



Transparency ‘footprints’ of Central Banks: The role of minutes/voting records

John Diamondopoulos^{a,b,*}

^a Department of Accounting Finance and Economics, European Business School – London, Regent’s College, Inner Circle, Regent’s Park, London NW1 4NS, United Kingdom

^b School of Management/Economics, Birkbeck College – University of London, London, United Kingdom

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ABSTRACT

In most academic studies the ECB is seen as more transparent than the FED. However, the perception of ECB transparency by the media and market participants is different. This study will examine the role of minutes/voting records as a possible cause of the differences in the perception of transparency between the academics and the media/market participants. As a proxy of how the media/market participants perceive Central Bank transparency, a content/thematic analysis of CNBC video clips was conducted for four central banks – ECB, FED, BOE, and BOJ. The result of the study yielded a three-dimensional ‘footprint’ of the importance of minutes/voting records as perceived by the media/market participants. In the ECB’s case, the three-dimensional ‘footprint’ was extrapolated. The three-dimensional ‘footprint’ of the importance of minutes/voting records could be used to value the relative importance of minutes/voting records in transparency/disclosure indexes or as a ‘quick’ proxy for financial market participants to measure the transparency of Central Banks.

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1. Introduction

The literature reveals the possible reason why there is a perceived lack of transparency by the media and market participants. According to de Haan et al. (2005), all of the transparency (disclosure) indexes had ranked the ECB high in terms of transparency except the study by Siklos (2002) which ranked the ECB as the lowest in terms of transparency. The difference was on the higher value that Siklos (2002) had placed on the release of minutes and voting records.

This study by providing a new method to measure the importance of minutes/voting records to participants in the financial market addresses the above discrepancy found by de Haan et al. (2005). And by using this new method, we can extrapolate a three-dimensional ‘footprint’ of the importance of minutes/voting records as perceived by the media/market participants for the ECB. Finally, this method can be used by financial market participants as a ‘quick’ proxy to measure the transparency of central banks. Thus, the relevant research question in the case of the ECB is: what role does the non-release of minutes and voting records play on the perceived lack of ECB transparency by the media and financial market participants? And if the ECB released minutes and voting records, would it matter?

To answer this question, an inductive process was used as the research methodology. Texts from video clips of television broadcasts in the financial media were collected and analyzed using content analysis. The data were then analyzed using thematic analysis to overcome some of the drawbacks of content analysis (Grbich, 2007).

The results show that the media and financial market participants attach importance (weight) to the release of minutes and voting records by the FED and the BOE and on occasion by the BOJ. Regarding interest from the media and the financial market, the ECB does poorly especially considering the size of the economic area under its control.

In conclusion, the non-release of minutes and voting records – in the case of the ECB – does play a role in the perceived lack of transparency by the media and financial market participants. In addition, the release of minutes/voting records by the ECB would matter less than the market expects. Limitations of this study with suggestions for future research are then provided.

2. Literature review

Transparency in the context of central bank monetary policy is difficult to define and measure. Tomljanovich (2007: 794) defines transparency as, ‘Complete transparency simply means that the central bank and the public have access to the same information, incomplete or uncertain though it may be, when making economic decisions. Tomljanovich also believes that providing too much information such as on a central bank’s website might actually impair the ability of the public to make timely decisions due to the

* Correspondence address: Department of Accounting Finance and Economics, European Business School – London, Regent’s College, Inner Circle, Regent’s Park, London NW1 4NS, United Kingdom. Tel.: +44 2032 399069; fax: +44 2074 877465.

E-mail addresses: jdiamondopoulos@yahoo.com, diamondj@regents.ac.uk

sheer volume of information.' The difficulty of defining and measuring transparency is further pointed out by *de Hann et al. (2005: 83–84)*. '... In principle, it is possible that the public does have a good understanding of the policies of the central bank (or claims that it has), although the central bank hardly provides information on the decisions taken and the reasoning behind them. Alternatively, the central bank may be very active in providing information, while the public feels that it does not fully understand what the central bank does. Whether the activities of the central bank lead to a better understanding depends on many factors. ... One of the crucial factors, of course, is the quality of the information provided. No matter how often a central bank publishes information, if the receivers of it feel that this information is hard to understand, the central bank may not be transparent.'

Thus, more information might not make a central bank more transparent. The reason for this is that the future is very uncertain and the type of information of value to market participants is procedural disclosure, one of the four aspects of disclosure described in the conceptual framework by *de Haan et al. (2005)*, *Geraats (2000)*, and *Geraats (2002)*, with the other three types of disclosure being political, economic, and operational. In this study, our primary interest is on procedural disclosure which provides an account of the policy decision-making process and the reasons as to why certain decisions were made. This is interesting since the ECB does not release minutes or voting records in contrast to the FED, BOE, and BOJ.

