



An Assessment of the Transparency and Communication Practices in the Monetary Policy of the Bangko Sentral ng Pilipinas

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Background and Rationale

Transparency can be defined as an environment in which a central bank provides in an open, clear and timely manner, all relevant information on its mandate, strategies, assessments, policy decisions, as well as its procedures to the public and the markets.² Most central banks, therefore, including the Bangko Sentral ng Pilipinas (BSP), consider transparency and communication as integral components of their monetary policy framework. Communication is in fact important not only as a means to convey information about monetary policy, but also as a policy tool for the central bank. This also allows the public to provide feedback which, in turn, helps improve further the effectiveness of monetary policy.

This study aims to conduct an assessment of the BSP's current transparency and communication policies using the International Monetary Fund (IMF)'s Code of Good Practices on Transparency in Monetary and Financial Policies (TMFP Code) developed in 1999.³ As the focus of this paper is on the assessment of transparency practices relating directly to monetary policy, the discussion will center mainly on the review of the BSP's transparency practices vis-à-vis Part 2 of the

TMFP Code: Good Transparency Practices for Monetary Policies by Central Banks (henceforth the IMF Code).

Methodology of the Study

This paper uses the IMF Code in assessing the BSP's transparency practices, which identifies four main principles whereby the transparency practices in the monetary policies of central banks can be gauged, namely: (i) Clarity of Roles, Responsibilities and Objectives of Central Banks for Monetary Policy; (ii) Open Process for Formulating and Reporting Monetary Policy Decisions; (iii) Public Availability of Information on Monetary Policy; and (iv) Accountability and Assurances of Integrity by the Central Bank.

The approach adopted in this paper is to examine the specific regulations under the BSP Charter⁴ and actual practices under the inflation targeting framework of the BSP and compare these with the detailed guidelines from the IMF's Code under each of the four main principles. In addition, any changes or improvements in these practices affecting the monetary policy decision-making of the BSP over the years since the adoption of inflation targeting in 2002 were also taken into account.

The IMF Code identifies desirable transparency practices for central banks in the conduct of monetary policy in line with the idea that transparency makes monetary policy generally more effective, in part by ensuring that market expectations can be formed more efficiently.⁵ There are, nonetheless, potential

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² Oesterreichische Nationalbank (OeNB) Institutional Features, featured in the website: http://www.oenb.at/en/geldp_volksw/geldpolitik/merkmale/transparenz/transparency.jsp.

³ Aside from the IMF's Code, there is another code of communication practices currently available in assessing transparency and communication practices of central banks: the Centre for Latin American Monetary Studies (CEMLA)'s Code of Principles and Best Practices in Central Bank Communication prepared in March 2004. The CEMLA Code focuses more on general concepts that could help a central bank conduct a more general review of its policies. The TMFP Code takes a more specific and detailed approach, and encompasses all principles covered in the CEMLA Code.

⁴ The BSP Charter is entitled Republic Act (R.A.) 7653: The New Central Bank Act, passed in 1993.

⁵ International Monetary Fund, *Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles and Supporting Document*, July 2000. This document is attached in this paper as Annex 5.



costs. The IMF notes that in situations where increased transparency in monetary and financial policies could endanger the effectiveness of policies, or be potentially harmful to market stability or the legitimate interests of supervised and other entities, it may be appropriate to limit the extent of such transparency. It is important to note that the IMF Code does take a pragmatic approach and recognizes that a variety of arrangements can lead to good transparency practices. The good practices contained in the Code are therefore to be implemented flexibly and over time to take account of a country's particular circumstances. These practices are included in the IMF Code in anticipation that countries will aspire over time to introduce such good practices.

Each of the four principles under the IMF Code consists of several sections, which are further divided into sub-sections, detailing the form or possible manifestations of the transparency practices in order to make an assessment of the central bank's performance vis-à-vis each principle. Below are some guidelines which have helped in the current assessment of BSP's transparency and communication policies directly relating to monetary policy:

