

Trends in MP Transparency

Comments and the Czech Experience

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CZECH **CNB** NATIONAL BANK

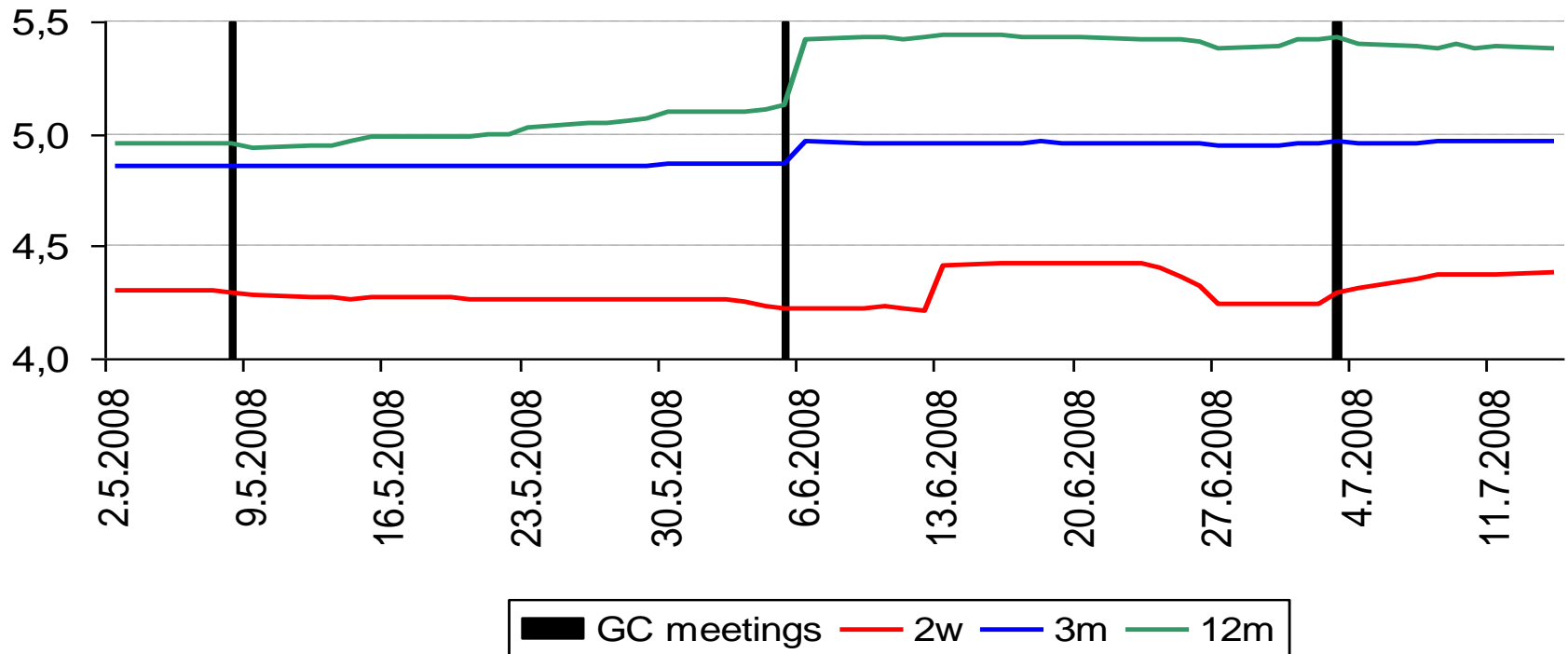
- Three ways to measure transparency;
- Transparency indexes and results for ITers;
- Increasing transparency of the CNB;
- Publication of the interest rate path.

How to Measure Transparency?

1. Change in interest rate after the MP meeting;
 - Measures the „revealed“ transparency, and thus indirectly quality of communication;
 - But can be „cheated“ with „code words“;
2. Transparency indexes (used in Geraats, 2008);
 - Focus on existence of various communication channels, but less on quality of communication;
3. Analysis of the quality/consistency of communication;
 - Very laborious, not suited for large-scale cross-country / panel data studies.

