



Monetary policy communication: Evidence from Survey Data

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Introduction

Objective

- Draw evidence on the level of transparency and communication strategies of the central banks.



- Summarize the results of a Survey on Monetary policy Communication conducted among central banks in Central Eastern and South-Eastern Europe

Time frame

- The Survey was conducted in July - September 2015 and answers on the survey questions were received from 15 central banks from the region and EU.

Structure

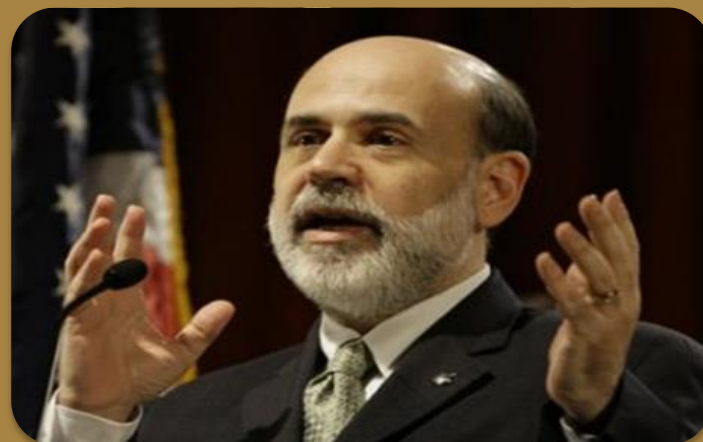
- The Survey on Monetary Policy Communication was based on the Asian Central banks Survey for Transparency and Communication in Monetary Policy from 2007 (Filardo and Guinigundo, 2008).



...In the past decade, there has been a dramatic change in the central banks views on the role of transparency and communication in conducting their monetary policy...



"I guess I should warn you, if I turn out to be particularly clear, you've probably misunderstood what I said"
– Alan Greenspan (**1988**)



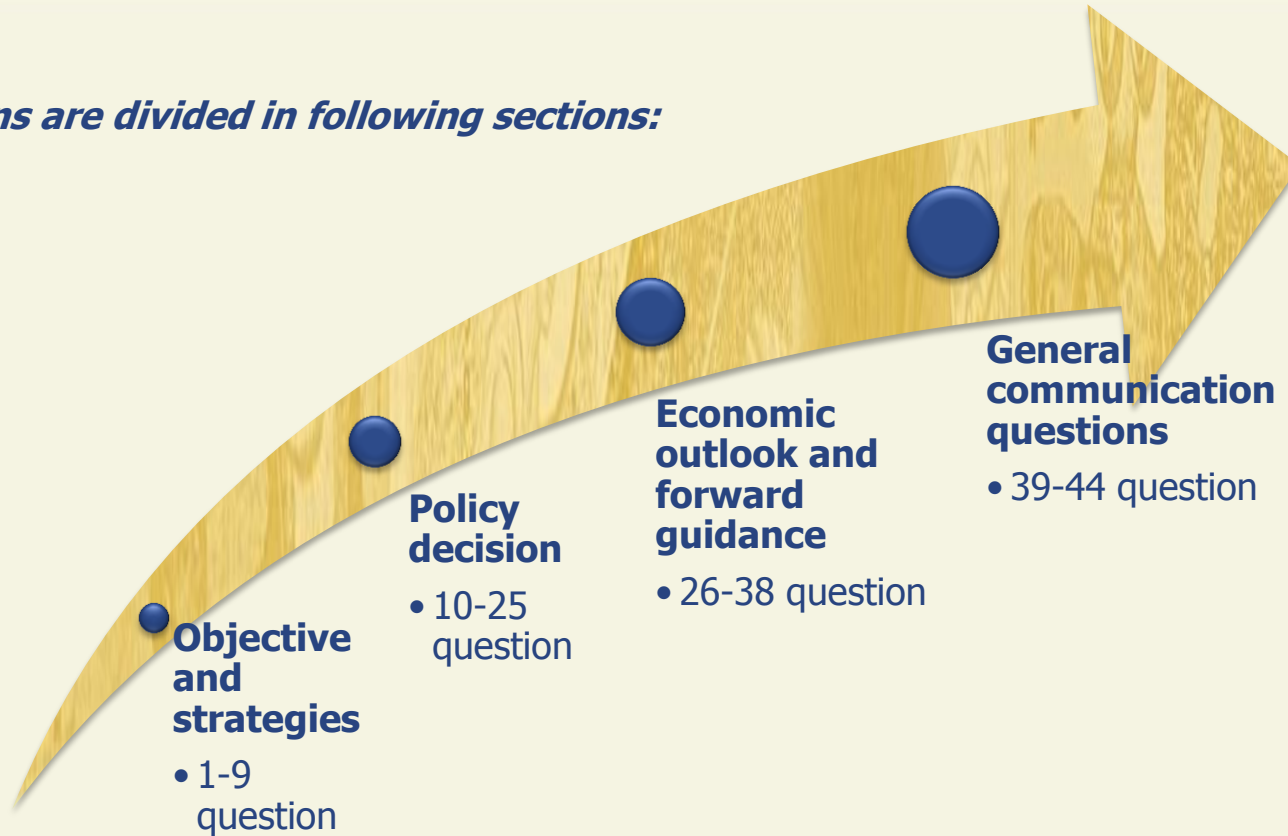
"...communication helps to increase the near-term predictability of the central bank decision, which reduce risk and volatility in financial markets and allows for smoother adjustment of the economy to rate changes..." – Ben Bernanke (**2004**)

...The switch to flexible exchange rate in the 90s, the introduction of inflation targeting in the early 2000s and the global financial crisis 2007-2009 were the main drivers of the change in the way how the central banks communicate...



