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# Have minutes helped markets to predict the MPC's monetary policy decisions?☆

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ABSTRACT

This paper examines whether the minutes of the Bank of England's Monetary Policy Committee (MPC) have provided markets with additional information about the future course of monetary policy. The paper conducts an econometric approach based on an Ordered Probit model explaining future policy rate changes (sample 1998 to 2014), and the Vuong test for model selection, which helps to identify changes in the market assessment around the release of MPC minutes. Our results suggest that the Bank of England's published minutes of the MPC's deliberations have indeed helped markets in forming their expectations on future monetary policy decisions.


## 1. Introduction

Today, there is still considerable disagreement in the economic profession about the design of appropriate institutional arrangements and operating practices governing accountability and transparency. The debate on the welfare effects of central bank communication between Morris and Shin (2002), on the one hand, and Woodford (2005) and Svensson (2006) on the other hand, illustrates this point. While over the last two decades economists and policy-makers have increasingly acknowledged the important benefits of transparency for monetary policy effectiveness, they have disagreed about whether publishing minutes of the internal deliberations of a monetary policy committee leads to more clarity about the individual views of policy-makers. For example, this point can be illustrated by the debate between two famous economists about "*Alice [Willem] in Euroland*". Buiter (1999) made a case for the publication of minutes of the meetings of the Governing Council of the ECB since this would enhance transparency, while Issing (1999) strongly opposed it, since revealing the full diversity of views among members may confuse the public and harm the independence of

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committee members. Nevertheless, a rethinking appears to have taken place. US Federal Reserve President Yellen (2012) made the point that the financial crisis has made it necessary for policy-makers to reconsider their views and to think about further advances in communication. Moreover, ECB President Draghi stated at the press conference on 3 July 2014 that: "*we announce our commitment to publish regular accounts of the monetary policy meetings, which is intended to start with the January 2015 meeting*" (see ECB, 2014). In fact, most major central banks publish timely minutes of their internal deliberations together with voting records (see Table 1).

This paper contributes to the literature on transparency in monetary policy. It examines whether information contained in the minutes and voting records of the Bank of England's Monetary Policy Committee (MPC) has provided markets with additional information about the future course of monetary policy. Several authors find that published minutes and voting records contribute to transparency in central banking (see Geraats, 2006; Cruijsen van der, Eijffinger and Hoogduin, 2010), but only some have examined the information content of minutes and their impact on market expectations. On the one hand, several studies find that minutes provide relevant information to markets (see Gerlach-Kristen, 2004). On the other hand, different communication strategies can be equally effective (see Blinder, Ehrmann, Fratzscher and de Haan, 2008). Since markets may get sufficient information about the future monetary policy stance of a central bank from other official communications (e.g., inflation reports, press conferences, speeches, and websites) and from their own assessment of the economic outlook, it is conceivable that information contained in the meeting minutes is largely redundant. Ultimately though, whether published central bank minutes (and voting records) help markets to better predict a monetary policy decision is an empirical issue.

The paper is organised as follows. Section 2 provides a brief review of the literature. Section 3 describes the data used for this analysis. Section 4 presents the approach and empirical results for the Bank of England. Section 5 concludes.

## 2. Brief review of the literature

Transparency is a vital element for independent central banks to lend legitimacy to their policy decisions in a democratic constitution. Clear communication increases the effectiveness and efficiency of monetary policy in the pursuit of the statutory objectives (see Woodford, 2005). The monetary policy transparency index (see Fig. 1) developed by Dincer and Eichengreen (2014) shows that over past years, several main central banks have made significant efforts to increase transparency on monetary policy. More openness about individual views of policy-makers is widely thought to enhance monetary policy transparency. But, under certain circumstances, increasing the degree of openness may be counterproductive (see Winkler, 2000 and Issing, 2005). In this context, for example during the financial crisis, published voting records document for several monetary policy committees an increase in disagreement among members about the appropriate monetary policy response, which could destabilise market expectations (see Fig. 2).

In addition, recent literature has highlighted the importance of central bank communication for understanding private expectations. This notion builds on the assumption that markets function largely in an efficient manner. They continuously process all kinds of information when forming expectations about the future monetary policy stance of a central bank. They monitor incoming data, which may give clues on the economic outlook and the implied monetary policy response. To the extent that markets believe in the predictive power of dissenting votes, it is likely that markets also form expectations regarding the content of central bank minutes and members' voting behaviour, prior to their publication. But, if markets are efficient, these expectations are fully reflected in the pricing of interest rate futures. Even though market participants seem to have relatively accurate expectations of upcoming interest rate changes, Riboni and Ruge-Murcia (2014) find that in the case of the Bank of England and the Swedish Riksbank current dissents help predict future individual policy decisions. Moreover, when deriving probabilities about future interest rate changes, markets carefully listen to central bank communications in order to obtain hints about the future course of monetary policy. They do so in particular around the time of policy meetings or other important events when media attention is high. Therefore, central bank communications should be particularly careful around these dates, since it could create excessive market volatility (see Ehrmann and Fratzscher, 2009a).

**Table 1**
Publication of minutes by main central banks.

| Central bank | Meetings (per year) | Published minutes | Publication lag (in weeks) | Published voting record |
|---|---|---|---|---|
| Bank of Canada | 8 | No | No | No |
| Bank of England | 12 | Yes | 2 | Yes |
| Bank of Japan | 14–19 | Yes | 3 to 4 | Yes |
| European Central Bank | 8(1) | Yes(2) | 4 | No |
| US Federal Reserve | 8 | Yes | 3 | Yes |
| Norges Bank | 6 | No | After 12 years | Yes |
| Reserve Bank of Australia | 12 | Yes | 2 | No |
| Swedish Riksbank | 6 | Yes | 2 | Yes |
| Swiss National Bank | 4 | No | No | No |

Source: Websites of the central banks.
Notes: (1) Until December 2014 the Governing Council of the ECB held monthly meetings on monetary policy matters, but as of January 2015 it changed to a six-week cycle. (2) The ECB publishes so called "accounts" of monetary policy discussions from January 2015. Since these accounts aim to offer a fair and balanced reflection of policy deliberations, and are therefore close to what other central banks call "minutes".