

The Necessity of Quantitative and Qualitative Information Provided by the Banking System

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Abstract: Punctually, the aim of this paper is to highlight the banking system's communication on different audience, especially today when the challenges in this field are very strong. The communication is considered from both aspects: quantitative, that means a transparent, regularly, or as many times as needed and qualitative, meaning to understand what it is transmitted.

This paper considers the monetary policy facing the inflation rate and, as a consequence, the existence and stability of the banking system and of economies.

We are dealing with two levels of communication or information: the first level is what the central banks release within the media environment and to the people and, the second level is the relationships between the commercial banks and their clients or potential clients.

Using the press releases from the most important central banks of the world, declarations, data and what the commercial banks are doing in the monetary policies, that means a systematic review conducted in this respect, including our own experience as a client of some important banks, we've tried to perform an in-depth analysis to highlight the necessity of a permanent, transparent and understandable communication/information, in order to anticipate some possible threats and weaknesses. But, above all, it is important that the customers, including firms/companies provide appropriate feedback to the information received and follow a prudential monetary and financial strategy combined with monetary and financial tactics.

The well-functioning and stability of economies and the well-being/happiness of clients are the goals of this enterprise. On the other hand, to understand correctly the messages leads to avoid panic amongst consumers (people or firms) and to preserve, as possible, the savings and solvability on the market.

Keywords: Banking system, monetary policy, inflation, information, feedback.

Introduction

1. Banking system facing new challenges

The banking system is a fundamental pillar in the development and the smooth operation of the society, as it plays an essential role in the economy. It provides financial intermediation between the holders of capital and those who need this capital to finance their projects or activities, providing an infrastructure for the efficient collection, management and distribution of capital in the economy. Moreover, the banking system facilitates the mobilization of savings, the granting of credit and the financing of economic activities, the risk management and the protection of deposits, while offering a wide range of financial and innovative services.

The banking sector is paramount to the modern economy. It is "the circulatory" system of the economy, providing money for

people and firms, that is loans, for the welfare of customers and the increase in firms/companies returns. It is the monetary and financial support/pillar for the smooth operation of any economy in the world.

The central banks monitor and track economic data, which are key functions, are used by economists as a way to see what the key authority on economic data will have to say. For example, the Bank of England produces its quarterly inflation report, which contains various details about GDP, growth forecasts and inflation forecasts, as well as comments on specific macroeconomic themes at that specific time.

A thorough analysis of the situation of the monetary policy and what's happening in the economy was done by the Bank of England in its May 2023 Report. The projections indicate that it is possible for the inflation rate to fall quickly this year, but not at the target level. We will see how this unfolds, because changes and

sensitive influences occur quickly in the world (www.bankofengland.co.uk).

The US central bank (Federal Reserve) uses "dot plot", a forward-looking dot economic forecast chart showing where the Fed thinks interest rates will go in the future. In this respect, Fed prefers announcing quarterly the rate decisions. Each and every member of the Fed gives his own projections on the evolution of interest rate in co-relation with the inflation rate, drawing a plotting chart, hence the name "dot plot" (Elam, 2023).

The central banks must ensure the stability of the financial systems in their economy: this means very closely monitoring credit standards throughout the economy, as well as ensuring that there is an easy access to credit when needed. Also, the central banks are supporting/supplying governments when the latter need money to overpass difficulties and crises that is to borrow governments with the financial resources for the day-by-day activities.

The demands and expectations of customers towards the banking system have changed significantly with the progress of society and technology in particular. Thus, the accessibility and convenience of banking services have become priorities and customers want to be able to access banking services at any given time and from anywhere, through digital channels. The personalization and user experience are also essential, with customers expecting services tailored to their individual needs and easy, intuitive interaction complemented by security and privacy of personal data, which has become an important mission to keep customers away of any attempted fraud. In addition, the innovative financial services, the social responsibility and the sustainability are factors that customers consider when choosing a banking institution. To cope with these changes and meet customer demands, these institutions must take a proactive approach and constantly adapt.

