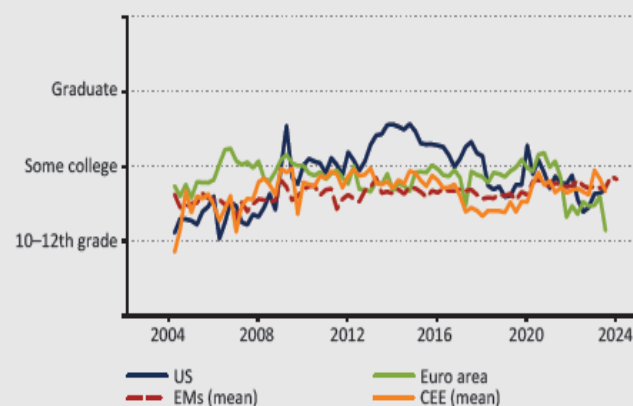


Assessments helped us to further advance transparency (3)

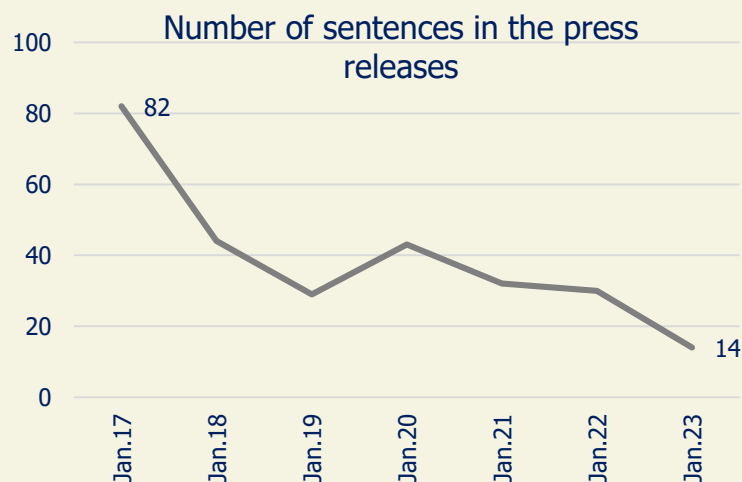
- We focused on the **readability** of press releases on macroeconomic projections by simplifying the language and length
- However, there is still **room for improvement**
 - Flesh-Kincaid Grade level (avg. 14) shows that our press releases for macroeconomic projections are understandable for higher educated public – similar as other CBs

Figure 4

Readability of central bank statements: Flesch–Kincaid readability index



Note: Number of years of education required to understand the text. Higher = poorer readability, lower = better readability.



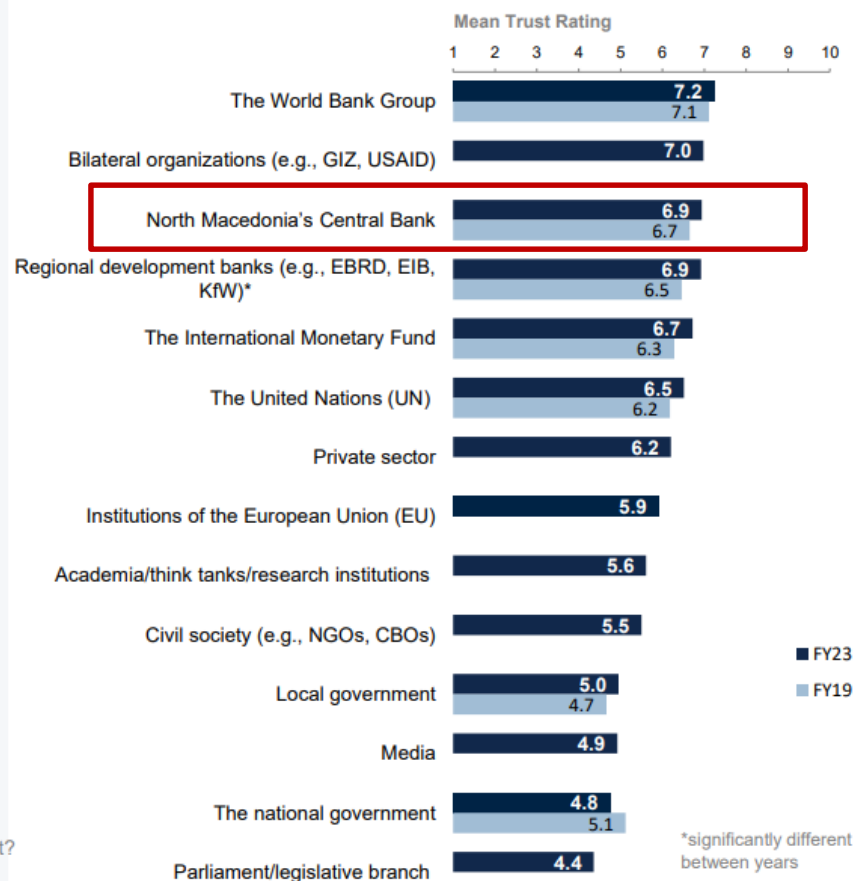


Continuous transparency enhancement has helped maintain CB trust

Trust in Institutions

The WBG, along with regional development banks, bilateral organizations, and North Macedonia's Central Bank, continue to be the most trusted institutions in North Macedonia from among those studied.

At the same time, the Parliament, the national government, and the media are the least trusted institutions, according to the respondents.