ECB and „Code Words“

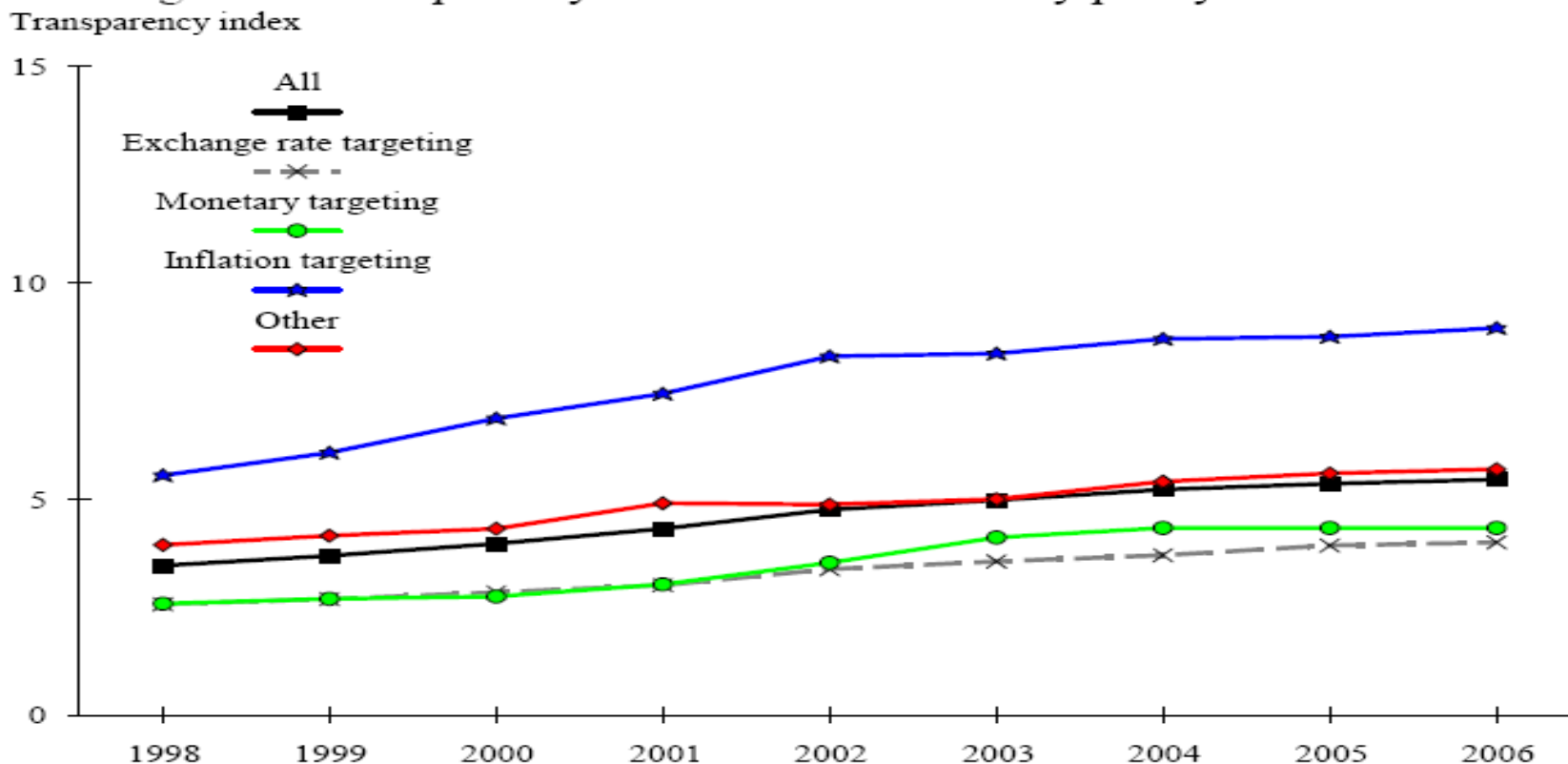
Euribor and Governig Council Meetings



- 5 June: no IR change, but GC in „in a state of heightened alertness“, Trichet admitted possible hike in July;
- 3 July: rate hike by 25 b.p., relatively dovish comments.

