



## Central Bank Communication and the BSP's Monetary Policy Statements

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### Introduction

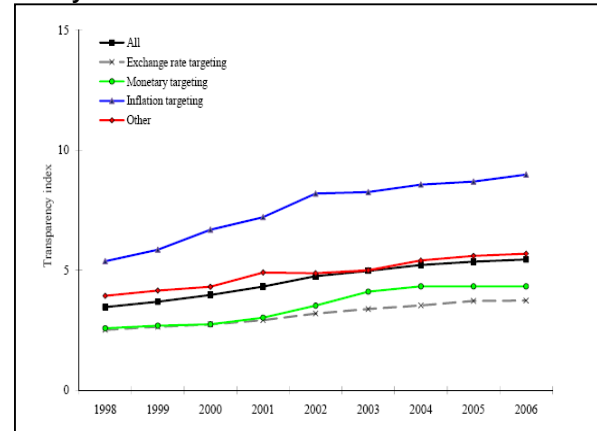
**M**onetary policy transparency refers to the absence of asymmetric information about monetary policymaking.<sup>2</sup> Transparency is therefore the public's genuine understanding of the entire process of the central bank's monetary policy decision-making, and this understanding can only be achieved through clear and effective communication.<sup>3</sup> Several studies have shown that there has been a significant improvement in information disclosure of central banks over the last ten years.<sup>4</sup> Based on the existing literature, the most pronounced improvement has taken place particularly in the communication of policy decisions. Compared to the old central banking principle of "secrecy" and "surprises" in the past, about 90 percent of central banks now publish monetary policy statements following policy meetings, whether policy settings are changed or not. The US Federal Reserve began its publication of statements in 1994, whereas the Reserve Bank of Australia did so beginning 1997. They were followed in 1999 by the Bank of Korea and the Reserve Bank of New Zealand.

### Central Bank Disclosure and Monetary Policy Frameworks

**T**here are significant differences across monetary policy frameworks in terms of improvements in the disclosure of

information. According to Geraats (2009), central banks under inflation targeting have experienced the largest increases in information disclosure,<sup>5</sup> while central banks with monetary and exchange rate targeting exhibited the smallest improvements in the degree of transparency.<sup>6</sup> Jeanneau (2009) also found that inflation targeting central banks tend to provide more information compared to other frameworks.<sup>7</sup> There is also interesting survey evidence of central banks' perceptions of the relevance of transparency. Fry et al. (2000) showed that 74 percent of central banks consider transparency a 'vital' or 'very important' component of their monetary policy framework.

**Figure 1. Transparency Trends Across Monetary Policy Frameworks\***



Note: Average over 98 observations.

\*Survey results from "Trends in Monetary Policy Transparency" by Petra M. Geraats, Faculty of Economics, University of Cambridge.

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<sup>2</sup> Geraats, Petra M., "Trends in Monetary Policy Transparency", Faculty of Economics, University of Cambridge, 2002.

<sup>3</sup> Oesterreichische Nationalbank (OeNB) Institutional Features, featured in the website: [http://www.oenb.at/en/geldp\\_volksw/geldpolitik/merkmale/transparenz/transparency.jsp](http://www.oenb.at/en/geldp_volksw/geldpolitik/merkmale/transparenz/transparency.jsp).

<sup>4</sup> There is a small but influential empirical literature on transparency practices. Fry, Julius, Mahadeva, Roger and Sterne (2000) were the first to document transparency practices and other features of monetary policymaking throughout the world in a survey of 94 central banks, but only provided a snapshot for 1998. Eijffinger and Geraats (2006) were the first to provide systematic evidence of increases in central bank transparency, but their index was only available for nine major central banks from 1998 to 2002. Dincer and Eichengreen (2007) combined the best of both by compiling the Eijffinger-Geraats index for 100 central banks from 1998 to 2006. While Dincer and Eichengreen (2007) found that transparency has increased throughout the world during the last decade.

<sup>5</sup> Geraats (2009).

<sup>6</sup> Crowe and Meade (2008), for example, found a rise in transparency for a smaller sample of 36 countries they obtained by updating the Fry et al. (2000) transparency data for 2003. The presence of significant differences in information disclosure across monetary policy frameworks was first established by Geraats (2006), using the Fry et al. (2000) survey data. Geraats (2009) updated and extended this analysis using the much richer data set of Dincer and Eichengreen (2007).

<sup>7</sup> Survey results from "Communication of Monetary Policy Decisions by Central Banks: What is Revealed and Why" by Serge Jeanneau of the Bank for International Settlements (BIS), BIS Papers No. 47, 2009.