- i. For the first principle (clarity of roles, responsibilities, and objectives), the objectives of the central bank for monetary policy should be clearly defined, publicly disclosed, and written into law. The institutional relationship between monetary and fiscal policies should be clearly defined, as should any agency roles performed by the central bank on behalf of the government.
- ii. With regard to the second principle (open process for formulating and reporting policy decisions), the central bank should publicly disclose and explain the framework, instruments, and targets, if any, which are used to achieve objectives. The structure of its decision-making body should be publicly disclosed and its decisions communicated in a timely manner. Periodic public statements should be made on progress towards achieving monetary policy objectives.
- iii. Under the third principle (public availability of information on policies), the information on monetary policy of the central bank should be consistent with the IMF's standards for data dissemination and its balance sheet should be publicly available. Financial/supervisory agencies should issue periodic public reports on major developments in the financial system, report aggregate data on a timely and regular basis, make texts of regulations and directives readily available to the public.
- iv. The fourth principle (accountability and assurances of integrity) states that central bank officials should periodically appear before a designated public authority to explain the conduct and performance of their policy. The central bank should provide assurances of the integrity of its operations and officials through the release of audited financial statements of its operations and the standards of conduct for its officials.

There are related studies in the literature which have conducted an assessment of central bank transparency and communication policies. The succeeding section summarizes such studies in the past which, in particular, included the Philippines among the sample of central banks that were reviewed.

Review of Related Literature

The most recent study on transparency practices in central banks was conducted by the Bank of England's Centre for Central Banking Studies (CCBS)⁶ in 2010. According to this study, both emerging and advanced economies have shown improvements in their transparency practices over the years. In particular, ten out of 18 emerging economy central banks are publishing minutes of their monetary policy decisions, while six out of nine industrialized countries are publishing minutes of their monetary policy meetings as of January 2010. Moreover, the CCBS study examined the key features of the inflation-targeting frameworks in each of the 27 inflation-targeting central

⁶ Hammond, Gill, *State of the art of inflation targeting*, CCBS Handbook No. 29 – Revised January 2010.



banks around the world. The study showed that all inflation targeters (emerging and advanced countries alike) publish details of their monetary policy decisions (usually involving the policy interest rate) immediately after the policy meeting, and it is usual for a press release or notice to accompany the decision. In addition, 19 inflation targeters hold press conferences to publicly explain their decision and discuss their inflation report in public.⁷

Another notable paper discussing the transparency and communication practices of Asian central banks is a region-wide survey by the Bank for International Settlements (BIS)⁸ in 2008. The authors highlighted three reasons for the trend toward greater transparency and better communication in Asia as indicated by the survey respondents. First, the trend towards greater transparency and better communication was driven by monetary policymakers' increasing recognition that their policy actions would be more effective if the market understood them better. Second, the emphasis on transparency and communication was also spurred by the growing interest in the greater accountability of central banks, as an increasing number of them were accorded independence from political authorities. Finally, the adoption of inflation targeting, with its emphasis on the transparency and accountability of the central bank, has also provided additional momentum towards improving the disclosure and openness of central banks. The BIS study also noted that questions about what, how and to what extent central banks should communicate with the public remain open as there was no "one-size-fits-all" policy.

Another related paper evaluating the communication practices of central banks via inflation reports was conducted by Norges Bank in 2002,⁹ the year the BSP adopted inflation targeting as a framework. The

inflation reports published by central banks in the sample were evaluated according to the quality of information, clarity of assumptions, quantity of information, decision process, inflation process, and quality of the executive summary and overall assessment. The study ranked the BSP as close to the average (6.3, the average was 6.5), higher than Canada, Switzerland, and Australia.

Assessment of the BSP's Compliance with the IMF's Code and Main Findings

The evaluation conducted by this study found that the BSP is currently observing a majority of the practices identified under the IMF Code. An item-by-item assessment of the BSP's practices vis-à-vis the IMF Code was conducted based on the BSP Charter and related circulars, memoranda, various BSP website documents and other publications.

As presented in Table 2 below, there are three (3) out of 35 practices under the IMF Code which are not yet explicitly included in the BSP Charter and monetary policy framework.

IMF's Code of Good Practices		BSP's Transparency Practices		
Principles	No. of sections	No. of sub-sections	No. of IMF sub-sections practised by the BSP	No. of IMF sub-sections not part of the BSP Charter and BSP monetary policy framework
				Not practised by the BSP
1. Clarity of Roles, Responsibilities and Objectives of Central Banks for Monetary Policy	3	14	13	1
2. Open Process for Formulating and Reporting Monetary Policy Decisions	6	8	7	1
3. Public Availability of Information on Monetary Policy	4	8	8	0
4. Accountability and Assurances of Integrity by the Central Bank	4	5	4	1
Total	17	35	32	3
As a proportion to total IMF Good Practices			91.4 %	8.6%

⁷ Ibid.