Survey structure

The questions are divided in following sections:

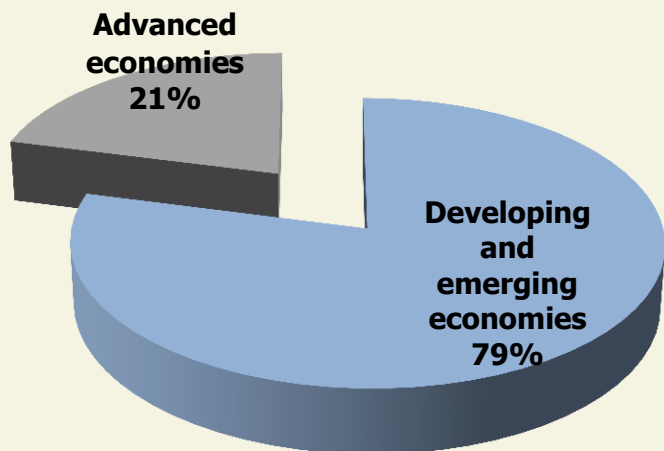


- The data are presented as % of the total number of responded central banks (14 central banks). The answers from the ECB are not included in the calculation, but are analyzed separately as a kind of benchmark.
- The answer option "Other" in the certain questions, include answers of the central banks on this option, and also the central banks that didn't answered on this question.

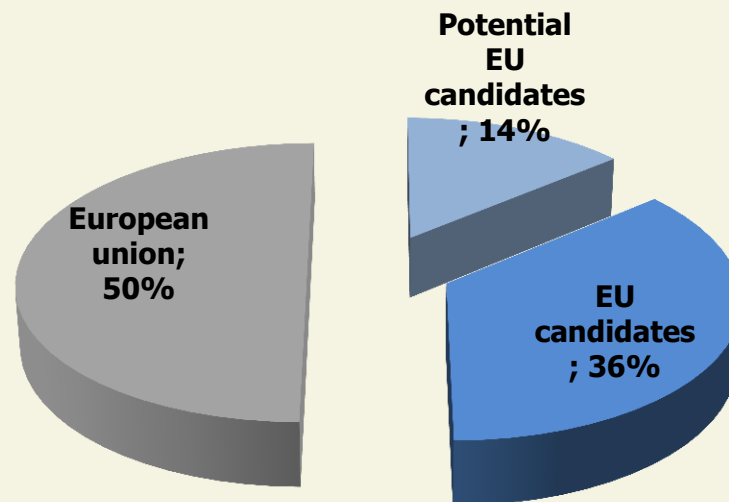


Economic and geography aspects of the surveyed central banks

By economic point of view...



By geographical point of view...



...The central banks that participate in this Survey are almost equally divided between those with Pegged (hard and soft) and Floating exchange regime...

Survey participants



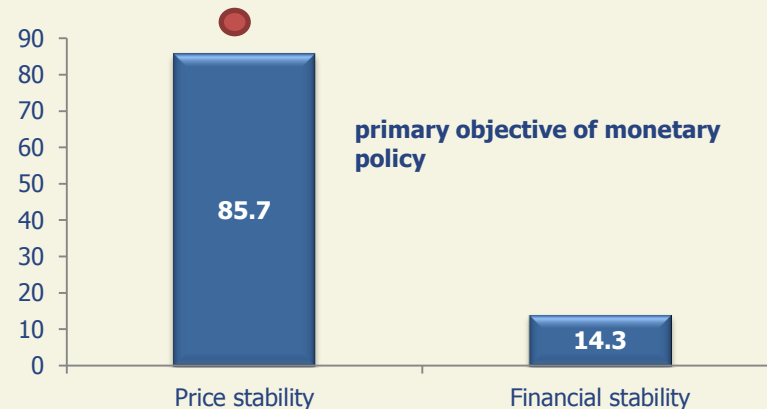
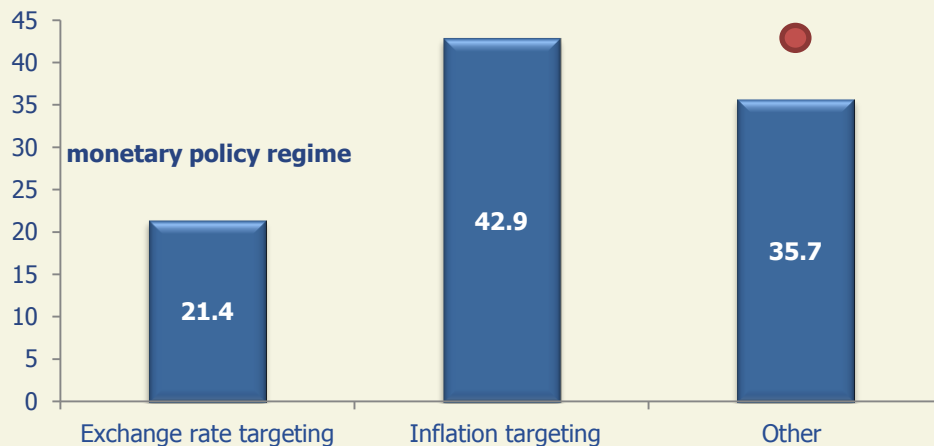
SURVEY RESULTS





I. Objective and strategies

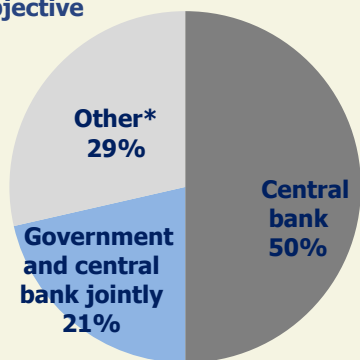
...most of the central banks are conducting inflation targeting



