

Financial Stability Transparency and Interest Rates

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Abstract

This paper examines the relationship between financial stability transparency and nominal interest rates on a panel data with more than 50 countries in years 2000 to 2010, controlling for macroeconomic conditions. We investigate the same relationship using monetary policy transparency, we compare the results and based on the existing literature we check for non-linear effects of transparency. Moreover, we examine how this relationship changes in financially good and bad times in terms of financial stress. We find negative relationship between both financial stability and monetary policy transparency and short-term interest rates. Especially in the case of monetary policy transparency our results suggest non-linear relationship and the existence of an intermediate optimal level of transparency. For financially good and bad times our findings are miscellaneous, some in accordance and some in contradiction with the literature. Generally, our results suggest that the effect of financial stability transparency on short-term interest rates is weaker than the effect of monetary policy transparency. For the long-term interest rates, we find no evidence of the effect of financial stability nor monetary policy transparency. Examining the data in financially good and bad times, our results remain insignificant.