Transparency Indexes and the ITers

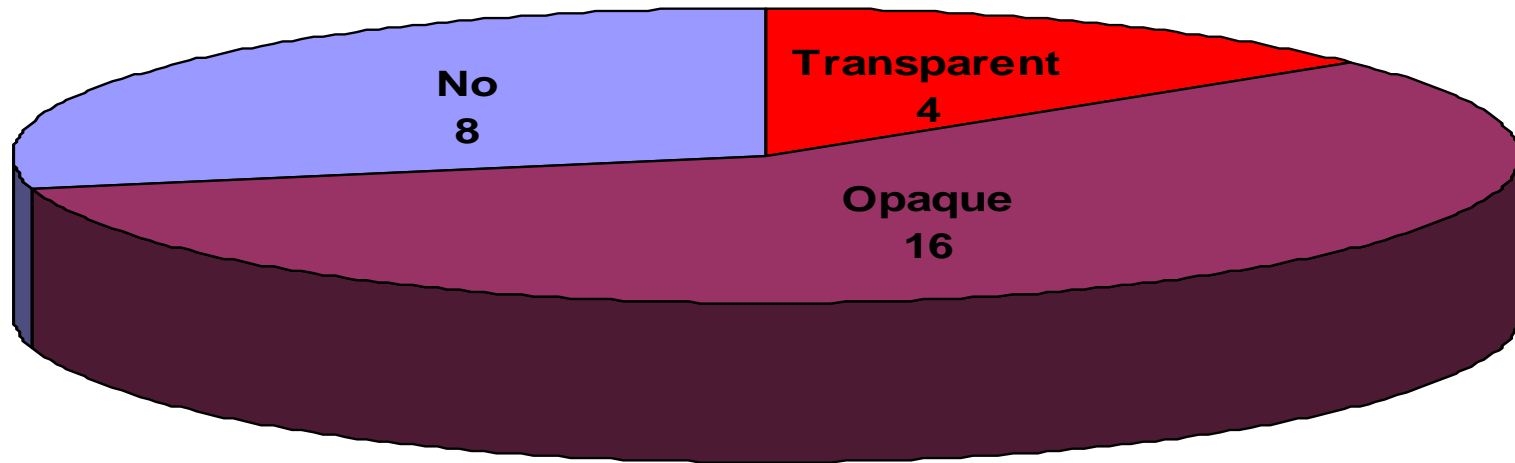
Figure 2: Transparency trends across monetary policy frameworks



- The outcome is nice for the ITers, but may be partly due to a „bias“ in the construction of the index (forecasts, models, minutes, policy inclinations, etc.).

How Would ITers Perform on Someone Else's Playing Field?