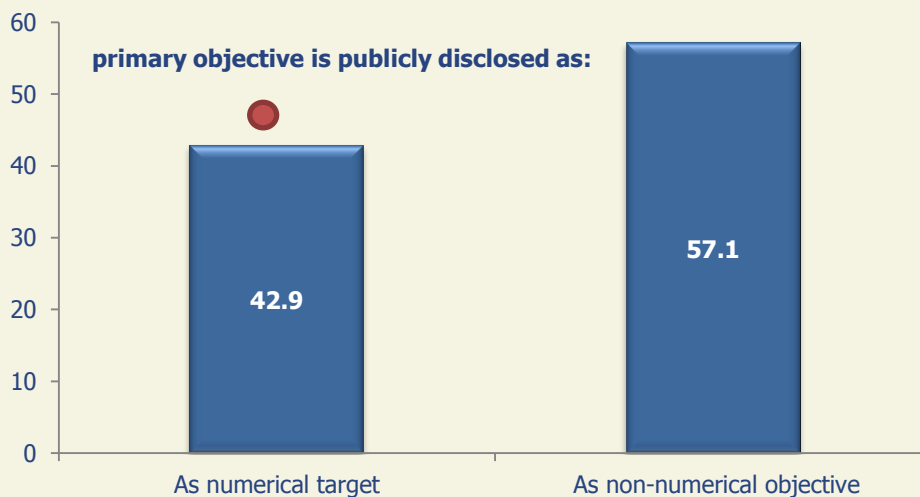
● ECB-price stability definition with a policy aim for the medium term

● European central bank

Who defines the primary objective

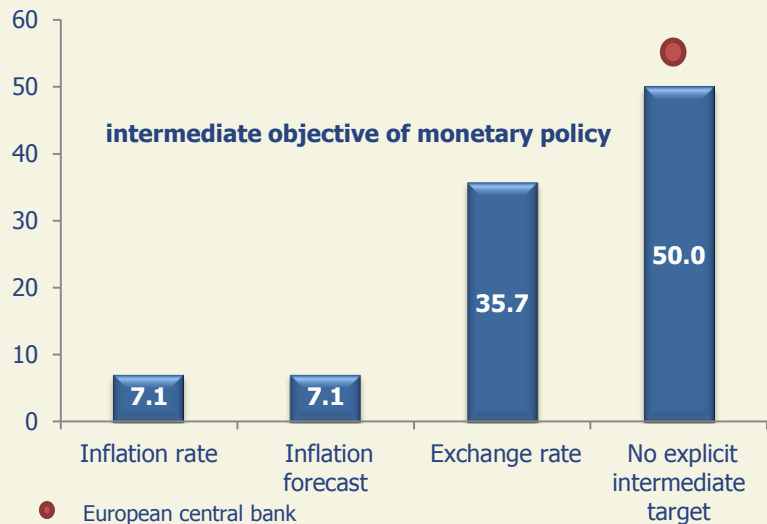


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I. Objective and strategies



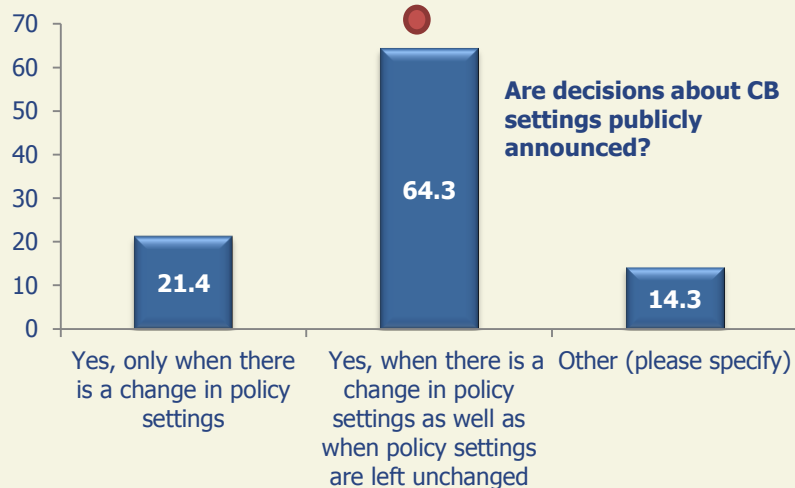
- Except the monetary objectives, the central banks have other objectives which are subordinated to the primary one.
- Around 71% of the surveyed central banks define **financial stability** as one of the objectives of the central banks monetary policy.
 - *The central banks define financial stability as one of their objectives from:*



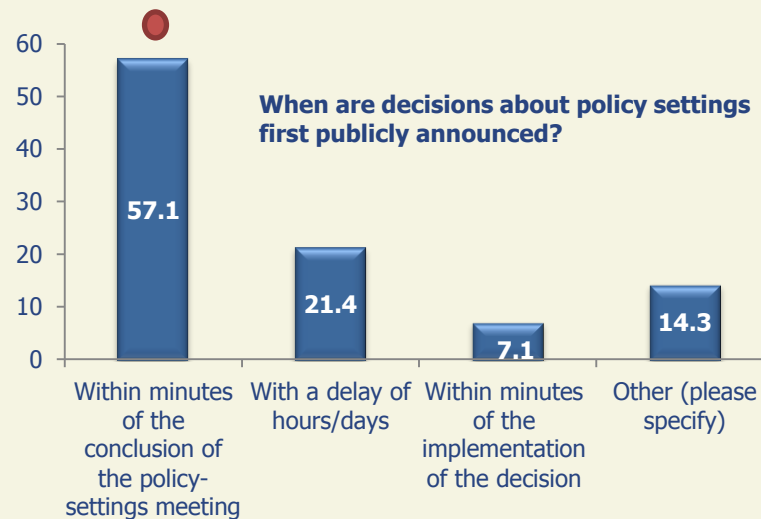


II. Monetary policy decisions

- One of the biggest challenges of the central banks is to decide which information to share with the public.
- Almost all the central banks answered that they publicly announce their monetary policy decisions.