But, we have to underline the aspect of the so-called Locus of Control (LOC). It is a psychological approach, but which has to be reduced, because it's dealing with the beliefs in the fate (financial one, in our case), both from internal side and external from the environment. It is needed to have some basic financial knowledge, to understand what is communicated by the banking system and to react properly (Eatough, 2022). Depending on what reinforcements someone lives through, people learn to believe different things about what causes their actions. The Locus of Control states that behavior is guided by different types of reinforcements. Those reinforcements can be *rewards or punishments*. In the spirit of this paper, this aspect expresses how much control people have over what happens to them from the monetary-financial point of view and the influence degree on what it is happening in the environment.

In short, the principal economic functions of the banking sector are to take deposits and make loans (Hall, updated June 01, 2023). And these actions are happening in a quite diverse environment, with economic/financial, political and warfare, religious aspects.

Furthermore, based on President of ECB, Christine Lagarde's forecasts, the labor market is going through profound changes, that the energy transition requires more and more investments, and that the deepening of geopolitical divisions will lead to protectionism

and constraints on supply chains. At the same time, the changes that may occur with increased frequency may be only temporary, but central banks should consider the possibility that some of them may be long-term (Haiduc, 2023).

2. Methodology

We used in this paper secondary data, extracting the information from banking meetings, from press releases, declarations, opinions. All these sources, as systematic review, are used in order to comprehensively understand how the central banks communicate nowadays with the economic/business environment and with people.

Adding our knowledge in the field of Economics and the experience as a bank customer, we've tried to highlight the importance of the customers' feedback to the information received, on short or medium term, and the necessity of being cautious in monetary-financial affairs, in order to mitigate the influences of negative factors/challenges as much as possible, both for people and firms.

The scope is, therefore, to be in contact with what central banks communicate and, at the same time, with the specific policies of commercial banks, in fact those to implement the monetary policy, adding the understanding of changes, the banking system is supposing to function even in the next decades.

3. Communications/information received

By summarizing, the central banks, especially those of the economic powers of the day, such as the Fed, the National Bank of China, the European Central Bank, the Bank of England are facing co-ordinate challenges, with the final goal to reduce the inflation rate and to keep the price level under control (which is, in fact, the aim of each and every central bank).

This means that everything that happens in the world economy impacts the national economies and the people. The rising of the interest rate is the main instrument to fight against the still high inflation rate.

Last fall, the Federal Reserve (Fed) was the central bank that responded first to the economic situation that presented itself with the increased production, the more substantial employment, but, of course, inflation also occurred. The consumer price index (CPI) also increased, reaching 6.3% at the beginning of autumn 2022. We want to specify that this CPI excludes food and energy as consumer goods, hence the calculations do and which shows us that the inflation rate only in these two segments is much higher than that for the rest of the products and services (Jarsulic, 2022).

Moreover, the real Fed debate of July is over the month of September. The July meeting's outcome appeared all but decided: many officials have signaled support for a quarter-point increase that lifts interest rates to a 22-year high. *Slower inflation last month raised the prospect that a July hike would be the last for this cycle* (we'll see a similar approach regarding ECB policy on inflation) (The Wall Street Journal, 14 July, 2023).

The specialists from the Fed system argue that two more increases in interest rate are needed to reach the stable situation. BUT, for the moment, it will be a stagnation of the increase in interest rate on a so-called plateau, with certain increase at the end of the year.

Regarding the problem of communication/information, as we already saw, there are 2 (two) main channels as follows:

1. A transparent communication of the major central banks of the world, presenting the instruments and elements of the monetary policy to cope with the challenges of the economic and financial environment.
2. The second and the most sensitive communication is that between commercial banks and clients/customers, because banks work directly with them and they influence the well-being and stability of people and households.

For example, the ECB attaches great importance to transparent and effective communication with the market and the general public. Through press conferences, press releases and regular reports, the ECB provides relevant information on monetary policy decisions, the economic outlook and the assessment of inflation. This contributes to the creation of well-grounded expectations and confidence in the ECB's decisions and actions.

The last important activity in this respect is the press conference of the general management of the ECB, 15 June 2023. The first information of the day is that inflation has been coming down, *but it is projected to remain too high for too long* (our emphasis). (www.ecb.europa.eu/pressconf/2023/). The ECB carefully follows all the evolutions of the considered variables, so that a gradual decrease in the inflation rate can be ensured and therefore an incitement of the GDP increases.

The ECB is on the verge of ending the cycle of interest rate hikes within a reasonable horizon, so it will remain on a so-called "high plateau", in order to see the effect of the policy on economies. The Central Bank of Poland has stopped raising interest rates, as the Central Bank of Hungary recently did.