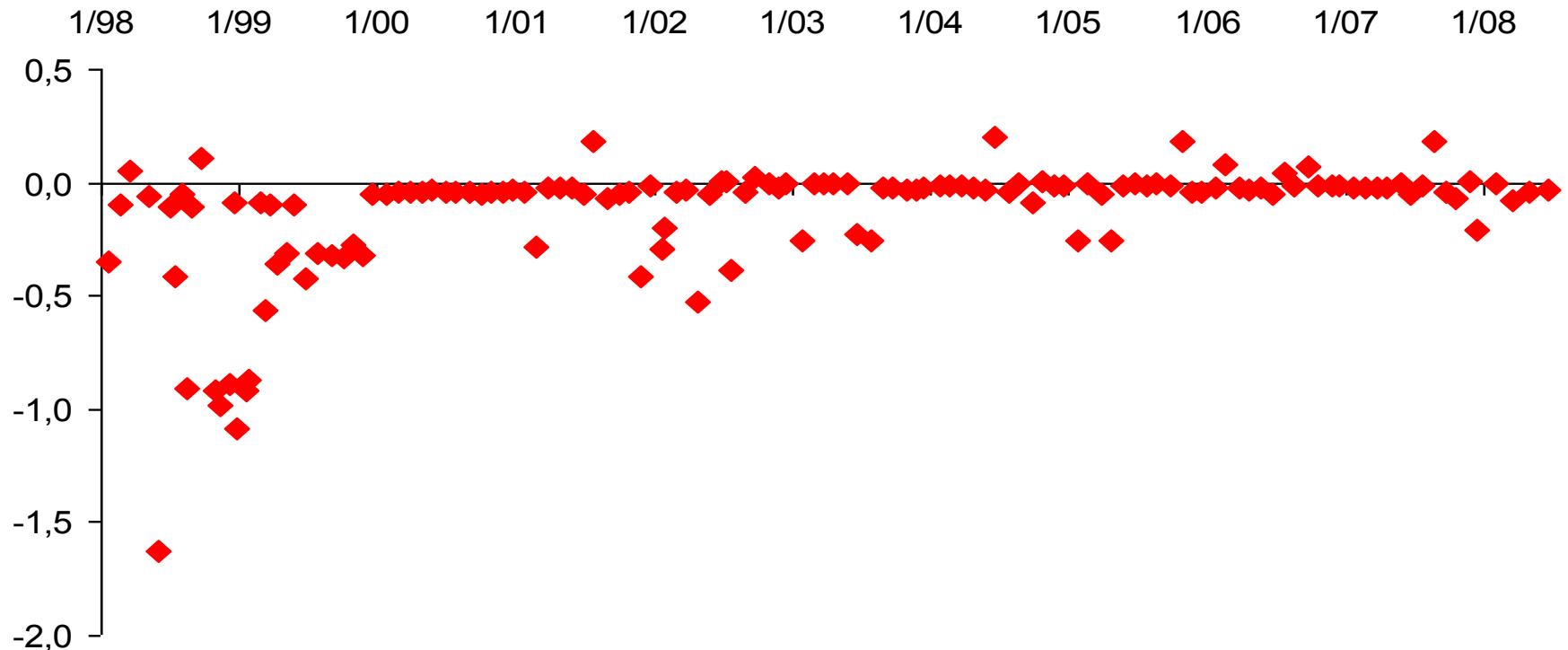
Use of FX Interventions by the ITers



- For example, many ITers are still quite opaque concerning their FX operations (in terms of preferences, strategy, decisions taken, ex post evaluation, etc.);
- How would they do e.g. in comparison with ER-targeters?

„Revealed“ Transparency of the CNB

Surprise component of the CNB's decisions ($\text{repo}(2W)_t - \text{ir}(2W)_{t-1}$)



- Surprises have declined over time (in absolute terms);
- But CNB surprised the market on a few occasions;
- Typically preferred to act when deemed necessary.

