

Thomas Jordan: Communication, transparency and monetary policy

Summary of a speech by Mr Thomas Jordan, Member of the Governing Board of the Swiss National Bank, at the Vereinigung Basler Ökonomen, Basel, 24 May 2007.

The complete speech can be found in German on the Swiss National Bank's website (www.snb.ch).

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In the last two decades, central banks have significantly enhanced their transparency with regard to their goals, strategies and background information on their monetary policy decisions. This change has been brought about by the demand that independent central banks in democratic societies be accountable to the public. Moreover, it has been recognised that transparency improves the effectiveness of monetary policy. However, theoretical and empirical studies have shown that increased transparency is not necessarily beneficial in every case. Nevertheless, the studies provide only limited information as to what exactly an efficient policy of transparency and communication should look like in practice.

Since the collapse of the Bretton Woods system of fixed exchange rates, the Swiss National Bank (SNB) has cultivated an open dialogue with the public. When the SNB changed its strategy of money supply targets at the end of the 1990s to a monetary policy using inflation forecasts as a central indicator, this again significantly enhanced transparency and strengthened its communication activities. The SNB now publishes comprehensive information on a regular basis. A key instrument in the SNB's communication is the inflation forecast. These inflation forecasts are based on the assumption that the reference interest rate will remain steady during the forecasting period. The major advantage of this method is that it is simple and the forecasts are clear to interpret. In economic theory and practice, two alternative methods for producing inflation forecasts are also being discussed intensively. One is based on expected market rates, whereas the other focuses on the interest rate forecasts published by the central bank. Both have certain advantages over the assumption of a steady interest rate, but they also entail some serious disadvantages. At the moment, the SNB sees no reason why it should abandon its current practice.

Efficient communication helps the general public to better understand the SNB's approach and its interpretation of new data. The SNB's experience with its communication policy has been very positive in the last few years. Evidently, the public has a good understanding of its monetary policy concept and its economic analyses. Intensive and well-targeted communication between the quarterly monetary policy assessments has improved the predictability and transparency of the monetary policy decisions. However, even with a transparent monetary policy, surprises can never be completely ruled out.

In a constantly changing environment, communication and transparency must be allowed to evolve further. However, blindly following the fashion of the moment jeopardises credibility. Communication and transparency are not pursued for their own sake, but serve to achieve monetary policy goals in the best possible way. When judging them, one must take the specific historical, cultural and institutional characteristics of a country into account. A "one size fits all" communication strategy for central banks does not exist.