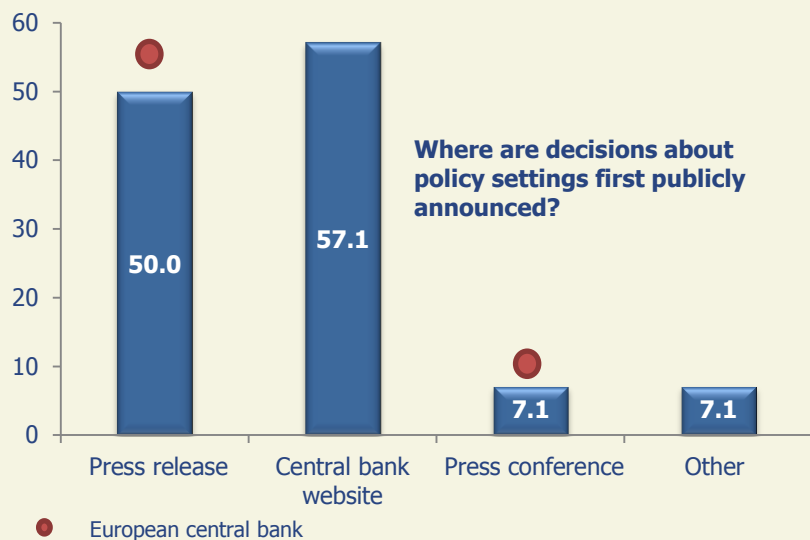


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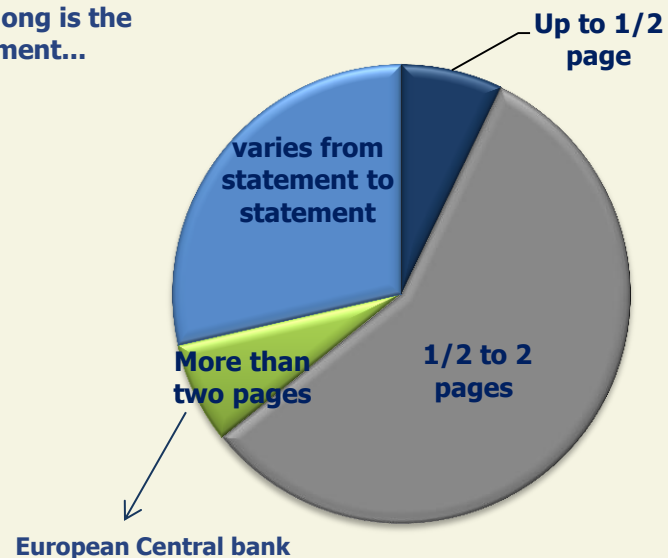




II. Monetary policy decisions



How long is the statement...

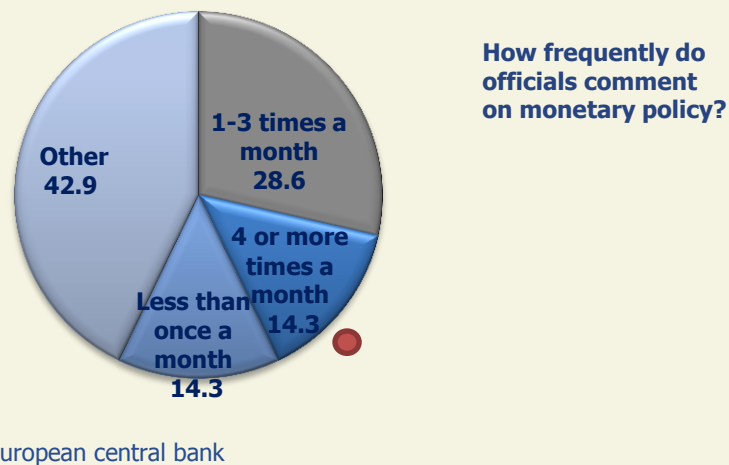
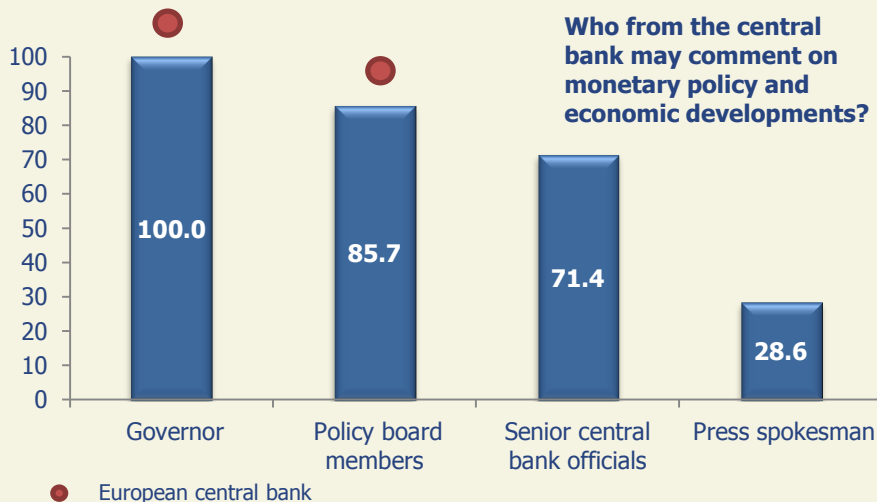
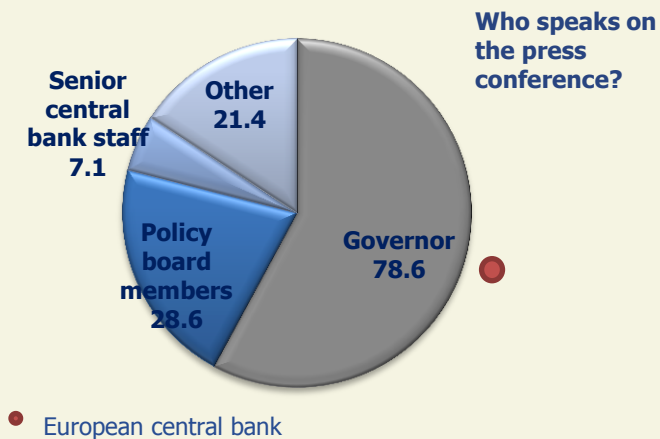
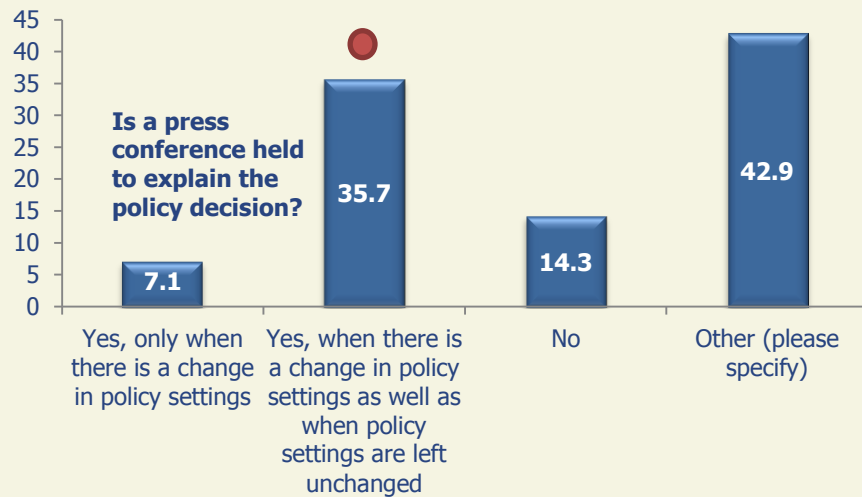