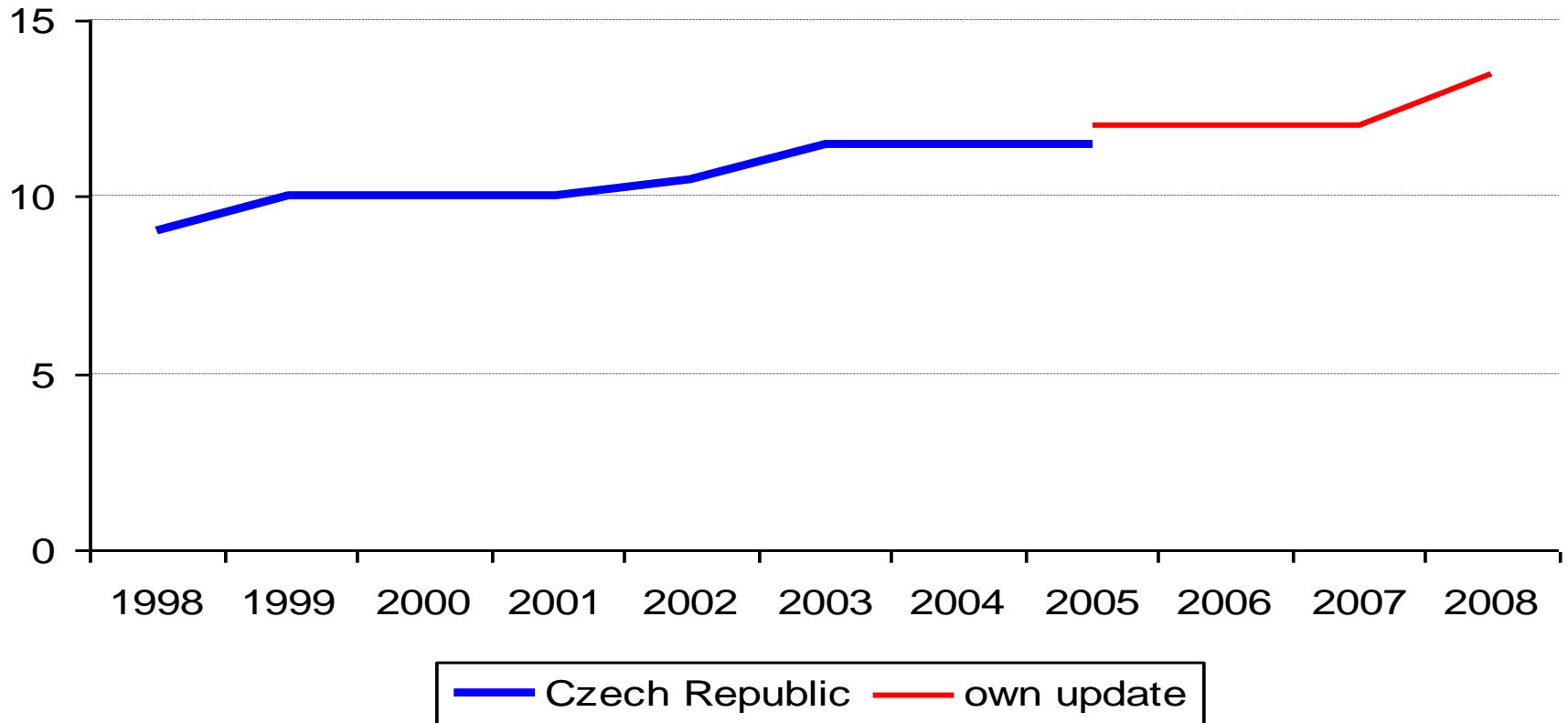
Communication Channels of the CNB

- Immediate press release with the decision;
- Press conference after the MP meeting (with Q/As);
- Journal article about the forecast;
- Minutes (voting ratio since 2001, names since 2008);
- Inflation reports describing the forecast (verbal comment on IR path since 2002, numerically since 2008);
- Meetings with analysts (every quarter since 2005);
- Full transcript of discussions and situational reports published after 6 years (first in 2008).

Communication Channels of the CNB

- Press release commenting the monthly inflation figures (including forecast errors);
- Regular ex post evaluation of target fulfillment and forecast errors in Inflation Reports (see Filáček, 2007);
- A volume evaluating the first 10Ys if IT prepared;
- A book on the CNB's forecasting process published;
- All strategic documents published;
- Publication of monthly volumes of FX trading.

Dincer + Eichengreen Index



- Increasing trend, but the „true“ increase (quality of info) perhaps more substantial than the index suggests.