Based on Fermo and Silva (2011; forthcoming, 2012)<sup>8</sup>, an assessment of the Bangko Sentral ng Pilipinas' (BSP) current transparency practices for monetary policy using the International Monetary Fund (IMF) Code of Good Practices in Transparency in Monetary and Financial Policy (1999) as a guide revealed that the BSP is currently observing 32 out of the 35 transparency practices in monetary policy, 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. The paper argues further that the BSP does not, as yet, see the need to comply with 100 percent of the IMF's guidelines, and maintains 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.

### BSP's Communication Strategy Under Inflation Targeting

The BSP considers its monetary policy (MP) statements as integral to the inflation targeting process, and the most potent vehicle for communicating its monetary policy. By explaining the process of monetary policymaking and the underlying basis of policy decisions to the public via the policy statement, the BSP increases understanding of its mandate, policy strategy and decisions which, in turn, allows the markets and the general public to anticipate the future path of monetary policy better. The central bank therefore provides guidance to the markets so that expectations are anchored as they can be formed more efficiently and accurately. This guidance helps the markets understand how monetary policy responds to economic developments and shocks and thus helps them anticipate the broad direction of monetary policy over the longer term.

Based on Hammond (2010)<sup>9</sup>, all 27 inflation targeters in her study publish the details of the monetary policy decision immediately after the policy meeting, usually including a press release or notice to accompany the decision. Of the 27, 19 inflation targeters hold press conferences to

explain the decision. A comparison of the Southeast Asian Central Banks (SEACEN)-member central banks in the table below shows that the BSP is among half of the central banks that publish policy statements immediately and at the same time conduct press conferences after the policy meeting.

**Table 1. Communication Strategies of SEACEN Central Banks**

SEACEN Members	Timing of Public Release of Monetary Policy Decision	Press Release	Press Conference
Bank Indonesia	Immediately- same day	Yes	No
Bank Negara Malaysia	Immediately- same day	Yes	No
Bank of Thailand	Immediately- same day	Yes	Yes
Bangko Sentral ng Pilipinas	Immediately- same day	Yes	Yes
Nepal Rasta Bank	Immediately- same day	Yes	No
Central Bank of Sri Lanka	after 1 day	Yes	No
The Bank of Korea	after 5 days	Yes	Yes
Central Bank of the Republic of China	Next Quarter	Yes	No
Reserve Bank of Fiji	after 1 day	Yes	No
Bank of Papua New Guinea	Next Quarter	Yes	Yes
National Bank of Cambodia	After 8 months	Yes	Yes
SEACEN Observer			
National Reserve Bank of Tonga	After a month	Yes	No

Sources: CCBS, BIS, Central Bank websites

The BSP believes that for the public to understand fully its monetary policymaking, it is invaluable to publish the monetary policy statements immediately after the policy meetings, and to conduct a press conference to explain the BSP's decision more clearly to the media and the public in general. The question and answer portion during these press conferences, in particular, could potentially identify transparency gaps. However, to appropriately field questions about delicate monetary policy issues during these conferences requires considerable communication skills. Live press releases are hence viewed to be riskier in terms of the possibility of misinterpretation. Therefore, the BSP first and foremost ensures the absence of any transparency gaps by preparing a monetary policy statement that is clear, complete in content, appropriately structured and adequate in length, guided by the following basic principles.

### Basic Principles Used in BSP's MP Statements:

#### Content

The information content in monetary policy statements of central banks are typically determined by the monetary policy framework and the type of decision-making body that the central bank upholds. In general, inflation-targeting central banks tend to provide more information and communicate more in their policy statements compared to those adopting

<sup>8</sup> Fermo, Laura and Silva, Raquel, An Assessment of the Transparency and Communication Practices in the Monetary Policy of the BSP, BSP Economic Newsletter, Sep-Oct 2011 and full paper forthcoming 2012 BSP Review.

<sup>9</sup> Hammond, Gill, "State of the art of inflation targeting", Centre for Central Banking Studies (CCBS), Bank of England Handbook No. 29 – Revised January 2010.

other frameworks.<sup>10</sup> Blinder (2005) likewise found that the decision made by an individual decision-maker could be easier to communicate than decision reached by individualistic committees, where the nuances of different opinions need to be explained. For the BSP, its clearly specified policy objective of price stability and its collegial, consensus-based decision making facilitate the nature and amount of information it conveys in its policy statements. The BSP policy statements would typically include the decision, where policy changes are expressed in numerical rather than qualitative form, the reasons for the decision, the assessment of current conditions, the outlook for the macroeconomy and a risk assessment related to the outlook and, most importantly, the BSP's outlook for inflation, the pertinent risks associated with this outlook and an assessment on the balance of these risks. The BSP could also include some indication or forward guidance as regards future policy action, as this is the most important information watched out for by market participants, and effectively influences business and investment decisions in the domestic economy.