But the reality did not confirm this forecast. That's why we have to follow and react promptly to these frequent communications from banking system at its higher level. The European Central Bank has raised interest rates to an all-time high in a bid to cool consumer prices, but the euro fell after the central bank signalled its cycle of increases was near its end. The latest increase pushes the ECB's deposit rate, which is paid on commercial bank deposits, from 3.75% to 4% – the highest since the euro was launched in 1999 (Arnold, McDougall, 2023).

Instead, at 180°, is the situation in the UK, where the obsession with the high rate of inflation and the need to increase the interest rate by the Bank of England has reached alarming proportions, beyond the usual reasonable information of financial institutions (Apostoiu, 2023). The Governor of the Bank of England explained the children the inflation mechanism in a TV program and the newspapers included warnings about the inflation negative effects on their first pages.

This is how to present step by step, the evolution of the main variables of the day which have a decisive impact on economic activity and lives. It is some sort of alphabetization in the financial matter, more precisely a qualitative aspect, in order to understand what it is transmitted.

Another example of communication is that coming from the Fed, especially the Secretary for the Treasury Janet Yellen and Federal Reserve Board Chair, Jerome Powell, in March 2023. We have chosen this example because it is a statement of the US

central bank after the big troubles with the Credit Suisse Bank. The fact that Swiss financial authorities declared they support the financial stability of the country was good news (www.federalreserve.gov/newsevents). This means that the possible domino movement in the banking world stops right here.

But, the very recent events have refuted this prediction for the moment. It's about European stock markets closed sharply lower on Thursday, September 21st, amid a series of interest rate decisions by central banks in England, Turkey, Sweden, Switzerland and Norway (Negrea, 2023).

Another aspect is the recent visit of Janet Yellen in China in order to calm down the financial markets and to maintain good relationships between the US and China, amid the economic and political tensions between them.

Not to forget, the press conference of Janet L. Yellen, in India, after her visits in China and India. Two main ideas for the purpose of this paper (www.home.treasury.gov):

- a. According to the decisions taken there the developing and poor countries will also receive funds. Therefore, it is necessary to reduce the debt distresses in the world;
- b. The second one is represented by the possibilities of the developing banks to support the national economies, meaning the collective awareness to manage the smooth running of the circulatory system to the extent possible.

Furthermore, *the second information channel* regards product/service development and innovation which are also essential in financial-banking marketing. In a dynamic and competitive financial environment, the financial institutions must quickly adapt to changes in customer preferences and needs by offering innovative products and services. To do this, they must identify market trends, monitor competition and focus on developing and promoting innovative financial solutions. Offering distinctive products and services with a surplus of innovation can create a significant competitive advantage for the financial institutions.

In this respect, we've chosen as example the well-known French bank, Groupe Société Générale (GSG), which has subsidiaries in many countries, including Romania, where it is called BRD-GSG (where BRD means Romanian Development Bank).

In Europe and in countries such Romania, in these last 9 months, an increase in BRD's customers was noted, especially due to, let's say, some geo-political aspects. Why? First of all, this is due to the active support of the Groupe's branches towards a sound financial education of the people. Diverse and updated information is needed to understand the monetary-financial current affairs and also surveying in real time the operations done (www.societegenerale.fr/digital-report.net/contenu).

Secondly, the geo-political issues of the day. That is the measures taken by a state to the detriment of others, followed by visible counter actions, including banks from the first state or states supporting some disadvantageous measures. In this situation, taking into account the information existing on the banking market, people can make decisions regarding their accounts and possible loans. That is, to move their accounts to other banks, such as GSG (BRD-GSG).

In fact, we are in the presence of this kind of communication, consisting in the information from financial institutions and the feedback of the customers/people through their actions and facts.

The following idea is not new, but very efficient in our lives and activities, especially in these challenging and uncertain days: *don't put all your eggs in the same basket*. The idea was also effectively taken up in the economy, for example by Harry Markowitz in marketing, generally meaning that not all the money (in our case), or bonds, products, to be put in one single bank, in one single business, or on one single market, because it could go wrong, due to unexpected and powerful factors/impulses from outside, the well-known threats (from SWOT analysis).

