



# How transparent are central banks?

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## Abstract

Central bank transparency has become the topic of a lively public and academic debate on monetary policy. However, this has been complicated by the fact that transparency is a qualitative concept that is hard to measure. This paper proposes an index for the transparency of monetary policy that comprises the political, economic, procedural, policy and operational aspects of central banking. The index is compiled for nine major central banks. It is based on a detailed analysis of actual information disclosure and reveals a rich variety in the degree and dynamics of central bank transparency.

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## 1. Introduction

Central bank transparency has become the topic of a lively public and academic debate on monetary policy. The public demands transparency to achieve accountability of central banks that have increasingly become independent. In addition, a burgeoning academic literature has analyzed the economic consequences of greater transparency of monetary policy. The debate on transparency has been complicated by the fact that it is a qualitative concept for which few measures exist. This paper proposes an index for the transparency of monetary policy that comprises the political, economic, procedural, policy and operational aspects of central banking.

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The index is compiled for nine major central banks for 5 years (1998–2002) and is based on a scrutiny of actual information disclosure. It reveals the various ways in which central banks have become transparent and how transparency is evolving over time.

To give a sneak preview of our findings, the most transparent central banks in our sample are the Reserve Bank of New Zealand, the Swedish Riksbank and the Bank of England. The subtop is formed by the Bank of Canada, the European Central Bank and the Federal Reserve. The least transparent central banks are the Reserve Bank of Australia, the Bank of Japan and the Swiss National Bank. Although the most transparent central banks are all inflation targeters, this monetary policy framework appears neither a necessary nor a sufficient condition for transparency.

An important advantage of our transparency index is that it is based on a theory-consistent framework and distinguishes various aspects of transparency based on the role that information plays in the monetary decision making process. This makes our index better suited to test predictions from the theoretical literature. In addition, it allows us to identify how central banks differ in their emphasis of various aspects, independent of their monetary policy framework, and how greater transparency manifests itself over time.

There are several other papers that provide useful descriptions of central bank transparency in practice. [Bernanke, Laubach, Mishkin, and Posen \(1999\)](#) provide a well structured description in the form of case studies but focus their analysis on inflation targeting. An elaborate informal discussion and review of central bank transparency is presented by [Blinder, Goodhart, Hildebrand, Lipton, and Wyplosz \(2001\)](#). They give a detailed account of transparency at the Federal Reserve, the European Central Bank, the Bank of Japan, the Bank of England and the Reserve Bank of New Zealand, but do not provide any measure for the degree of transparency.

In their comprehensive survey of 94 central banks, [Fry, Julius, Mahadeva, Roger, and Sterne \(2000\)](#) construct an index of ‘policy explanations’ that consists of three components: (i) explanations of policy decisions, (ii) explanations in forecasts and forward-looking analysis, and (iii) explanations in published assessments and research. Their index captures many transparency issues, but does not highlight the role of information in the decision-making process. In addition, their index is constructed using survey responses from central banks, whereas our results stem from an independent analysis of the actual information disclosed by central banks.

In addition, [Bini-Smaghi and Gros \(2001\)](#) present an indicator of central bank transparency and accountability for six major central banks that captures four components: objectives, strategy, publication of data and forecasts, and communication strategy.<sup>1</sup> The latter captures diversity in the medium of information disclosure, regardless of how informative the disclosures are. In contrast, our transparency index focuses on the contents of information disclosure.

[Fracasso, Genberg, and Wyplosz \(2003\)](#) evaluate the inflation reports of 20 central banks that have adopted inflation targeting. They assess the quantity, quality and accessibility of the information provided, the clarity of assumptions about key macroeconomic variables, the presentation of the policy-making process, and the executive summary. In addition, they provide an overall rating of each inflation report based on its persuasiveness, expertise, completeness, writing style and information. Their analysis considers many facets of communication but is confined to inflation reports. Instead, our index focuses on the informativeness about each stage of the policymaking process and covers all public communication by central banks.

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<sup>1</sup> [de Haan and Amtenbrink \(2002\)](#) suggest a variation on this index. In addition, [de Haan, Amtenbrink, and Eijffinger \(1999\)](#) provide an index of central bank accountability that includes some elements that pertain to transparency.

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