Consistency of Communication

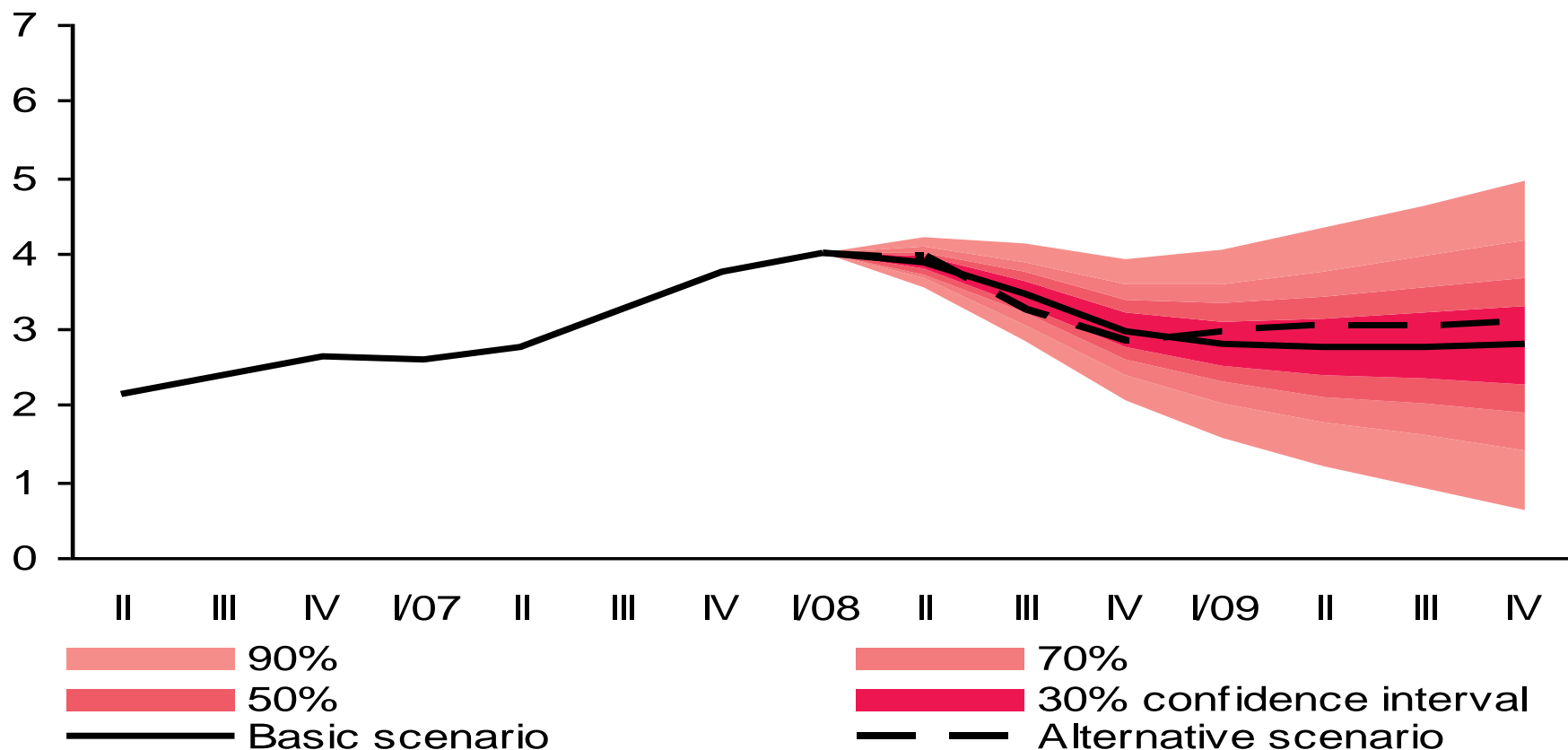
Table 4. Clarity of Communication, Individual Countries, 2000–05
(1-Year Forecast Horizon)

	Chile	Czech Republic	Hungary	Poland	Sweden	Thailand	Average
	In percent of total observations						
Consistent communication No inflation outcome surprise	50.0	66.7	50.0	66.7	50.0	50.0	55.6
Consistent communication Inflation outcome surprise	33.3	16.7	16.7	33.3	50.0	33.3	30.6
Inconsistent communication	16.7	16.7	33.3	0.0	0.0	16.7	13.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bulíř, et al., CNB WP, 14/2007.