The inflation, as it is main aspect of our times, is likely to have a high degree of uncertainty, and fears of stagflation as in the '70s (i.e. high inflation and stagnant economic development) may become reality. All actions should be treated with caution and with information from several reliable sources.

Another evident situation is that regarding the Real Estate market which depends to a decisive extent on the inflation rate and therefore on bank interest rates. The Real Estate loans represent a huge segment in banks' activities and influence the development of economies.

Upside risks to inflation include potential renewed upward pressures on the costs of energy and food, also related to Russia's war against Ukraine. A lasting rise in inflation expectations above our target, or higher than anticipated increases in wages or profit margins, could also drive inflation higher, including over the medium term. The recent wage agreements in a number of countries have added to the upside risks to inflation. But, the financial markets inter-actions could lead, and the reality shows this in some cases, to bring inflation down faster than expected.

And, what we've said about the necessity to know, in due time, about possible events in the banking system, is about to happen, exactly combining the two mentioned levels. It is the case of our bank example used, GSG, and the possibility that a representative of the ECB to be part of this bank's board. The ECB launches its monetary policy and discusses with national central banks of Euro Zone, of EU countries, that is at a Macroeconomic level.

In this case, it's about a sound commercial bank, the GSG. The motivation advanced by the ECB for this presence, namely to analyze the behavior of directors, is similar to that of "the presence of psychologists in the room", that is none benefits and, may be it is a collision between the two levels presented (Popa, 2023).

At the same time, we want to present what the new CEO of GSG, Slawomir Krupa, has declared referring to the future of this bank. We are in the presence of both level considered, the quantitative and the qualitative. It is a necessary declaration of intention regarding what will happen with the bank in the near future and what will be the changings, and other structural measures (www.bursa.ro 2023).

The new CEO's forecasts aim cutting the costs in order to increase profits, the strenghtening the Groupe by a simplified business portfolio, taking the best actions to accumulate capital and increase flexibility, and the revenues will register an annual increase of maximum 2 %, until 2026. Furthermore, so far, nothing

about possible sales of assets, aspects concerning, mainly, the clients of the bank.

But, we want to highlight a declaration of the deputy CEO of GSG, Pierre Palmieri, who stated that the banks will remain as sound financial institutions if they can make long-run investments and understand the changes occurred (Medrega, Nica, 2023). We assist to a clear perspective in the banking system, because the sustainability on the specific market and returns will be ensured by *the capital allocation in the right sectors, the right companies and the right projects* (our emphasize). The capital target has been lifted, but the revenues will remain flat, as a prudent monetary policy. No assets sales announced, but based on Palmieri allegations, re-locations of assets is possible to perform.

Thus, because we mentioned about the assets, we link together the central bank level with the commercial bank one, saying that the assets purchasing programme of ECB helped to bring back inflation in line with ECB inflation target. Also, the businesses across Europe enjoy better access to credit boosted activities and created jobs.

Thus, it is mandatory to follow and to be informed in due time about these movements and their repercussions on economies and people/customers.

Conclusions

The central banks, such as the European Central Bank, are firmly to stand ready to a promptly adjustment of the monetary policies, in order to preserve the smooth running of the monetary transmission and, above all, that inflation returns to the medium-term target of 2 %.

A simple situation to be presented is that of the inflation Euro zone, which dropped in August around 5.5% and has raised the last weeks, due to the oil price increasing, fact proving that the disinflation process will be bumpy.

But, a non-negligible aspect of this decision is that Euro currency fell after the ECB signaled the action of raising the rate of interest is near to its end. And, we should not be surprised by the fact that the EU economy is far behind the American economy.

Many central banks have mandates or objectives – most of which include price stability, which is inflation, and because of those economic reports that they produce, the central banks are able to track inflation and price stability to make decisions about interest rates.

The permanent communication with the citizens, with the business environment, made by the bodies with duties in this field, primarily the central banks, is intended to keep consumers and all economic actors informed of what is happening and what may happen in the next forecast interval.

The banking communications, the press releases, to be issued quarterly, or whenever necessary, so as to know what needs to be done in monetary policy, and on the other hand, to preserve savings and investments as much as possible. That is, a reliable feedback from the market.

However, the communication regarding the negative effects of the phenomena of our time should not turn "aggressive", in banking system two or three times per week information from

different media sources, in order to not cause panic and destabilize the financial markets.

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