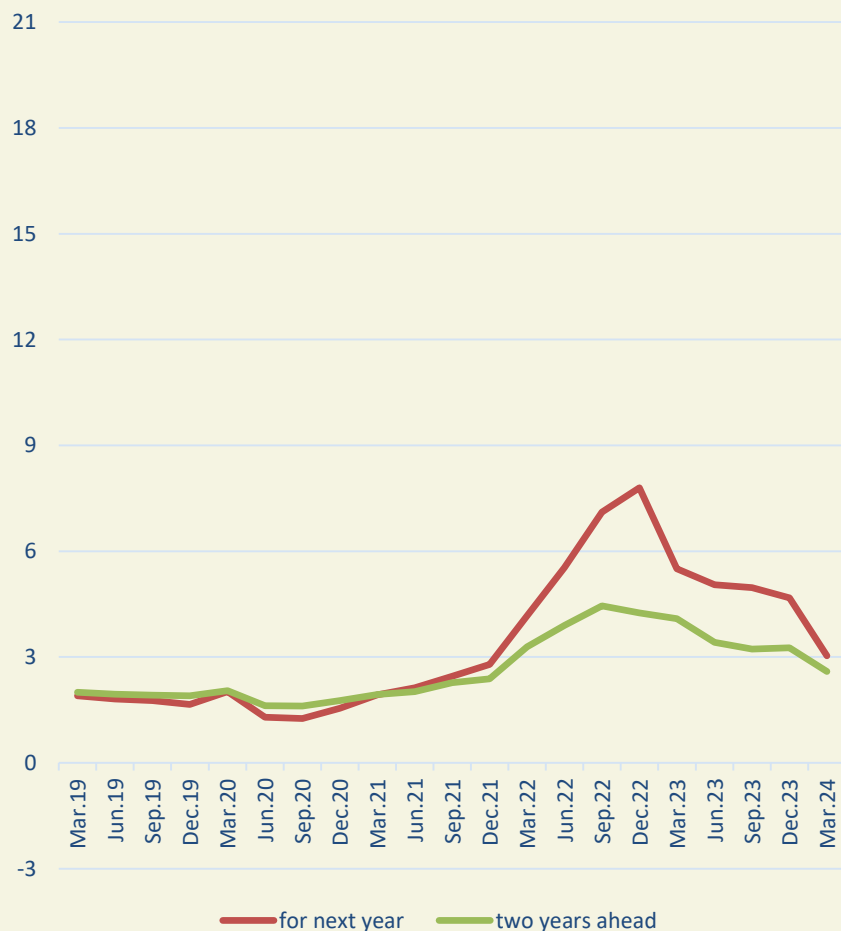
To what extent do you trust each of the following groups to do what is right?
Scale: 1-10 (1: To no degree at all – 10: To a very significant degree)

Note: CBO= Community-based Organization; EIB= European Investment Bank; EBRD= European Bank for Reconstruction and Development; GIZ= German Society for International Cooperation; KfW= German Reconstruction Credit Institute; NGO= Non-governmental Organization; USAID= United States Agency for International Development

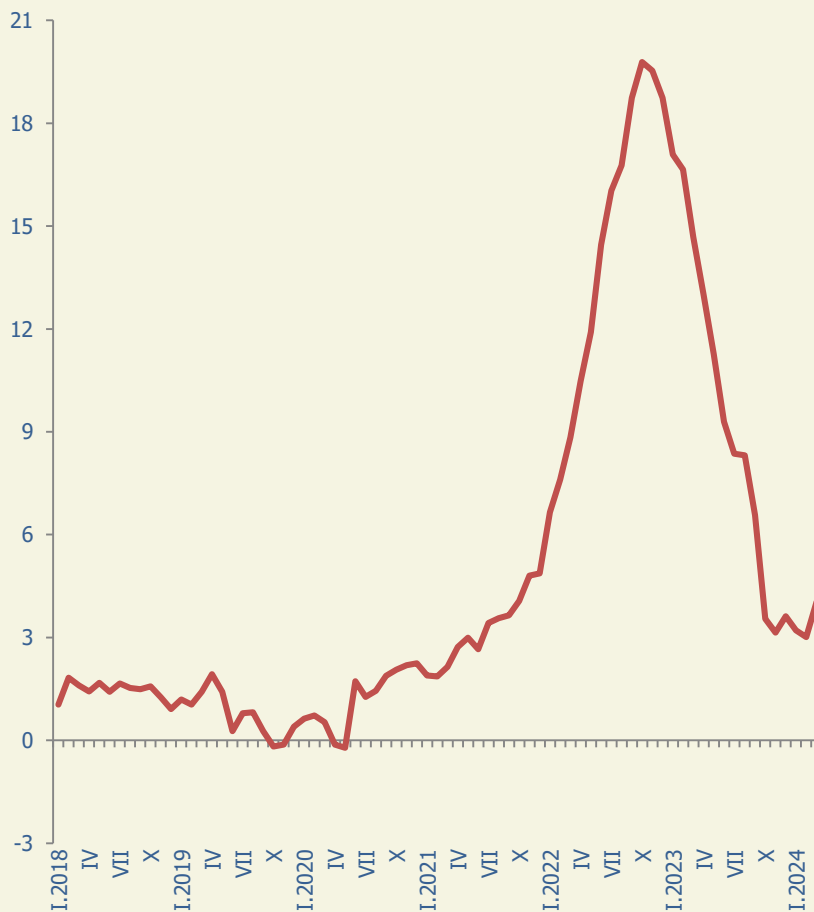


Trust was the key for anchored inflationary expectations (effectiveness of MP)

Inflation expectations based on NB Survey



Inflation rate (annual basis, %)



Source: SSO



Thank you for your attention!