Monetary and Statistics Department
Monetary Policy and Strategy Division

Central Bank Monitoring

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Most of the economies under review faced growing inflation risks over the past three months. The US Fed continued gradually increasing rates, with no halt likely even after the arrival of new Chairman Ben S. Bernanke. The ECB also raised its interest rates on the strength of its March forecast, as did the Riksbank, the SNB and the RBNZ. The BoE and the MNB left their rates unchanged, while the NBP lowered rates. In* Spotlight *we take a look at the increasing voting transparency in Central European central banks. Our selected speech is Stefan Ingves' first address as Riksbank Governor, on the role of the Swedish central bank in the economy.

1. Developments since the last issue of Monitoring (December 2005) and expected future information

	Inflation target[1]	**Latest inflation**	**Current basic rate**	**MP meeting date/rate change/ expectation**[2]	**Next MP meeting/ expectation**[3]	**Other expected events**
Euro area (European Central Bank, ECB)	<2.0%	2.3% (Feb 2006)[4]	2.50%	12 Jan/0.00 2 Feb/0.00 2 Mar/+0.25 →	6 Apr 4 May 8 Jun ↗	8 Jun: publication of new forecast
Sweden (Sveriges Riksbank)	2.0%	0.6% (Jan 2006)	1.75%	19 Jan/+0.25 22 Feb/+0.25 ↗	27 Apr ↗	
United Kingdom (Bank of England, BoE)	2.0%	1.9% (Jan 2006)	4.50%	11–12 Jan/0.00 8–9 Feb/0.00 8–9 Mar/0.00 ↘	5–6 Apr 3–4 May 7–8 Jun →	10 May: publication of IR[5], including new forecast
Hungary (Magyar Nemzeti Bank, MNB)	3.5%	3.2% (Jan 2006)	6.00%	19 Dec/0.00 23 Jan/0.00 27 Feb/0.00 ↘	20 Mar 24 Apr 22 May →	22 May: publication of IR[5], including new forecast
Poland (Narodowy Bank Polski, NBP)	2.5%	0.7% (Jan 2006)	4.0%	20–21 Dec/0.00 30–31 Jan/-0.25 27–28 Feb/-0.25 →	28–29 Mar 25–26 Apr 30–31 May →	31 May: publication of IR[5]
Slovakia (Národná banka Slovenska, NBS)	<2.5%	3.5% (Jan 2006)	3.50%	20 Dec/0.00 31 Jan/0.00 28 Feb/+0.50 →	28 Mar[6] 25 Apr[6] 30 May[6] ↗	Monetary survey issued on given MP meeting dates
United States (Federal Reserve System, Fed)	n/a	4.0% (Jan 2006)	4.50%	13 Dec/+0.25 31 Jan/+0.25 ↗	27–28 Mar 10 May ↗	15 Mar and 26 Apr: publication of Beige Book
New Zealand (Reserve Bank of New Zealand, RBNZ)	2.0%	3.2% (4Q2005)	7.25%	8 Dec/+0.25 26 Jan/0.00 9 Mar/0.00 →	27 Apr 8 Jun →	8 June: publication of Monetary Policy Statement

[1] Inflation target valid for the current period (or, in the cases of Hungary and Slovakia, the year-end target)
[2] The direction of the expected change in rates in the past quarter is taken from the Consensus Forecasts survey (or, in the case of New Zealand, from the RBNZ's own survey)
[3] Provisional meeting dates. The direction of the expected change in rates in the coming quarter is taken from the Consensus Forecasts survey (or, in the case of New Zealand, from the RBNZ's own survey)
[4] Preliminary estimate
[5] Inflation Report
[6] The NBS decides on rates once a week; the given dates correspond to the discussion of the Situation Report.

2. News

ECB explains its monetary policy to students

The European Central Bank and the national central banks have developed an information kit entitled "Price stability: why is it important for you?". Aimed at young teenagers and their teachers, the kit is available in all official languages of the EU. It consists of an eight-minute animated film, leaflets for pupils and a teachers' booklet. The film features two secondary school pupils, Anna and Alex, finding out about price stability. The kit was distributed to 50,000 secondary schools in the euro area and can be downloaded from the ECB's website.

Riksbank allocates its income

The Swedish central bank recorded a profit of SEK 4.3 billion last year. In line with current guidelines, SEK 5.3 billion – representing 80% of the average income over the past five years – will be transferred to the Treasury.

MNB shortens its Inflation Report

Starting in 2006, the MNB is replacing its February and August Inflation Reports with a shorter version describing the updated macroeconomic forecasts from November and May respectively. The form and length of the May and November Inflation Reports remain unchanged. The shorter version of the Report contains new estimates for inflation and GDP. The evolution of other macroeconomic indicators is described only if they deviate from the previous forecast.