⁸ Filardo, A. and Guinigundo, D., *Transparency and Communication in Monetary Policy: A Survey of Asian Central Banks*, paper presented during the BSP-BIS Joint High-Level Conference on Transparency and Communication in Monetary Policy on 1 February 2008 in Manila, Philippines.

⁹ Fracasso, A., Genberg, H., Wyplosz, C., *How Do Central Banks Write? An Evaluation of Inflation Targeting Central Banks*, Geneva Reports on the World Economy Special Report 2, Norges Bank, April 2003.



Conclusion and Policy Recommendations

The assessment of the BSP's current transparency practices for monetary policy using the IMF Code as a guide revealed that the BSP is currently observing 32 out of the 35 transparency practices, or 91.4 percent of the IMF code based on specific provisions in the BSP's charter and existing arrangements under the BSP's monetary policy framework. Under its inflation targeting framework, the BSP recognizes the importance of transparency and communication which serve as key components for effective and credible monetary policy. This allows the BSP to carry out its mandate and policy decisions with greater information, predictability and accountability. The BSP's transparency and communication practices are broadly aligned with the four core principles of the IMF Code. The table below specifies the three IMF Code practices not yet covered by the BSP's Charter and current transparency practices in monetary policy, which represent 8.6 percent of the total IMF Code practices:

Principles	Specific Section/Practice
1. Principle #1: Clarity of Roles, Responsibilities and Objectives of Central Banks for Monetary Policy	A. If, in exceptional circumstances, the government has the authority to override central bank policy decisions, the conditions under which this authority may be invoked and the manner in which it is publicly disclosed should be specified in legislation.
2. Principle #2: Open Process for Formulating and Reporting Monetary Policy Decisions	B. For proposed substantive technical changes to the structure of monetary regulations, there should be a presumption in favor of public consultations, within an appropriate period
3. Principle #4: Accountability and Assurances of Integrity by the Central Bank	C. Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed
As a proportion to Total IMF Code of Good Practices	8.6%

A. *If, in exceptional circumstances, the government has the authority to override central bank policy decisions, the conditions under which this authority may be invoked and the manner in which it is publicly disclosed should be specified in legislation.*

There is no explicit provision in the BSP charter or the BSP's monetary framework for the sub-section 1.1.6 of the IMF Code

above; the BSP Charter instead fully supports central bank independence. A legislative provision for government to override monetary policy decisions as prescribed by the IMF for exceptional cases when the government disagrees with a monetary policy action could potentially compromise BSP's policy independence and in any case will require legislative action.

B. *For proposed substantive technical changes to the structure of monetary regulations, there should be a presumption in favor of public consultations, within an appropriate period.*

This subsection 2.5 of the IMF Code is not explicitly stated in the BSP charter nor practiced under the BSP's monetary policy framework. Nonetheless, there are existing institutional arrangements that serve as venues for public consultations for any proposed regulatory changes. In cases of proposed changes in the Charter or the monetary policy framework, these are subject to the normal legislative process which requires public consultation.

C. *Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed.*

The BSP does not have a specific rule pertaining to subsection 4.2.2 of the IMF Code specified above. The BSP's internal audit arrangements are, nonetheless, well in place, with regular reviews being conducted on BSP offices within and outside of the Manila head office. Although the existing BSP charter and monetary policy framework do not explicitly include disclosure of internal governance procedures to the public, there have been important initiatives undertaken with regard to an internal assessment of the BSP's adherence to good governance principles. In 2010, for instance, a Systemwide Governance Assessment (SGA) was concluded and found that the level of integration of BSP's governance principles the in 5 major areas



identified is considered adequate, with survey ratings ranging from being generally practiced to being sustainable.

Should the BSP then observe these three practices to be in full observance of the IMF's transparency code? It may be argued that the BSP's current transparency and communication practices on monetary policy remain appropriate and, at the moment, serve the objectives of monetary policy and the interest of the economy well.

Moreover, the BSP continuously assesses the applicability of its transparency and communication practices for the overall effectiveness of its monetary policy decisions in accordance with the specific nature and circumstances facing the Philippine economy at any given policy horizon. The effectiveness and applicability of transparency practices tend to vary for individual economies inasmuch as monetary policy decisions depend on specific country experiences. Central banks need to take a pragmatic view of the degree of monetary policy transparency that they can provide. The benefits of increasing transparency have to be weighed against the potential disadvantages.

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