### Clarity

The BSP also ensures that its communication in policy statements are clear and precise, based on the premise that the better the public understands monetary policy, the more effective monetary policy will be. It is not enough for economic agents to have timely access to information on policy decisions; they must be able to understand it and have basic knowledge to interpret it properly. In fact, the BSP affords special attention to the words that it uses, focusing on simple and direct language, and avoiding the use of more technical terms or "jargons". The BSP also practices a regular use of a limited repertoire of words (i.e., using some degree of repetition) as this could be a useful way of transmitting the central bank's intentions more concisely by entrenching key messages in familiar words. Nonetheless, the careful use of more tailored phrases or statements, depending on the key issue at hand, would also be helpful.

### Length and Structure

In terms of length and structure, the BSP makes sure that key components are present in policy statements but at the same time messages and

the information need to remain parsimonious.<sup>11</sup> This is achieved by keeping messages clear and simple and by focusing on core issues. Of course, the messages in policy statements need to reflect prevailing conditions, so that the length and structure could differ during crisis versus during stable periods. Additional explanation is required when the economy is facing instability and uncertainty—calming the markets is key in the BSP's communication policy during these extraordinary times. Nonetheless, increased transparency in monetary policy does not mean longer monetary policy statements. It is not so much the length that matters, but the extent to which it is able to clearly communicate the message to the public. From 2007 to 2011, the average number of words for BSP statements as published in its website is about 281, and tends to be higher for non-policy rate changes. Compared to other Asia-Pacific central banks, Fernandez (2007) showed that, on average, the BSP is at the middle of the pack in terms of the length of monetary policy statements.

**Table 2. Length of Monetary Policy Statements (MPS)**

Central Bank	Average Number of Words in MPS
Bank of Korea	151
Bank Negara Malaysia	188
Bank of Thailand	216
Reserve Bank of New Zealand	265
Bangko Sentral ng Pilipinas	294
Bank Indonesia	620
Bank of Japan	775
Reserve Bank of Australia	1808

Source: Fernandez (2007)

### Other Practical Considerations

The BSP also takes into account some practical considerations. First, there is a limited amount of time between the policy decision and the announcement during its press conferences, so that there are limits to the length and comprehensiveness of the monetary policy statements. Second, the BSP bears in mind that apart from the monetary policy statement, there are other instruments within its arsenal of monetary policy communication tools. The BSP also publishes the highlights of the monetary board policy meetings, which shed additional light on the issues that were discussed and the

<sup>10</sup> Survey results from "Trends in Monetary Policy Transparency" by Petra M. Geraats, Faculty of Economics, University of Cambridge.

<sup>11</sup> Central banks (CBs) tend to release somewhat shorter statements nowadays. For more than 50% of CBs surveyed, statements are about ½ to 2 pages.

policy options that were considered, as well as the various developments and trends in the economy that were relevant in the assessment of the appropriate monetary policy stance which may not have been initially included in the policy statement with a view to maintain parsimony and brevity.

A remaining challenge to transparency in the BSP's monetary policy statements, however, is the publication of votes. As with many inflation-targeting central banks, the BSP still chooses not to publish the votes of the members of the monetary board during policy meetings.

Although Gerlach and Kristen (2004) showed that the publication of voting records improves the short-run predictability of policy decisions, the BSP upholds that noisy signals from conflicting views could unsettle the markets, and could impede the board members' open exchange of views as well. Voting opacity shields committee members from being pressured in expressing their own stand on issues, so that there is a freer flow of ideas during policy meetings. Furthermore, dissenting voices provide an indication of the uncertainty in macroeconomic signals which, while on one hand could help the public understand the central bank's reaction to macroeconomic developments and the challenges brought about by the level of uncertainty, on the other hand could also lead to confusion in financial markets and mixed views among investors. Based on Filardo and Guinigundo (2008)<sup>12</sup>, one important reason for limiting disclosure among Asia-Pacific central banks is the desire to present a consensus view of policy board members and minimize risk of market confusion.

The BSP is of the view that its current monetary policy statements are sufficient in providing a sense of direction for monetary policy, so that the BSP chooses to speak with one voice on the monetary policy stance. Communication is not a substitute for good policy, but maximizing effectiveness of its monetary policy statements

could reduce information asymmetries between the BSP and the public.

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<sup>12</sup> Filardo, A. and Guinigundo, D. C., *Transparency and Communication in Monetary Policy: A Survey of Asian Central Banks*, BSP-BIS Research Conference on Transparency and Communication in Monetary Policy, Manila, Philippines, 1 February 2008.