NBP stops announcing monetary policy bias

In the course of preparing the 2006 Monetary Policy Guidelines, the NBP Council decided not to announce its bias (indication of future development) any more, on the grounds that this instrument of communication might limit the flexibility of the pursued monetary policy. Instead of making the bias known to the public, the NBP Council will be communicating its assessment of the risks of the projection and the course of factors not accounted for directly in the projection.

NBS starts to disclose voting ratio

Since its December meeting, the NBS Bank Board has been disclosing its voting ratio on the day the decision on interest rates is made. The ratio of votes is disclosed at a news conference and in the "Rationale behind the decision of the Bank Board of the NBS on the set levels of the NBS interest rates", which is published on the day the decision is made and which sums up the main underlying reasons for the decision. In addition, the Board decided in January not to comment any longer on the nominal exchange rate in its statements, due to Slovakia's membership in ERM II. In *Spotlight* we take a look at the increasing voting transparency in Central European central banks.

George W. Bush visits the Fed

President George W. Bush attended the swearing-in ceremony for new FOMC Chairman Ben Bernanke at the beginning of February. This made him the third president in US history to visit the central bank, after Franklin D. Roosevelt in 1937 and Gerald R. Ford in 1975. In his speech, George W. Bush praised Alan Greenspan's contribution to the long-running growth of the US economy and expressed his belief that the new Chairman of the Board of Governors would be equally successful.

3. Spotlight: Increasing voting transparency at Central European central banks

Since its December meeting, the NBS Bank Board has been disclosing its voting ratio on the day the decision on interest rates is made. The ratio of votes is disclosed at a news conference and in the "Rationale behind the decision of the Bank Board of the NBS on the set levels of the NBS interest rates", which is published on the day the decision is made and which sums up the main underlying reasons for the decision. Similar shifts in voting transparency have recently been made by two other banks in the Central European region – the Hungarian National Bank and the Czech National Bank. The MNB started publishing the nominal voting of Monetary Council members – with a lag of around three weeks – in October last year (before that, it had only published the ratio of the votes cast). The CNB has since February been publishing the voting ratio on the day the Bank Board makes its decision (before that, it had been published with a one-week lag together with the minutes).

Possible link with the number of members of the decision-making committee

The increase in voting transparency at the MNB and the NBS came shortly after the number of members of their decision-making committees was expanded. The MNB Monetary Council was expanded from nine to thirteen members in spring last year, while the NBS Bank Board expanded from eight to eleven members in January this year. This time sequence suggests that the greater voting transparency may be related to the higher number of committee members.

The higher the number of commission members, the smaller the individual responsibility of each member in the joint decision. If the ratio of votes is published, a higher number of members makes it more difficult to tell who voted how. An increase in voting transparency can be a way of increasing the members' responsibility or of revealing their views. This view is supported by Chart 1, which plots the relationship between voting transparency on the vertical axis and number of committee members on the horizontal axis for 14 selected inflation-targeting countries.

Has the predictability of monetary policy increased?

An unfortunate consequence of the fact that the rise in voting transparency at the MNB and the NBS occurred shortly after the number of committee members was increased is that it is impossible to analyse separately the impact of the two effects on monetary policy predictability. While the disclosure of nominal voting, or the voting ratio, facilitates the prediction of future interest rate changes, the greater number of committee members may, in contrast, complicate it. Despite this problem, one can say that there has been no immediate significant shift in monetary policy predictability in either Hungary or Slovakia.

In the case of Hungary, interest rates have remained unchanged since the disclosure of nominal voting began. The October vote was 10:2 in favour of leaving rates unchanged, while the voting at the following four Council meetings (November, December, January and February) was unanimous. The disclosure of the nominal voting has not significantly improved the predictability of monetary policy, at least as far as one can tell from money market rates and their deviations from the MNB repo rate. Chart 2 shows that the deviation of the two-week BUBOR interbank rate from the repo rate on Council meeting days has not decreased significantly in recent months, despite the fact that the repo rate has remained stable during this period. This conclusion is not surprising, as any increase in the predictability of the Council decisions can only be expected in the longer run, when the market estimates the Council's most probable reaction to various economic situations based on the voting record of each member.

Given the results of the MNB Council votes so far, one can speculate that the publication of nominal voting is leading to more consensual decision-making. This contention is supported by the idea that a committee member who votes against the majority later comes under greater pressure to explain his different position than a member voting in line with the majority. It is interesting that a similar unanimity can be found in the first six months of voting and disclosure of nominal voting of the Bank of England's MPC. However, most of the subsequent votes have not been unanimous.

In Slovakia, only one meeting can be assessed (February). Before that meeting, the ratio of the votes at the previous (January) meeting was available to the market. The result of the January voting had been very tight. Five members of the Bank Board had voted in favour of an interest rate increase, two members had voted against, and three members had been absent. Although a majority of the members present at the meeting had voted in favour of the motion, the meeting had lacked the majority of appointed members required by law. All ten appointed Bank Board members were present at the February meeting. Seven voted in favour of raising the interest rate by 0.5 percentage point and three members voted against. The subsequent response from interest rates and analysts showed that the market had been expecting an increase of no more than 0.25 percentage point and that the rise in rates of 0.5 percentage point had come as a surprise to them.