- Almost all the central banks in their policy statement always disclose the **precise value for a change in the monetary policy instrument**, the **direction of the change in the monetary policy instrument** and the **reasons** behind the decision.
- Most of the central banks, in their statement also add the assessment of **current economic conditions** and **short term outlook for the economy** and the **possible risks to the outlook** for the economy.



II. Monetary policy decisions

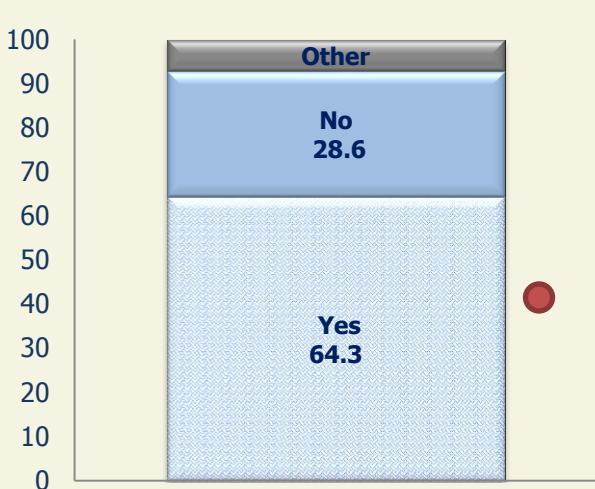
- Almost all the central banks use the press conference as a primary communication tool for direct contact with the public





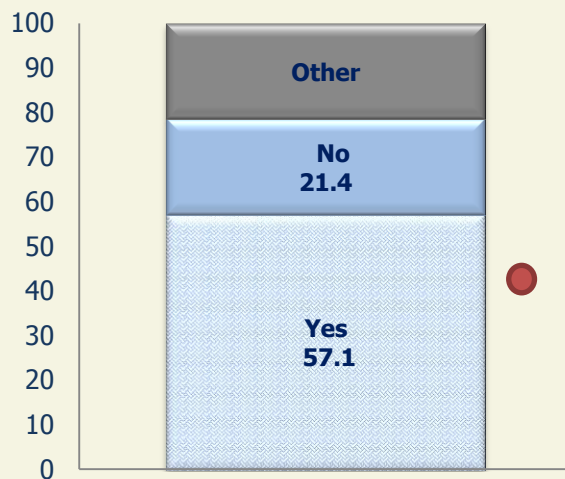
II. Monetary policy decisions

- Regarding the schedule of adoption of the monetary policy decisions, most of the central banks (around 64%) said that the decisions are ***made on pre-announced dates...***

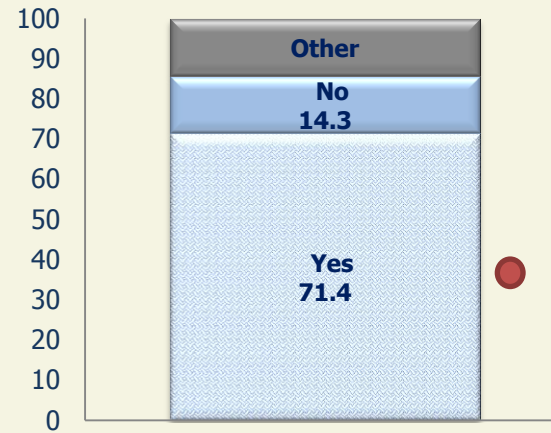


Are monetary policy decisions made on pre-announced dates?

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Are the dates and the time of policy announcements known to the public in advance?