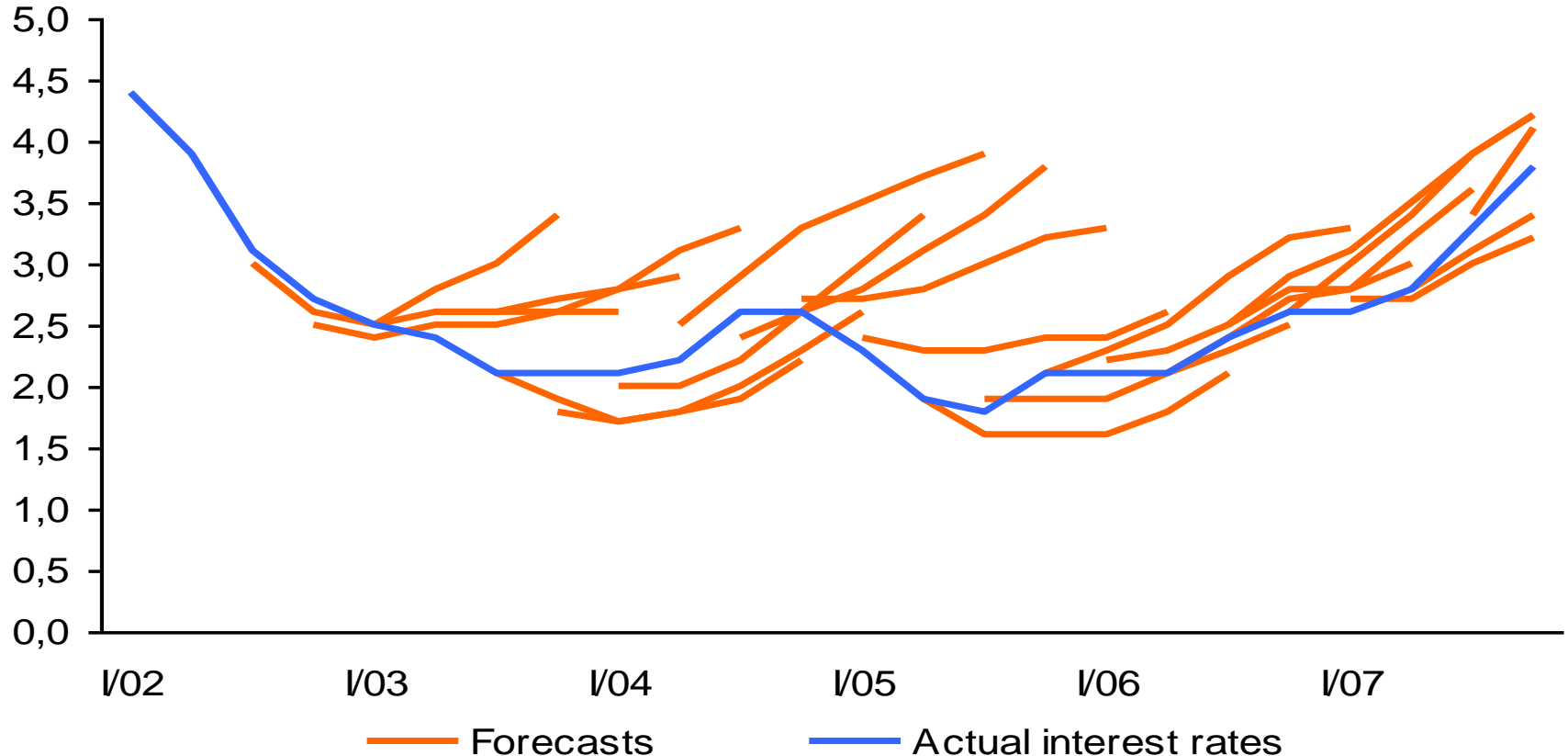
- Confusion in communication was rare: verbal assessments were mostly consistent with implied forecast updates;
- No country stands out as an exceptionally good or bad forecaster/communicator.

Publication of the Interest Rate Path



- CNB started to publish the fan chart in 2008 (verbal description since 2002);
- Another country missing in the paper: Israel (since 2007).

CNB's Past Forecast Errors for the Interest Rate Path



- Revealed to the public to show the degree of uncertainty and avoid perceived commitment.

Summary

- Transparency indexes well suited for the analysed issues;
- But perhaps some natural bias in favour of the ITers;
- Opaque approach in many countries e.g. to FX interventions;
- CNB's transparency has clearly increased;
- A broad range of communication channels;
- Regular assessment of past errors;
- Publication of IR fan chart since 2008;
- But still some surprises of the market (no use of code words).

Thank you
for your attention.

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References

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