Discussion of:

"Communication and Decision-making by Central Bank Committees:
Different Strategies, Same Effectiveness?"
by
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International Research Forum on Monetary Policy, ECB, May 2005

1   What the paper does ...

- Two main questions:

  - Do communication strategies differ across ECB, Fed and BoE?

  - Do markets anticipate policy decisions better?

- Focus is on verbal remarks of senior CB officials

- Considers 3 different strategies (decision making type $\times$ speech type):

  - ECB: Collegial $\times$ Collegial

  - Fed: Collegial $\times$ Individualistic

  - BoE: Individualistic $\times$ Collegial

2   What the paper finds ...

- Heads of CBs talk more; more talk around policy changes

- Increased dispersion of views around policy changes/turning points

- Consistency with policy change: ECB - 88%; Fed - 84%; BoE - 78%

- Δ1-mth rate on policy days: ECB - 3.6 bps; Fed - 5.6 bps; BoE - 6.0 bps

- Marginal impact on asset prices also varies:

  - Policy: ECB, Fed - across yield curve; BoE - ST rates

  - Economy: Fed - across yield curve; ECB - ST rates

3 Overall, this is a nice paper!

- Important subject

  - Good communication aids transparency, accountability and credibility

- Challenging

  - How do we measure communication and its impact?

- Very focused and thorough empirical analysis

- Broadly speaking, compelling and intuitive results

- However, some points to consider ...
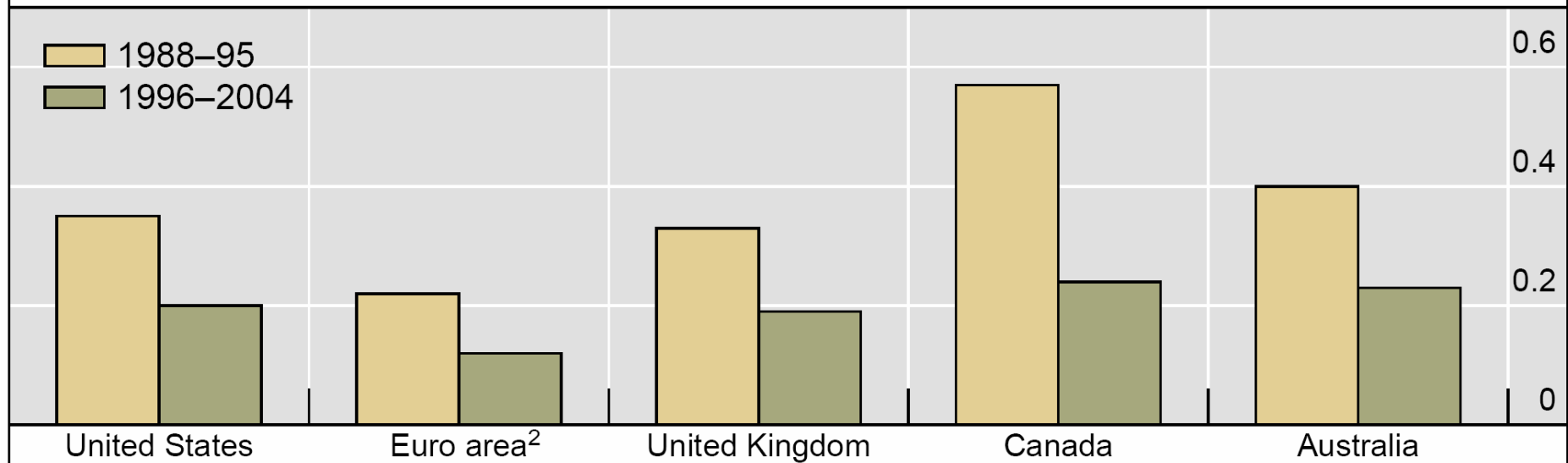
4 What's missing? Publications!

- Publications have undergone major changes since advent of IT

  - Fracasso et al. ("How do central banks write?") find significant diversity across CB inflation reports

- Need to assess complete communication package

- Publications can have a large impact on markets

  - e.g. Beige Book, March 9: "pricing power"
    – 10-year Treasury rose 13 bps

  - e.g. March FOMC minutes, April 12: "no need for larger rate hikes"
    – 10-year Treasury fell 8 bps

5 Predictability of policy rates

- Results based on daily change in 1-month rates

  – Mean surprise (Table 5C): ECB - 3.6 bps; Fed - 5.6 bps; BoE - 6.0 bps

  – BoE-ECB is statistically significant, but is it economically important??

- "Collegial" decision making means that view of Chairman/President is (likely) a sufficient statistic

  – Results highlight more the nature of decison-making process (rather than communication)

- Paper claims that "high predictability of decisions … is a necessary condition for successful and effective communication"

- Herein lies a puzzle:

  - Why don't more CBs publish projections of future interest rates??

- We want to know CB reaction function (and its forecasts of key variables) – not just the knowledge of next policy decision

- Longer run perspective: policy decisions have become more predictable at various central banks in past 10 years (Graph)

Market forecast errors of monetary policy[1]

Legend:
- 1988–95
- 1996–2004

	United States	Euro area[2]	United Kingdom	Canada	Australia
1988–95	0.32	0.19	0.30	0.53	0.38
1996–2004	0.17	0.09	0.16	0.20	0.19

Y-axis values: 0, 0.2, 0.4, 0.6

[1] Absolute value of 90-day futures interest rates (first month of quarter) minus three-month interest rate (last month of quarter) subsequently prevailing in the corresponding period.   [2] Prior to 1999 (and only from 1990), Germany.

Sources: Bloomberg; national data.

Graph IV.10

6 Impact on asset prices

- Paper examines marginal effect of communication dummies on returns

  - Mean effect on yields (Table 6): mixed results, about 1–2 bps max

  - Method measures mean difference from average effect of "neutral" inclination/forecast

    * What is the absolute effect??

- How is other information accounted for?

  - Other CB information: speeches may have a larger impact *only* because other sources are less informative

  - Impact of communication is likely to be state-dependent

- What about the ultimate objectives of the CB?

  – Larger impact -> better inflation and output stabilisation?

  – Larger impact -> better or worse for financial stability?

7   More broadly, some challenges ...

- How best to get the intended message across?

  - Publication of "bias" with FOMC policy decision starting in mid-1999

  - "Balance of risks" starting in Feb 2000

- Difficulties in describing all contingencies

  - e.g., in Euro area, "upside risks to inflation" to "growth slowdown"

  - e.g., in US, "measured pace" to "upside inflation risks"

- What (and how much) information to release?

– Decision-making processes and communication policy reflect institutional history, political situation, etc.

– CBs don't release all information: clarity versus noise

- How do we jointly model communication and interest rate setting?

  – Must take account of imperfect and differential information

  – E.g., differential information with noisy private and public signals (Amato, Morris and Shin)