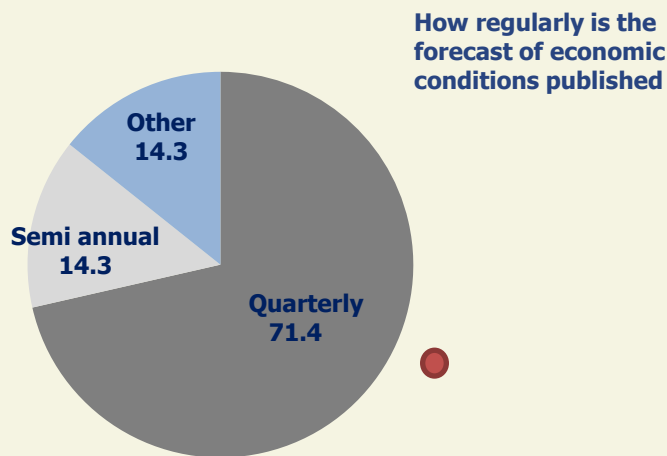


Do the dates of monetary policy decisions ordinarily coincide with the dates of regular meetings of the policy board?

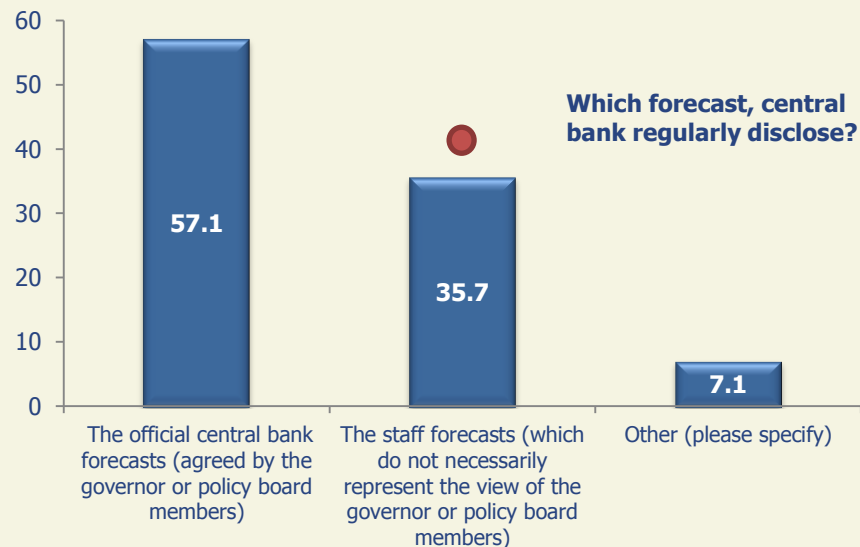


III. Economic outlook and forward guidance

- The economic forecast is one of the main activity of the central banks which offers information's for the future path of the economy, send signals to the market and their participants.
- The methods and assumptions behind those forecasts vary considerably across central banks...



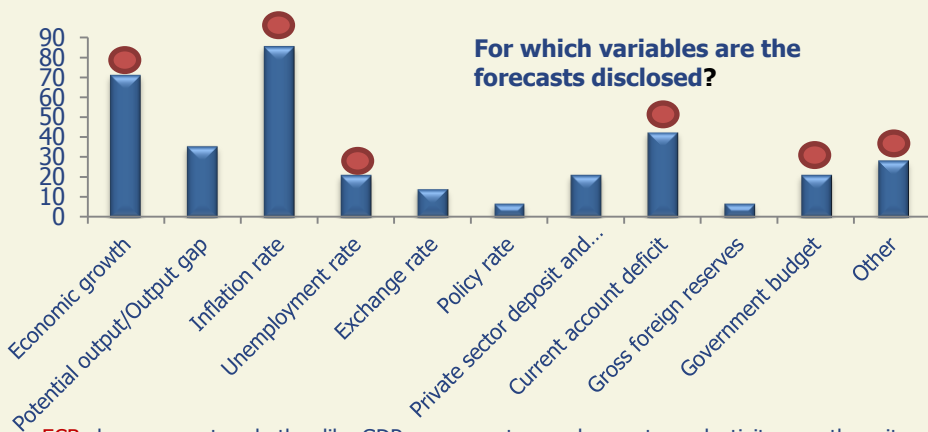
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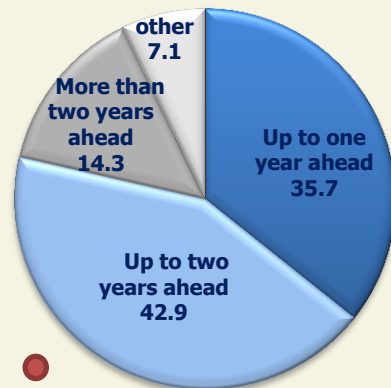


III. Economic outlook and forward guidance

➤ Most of the central bank disclosed the forecast for *inflation rate and economic growth...*

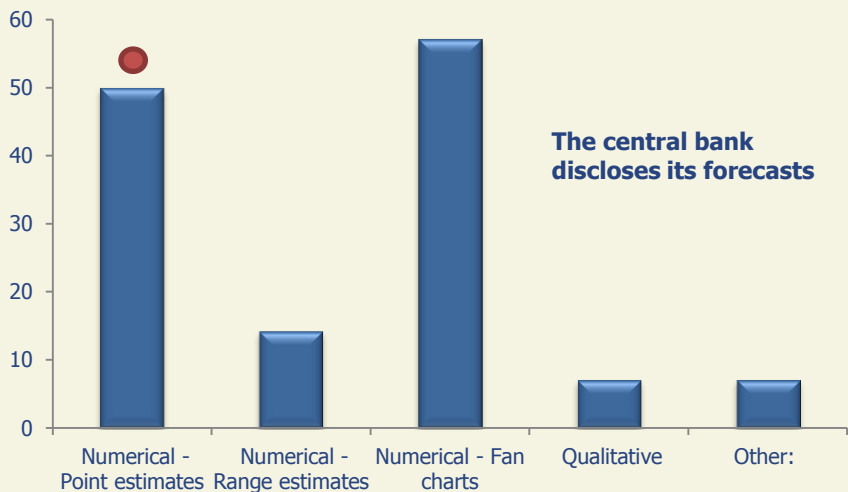


ECB also comment and other like GDP components, employment, productivity growth, unit labor cost, compensation per employee, inflation components, structural government balance, government debt