Additionally, the connection between the concept of uncertainty and the importance of minutes in reducing uncertainty for the financial markets could be instrumental in providing the answer on why there is a difference between the academics and the market regarding the relative transparency of the ECB? Minutes, uncertainty, and the financial markets – can be linked in the literature. *Blinder et al. (2001: 65–66)* in their report titled 'How Do Central Banks Talk?' state the following in reference to the FED transparency:

'The Fed publishes fairly detailed, though highly stylized minutes of each FOMC meeting a few days after the following meeting (thus, with roughly a six-and-a-half week lag). These minutes include the committee's vote, naming names. After a five-year lag, the Fed even publishes a verbatim transcript of every FOMC meeting, redacting only confidential materials – something no other central bank does. And yet the Fed has traditionally been portrayed as tight-lipped, secretive, and cryptic. ... Alan Greenspan is credited with raising Fed speak to a high art. ... Yet, somehow, the Fed manages to convey its meaning to the markets – less regular followers of the Fed sometimes have trouble deciphering the code, however. The Economist recently pointed out, with more than a hint of irony, that the ESCB is more transparent than the Fed – at least on paper:

'Its president, Wim Duisenberg, holds monthly press conferences. The bank has an inflation target. It has set out the theory on which its policy is based. Contrast this with America's Federal Reserve, which unlike the ECB has no inflation target and no clear policy framework (or at any rate, none that has been published). The oracular word of its chairman, Alan Greenspan, is all that matters. Yet financial markets seem, most of the time, to understand what the Fed is doing.' The Economist, 31 March 2001, page 70.

It is clearly evident that transparency is more difficult to quantify than simply looking at transparency indexes. Even though on paper the FED might seem to be less transparent, in the eyes of the market it is more transparent. But what is it that makes the FED more transparent than it seems to be on paper? The truth is probably very complex, but it might have to do with the fact that

predicting the future is imperfect and difficult to accomplish. In fact, central banks like the ECB and the FED have enormous resources to predict the future path of their respective economies; the truth is that no matter how good your economic models are, predicting the future is imperfect and difficult to do. *Issing et al. (2005: 1–3)* state:

'A by-product of imperfect knowledge is that evaluations of future outcomes may be formed in ways that are not necessarily correct. ... The combination of imperfect knowledge, limited information and learning implies that we are often unable to characterize uncertainty precisely. ... As do all other decision makers, central banks have to face these daunting dimensions of uncertainty. More specifically, central banks have limited information on the state of the economy and on the nature, size, and persistence of various disturbances. At the same time, central banks are extremely uncertain about the exact functioning of economies, and notably about the extent and timing of the propagation mechanism of policy actions. While economic research, conducted both in academia and in central banks, has helped to uncover some broad features of the transmission mechanism, recurrent structural breaks imply that what we have learned from the past cannot be trusted to remain useful. In central banks, moreover, uncertainty reaches a different, more complex dimension. ... central banks are important players affecting the overall behavior of the economic system. The result is that, for a central bank, the problem of taking decisions under uncertainty is compounded by that of understanding how 'private agents' behavior will react to such decisions.'

Maybe, the markets intuitively know this and place less weight on things like economic reports and more weight on predicting how the members of the monetary committee might vote in specific situations. This means that minutes/voting records gain more importance from the viewpoint of the market. Thus, the *Siklos study (2002)* which places greater weight on minutes/voting records comes closer to the view of the marketplace. *Blinder et al. (2001: 92)* under the conclusions section of how different central banks communicate, have the following to say:

'Finally, the fact that communications policy differs considerably from one central bank to another – and yet seems to 'work' – serves as a reminder that the outsiders care little for the details, no matter how important these details may look to the insiders. The outsiders are interested in the broad picture, which is the policy regime (the central bank's objectives, and the logic of its reaction to contingencies). The better the central bank reveals its thinking, the less the details (and who said what, when) matter. Federal Reserve Chairman Greenspan is said to have stated that price stability is achieved when business, in their planning, do not pay much attention to inflation anymore. Similarly, we say that a central bank is communicating well and is transparent enough when it is so predictable that the public does not care about who runs it and how.'

The idea that outsiders are primarily interested in central bank objectives and the logic of decision-making is revealing. *Blinder et al. (2001)* criticize the transparency of the ECB in both areas – policy clarity and decision-making transparency. For example, they mention that the refusal of the ECB to publish minutes because national sensitivities could arise from revealing the decision-making process. On the matter of voting records, *Blinder et al. (2001: 50–51, 63)* make the following comment in reference to the ECB, 'While we accept the ESCB's argument against the publication of individual, named votes, that does of itself justify a refusal to publish the overall voting pattern (without names), or a reluctance to hold a formal vote. ... It is true that the recording of individual votes provides outsiders with a relatively simple guess of who

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