Chart 1: Relationship between number of committee members and voting transparency

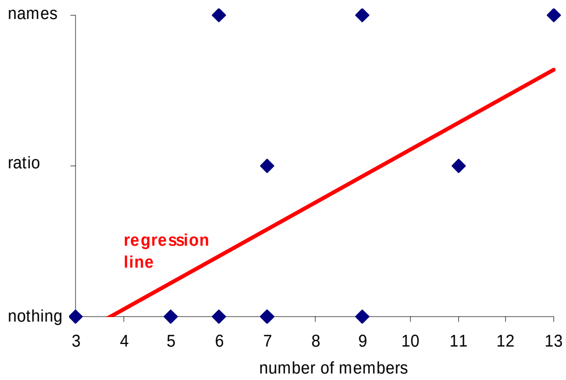
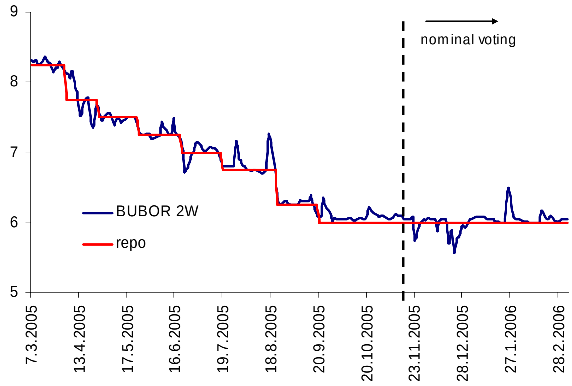


Chart 2: Two-week BUBOR and MNB repo rate



Sources: MNB, Bloomberg, author's calculations

4. Selected speech: Stefan Ingves on the Riksbank's role in the economy

In this section we take a look at the speech given by Stefan Ingves, who was appointed Governor of the Swedish central bank (Sveriges Riksbank) in January, at Umeå University on 6 February 2006.

Stefan Ingves opened by pointing out the important changes that had occurred since 1999, when he had last worked at the Riksbank. These had included, in particular, changes in management and decision-making in the bank and increased independence for it. Governor Ingves focused on how the Riksbank is working to achieve price stability and financial stability. In his speech, Mr Ingves claimed:

(i) That the Riksbank conducts monetary policy in an flexible inflation targeting regime. This means that the Riksbank takes other parts of the economy into consideration while targeting inflation. At the same time, however, it cannot accept too much deviation from the target if it is to remain credible.

(ii) That the bank would continue the work on developing its forecasting methods. Mr Ingves said one possible step could be to publish the bank's own interest rate forecast. The Riksbank's forecasts currently assume that interest rates will develop in line with market expectations.

(iii) That it was important to follow up the legislative work in Sweden on how commercial banks in distress should be managed. This project had begun many years ago and needed to be completed.

(iv) That his ambition was for the Riksbank to remain at the forefront in achieving price stability and financial stability, i.e. to be a small, efficient central bank that is respected both at home and abroad.

In his speech, Mr Ingves stressed the importance of low and stable inflation for the performance of the economy. Among other things, he pointed out that in the 1960s and 1970s there had been a general belief that accepting slightly higher inflation would lead to a sustainable higher level of employment and lower unemployment. However, in time it had become clear that this reasoning was not viable. Mr Ingves went on to summarise the experience with different monetary policy regimes, particularly the fixed exchange rate system. This had been meant to promote international trade and maintain a low inflation rate that was roughly the same as that among the country's trading partners. However, the fixed exchange rate had been put under enormous pressure during the 1970s and 1980s and had failed to give Sweden lower and stable inflation. On the contrary, inflation had been much higher in Sweden than in its trading partner countries, resulting in poorer competitiveness for Swedish producers.

Mr Ingves attributed the global decline in inflation mainly to increased competition resulting from the deregulation of the financial and product markets, as well as the fact that previously closed economies are now integrated into the world economy. In Europe, it had also been aided by the preparations for and introduction of the EMU. Last but not least, a shift in the application of economic policies had made a contribution, e.g. the introduction of inflation targets.

Mr Ingves concluded by discussing the issue of financial stability and its relationship to price stability. Whereas risks to price stability can be quantified in a forecast, risks to financial stability cannot be captured by the usual forecasting methods. This can lead to situations where the timing of an interest rate adjustment is affected by considerations of the impacts of such changes on financial stability. Decision-making, according to Mr Ingves, is also complicated by the Riksbank's relative short experience with liberalised financial and currency markets, which is limited to a few business cycles.

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