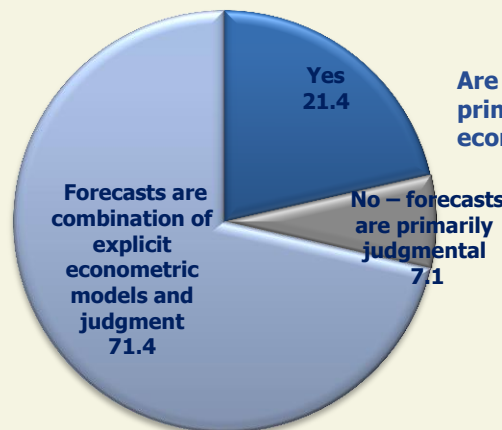


For what time horizon the CB disclose its forecasts?

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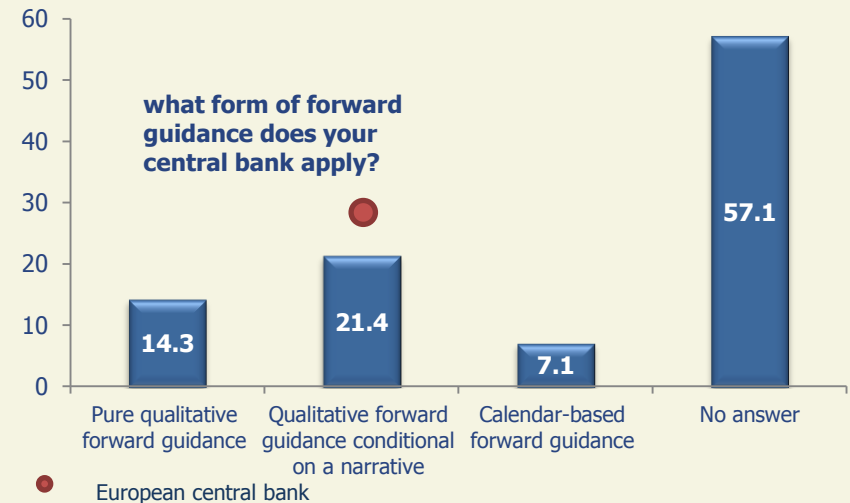
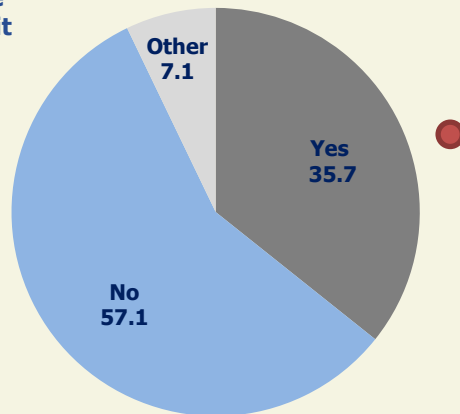
Are the forecast primarily based on econometric models?

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III. Economic outlook and forward guidance

- The **recent financial crisis** highlights the need for better communications among the banks, market and central bank.
- According to Survey around **one third of the central banks** introduced certain changes in the communication of monetary policy with a purpose to become more proactive.
- One of the tools that most of the central banks adopted to deal with macroeconomic consequences of the global financial crisis was **forward guidance** (term used by Central banks to communicate about the likely future course of monetary policy).

Does your CB provide forward guidance in it monetary policy communication ?

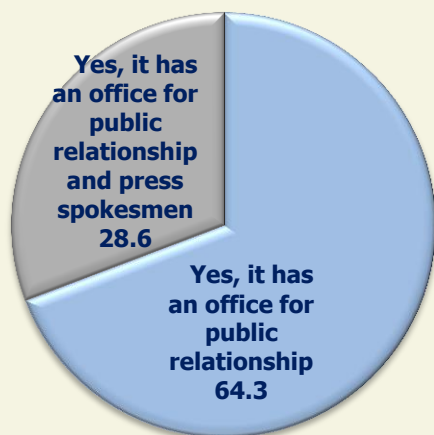


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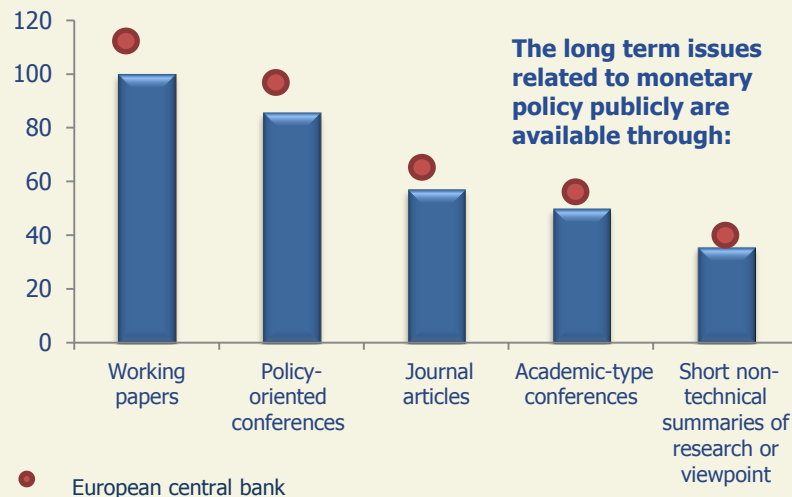


IV. General communication questions

Does your CB have an office for public relations or press spokesmen?



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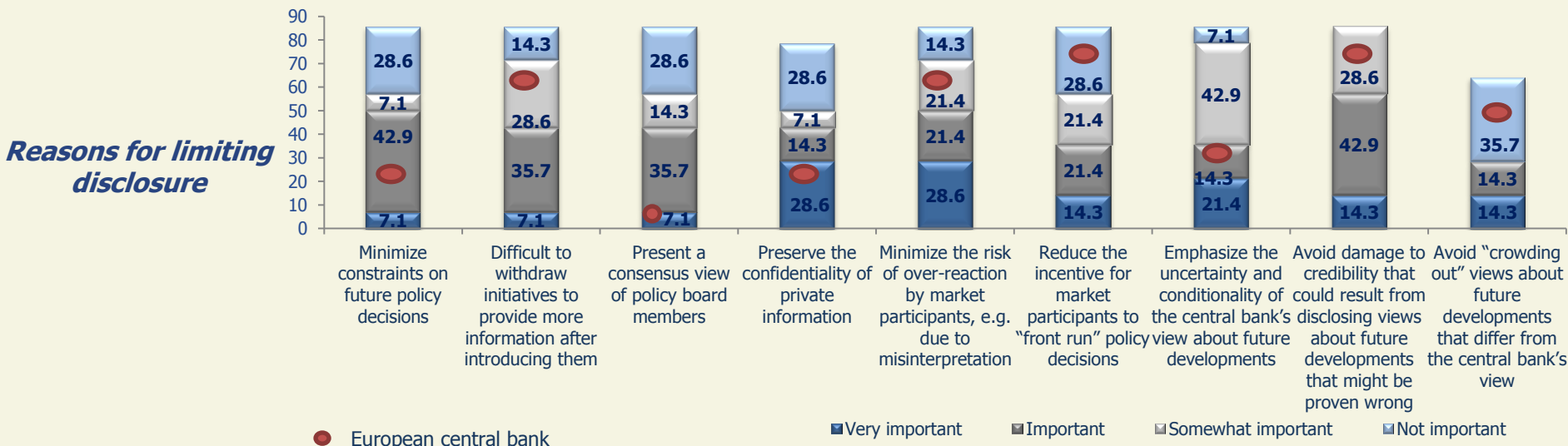
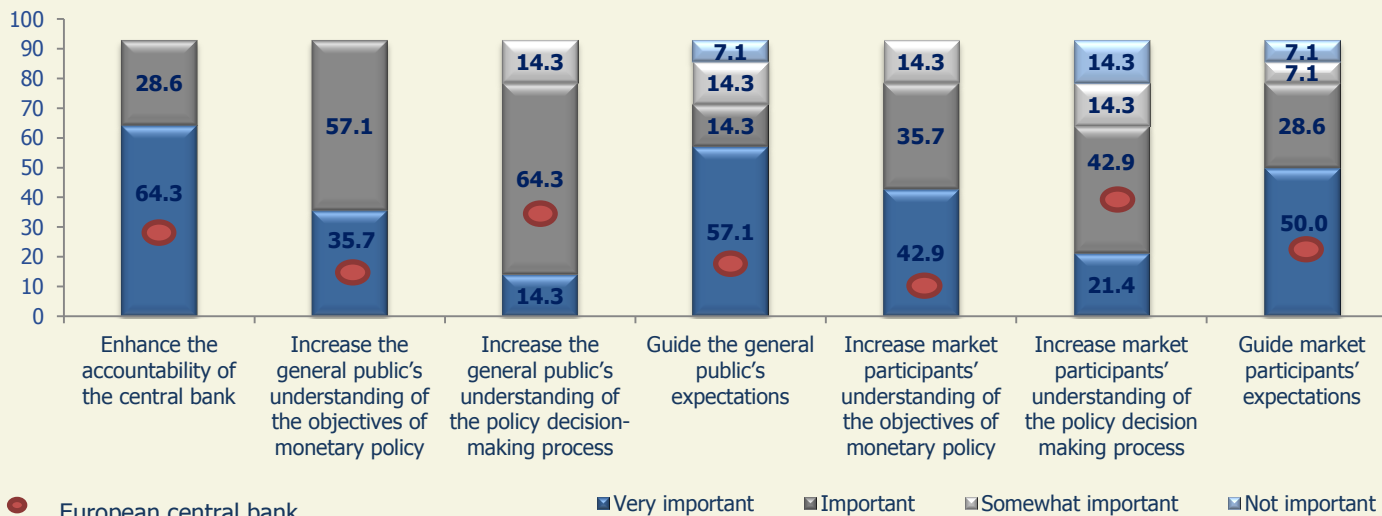
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- *The central banks also publish education brochures, organize public visits, seminars, trainings, lectures for pupil, workshop for journalists....*



IV. General communication questions

➤ One of the crucial thing in communication is to define the "reasons behind the words".





Conclusion





Conclusion

- Today the central banks pay special attention on their transparency and provide important information about their decisions and policy making process
- All the survey central banks publicly announce their primary goals and their monetary policy decisions
- The Survey shows that the central banks are putting a lot of effort to establish a proper link with the media and public
- Still, there is a room for improvement in the area of introducing forward guidance by the central banks and more “proactive ways” of communication with the public
- *...The days of mystery and secrecy about central banks are gone! Greater transparency, open and clear communication are becoming essential part of everyday functioning of the central banks...*





THANK YOU
FOR YOUR ATTENTION