

## Appendix 2 Comparison of inflation-targeting countries' inflation reports

A crucial precondition for a successful monetary policy is that it should be transparent and credible. This reinforces confidence that the policy is implemented as sensibly as possible and based on in-depth and competent economic analysis and credible economic forecasting. One of the most effective ways that a central bank can build up confidence in its ability to attain its target is to publish the analysis on which its decisions are based, so that the general public, government authorities and other experts can judge its credibility and the bank's capability for forecasting inflation and other key economic variables.

For this reason, inflation-targeting central banks have devoted much effort to publishing inflation reports presenting their in-depth assessment of the current economic situation, a medium-term economic forecast and the uncertainties connected with it, and the rationale for monetary decisions based on this analysis.

A comparative study of inflation reports from 20 countries which are on a formal inflation target, by Andrea Fracasso, Hans Genberg and Charles Wyplosz, has recently been published by the International Center for Monetary and Banking Studies in Geneva.<sup>1</sup> Compiled on the initiative of the Central Bank of Norway (Norges Bank), this report was published in cooperation between ICMB of Geneva and CEPR of London.<sup>2</sup>

The study evaluates a broad range of factors that the authors consider necessary in order for central banks to achieve the above goals in publishing their inflation reports. One report per country was evaluated (generally the last report for 2002) by five graduate students in economics. Thus the sample is obviously small and a more reliable evaluation would have been obtained if more people with broader backgrounds had read the reports, and if more reports

had been assessed from each bank. Nonetheless, the results are interesting and are valuable to the Central Bank of Iceland in its efforts to enhance even further the publication of its inflation report, *Monetary Bulletin*.<sup>3</sup> The following is a summary of the main findings of the study.

### *Main findings*

Broadly speaking, most of the twenty reports are found to be of high quality and to be quite ambitious about disseminating as much information as possible on their view of the economic outlook and monetary policy responses to it. A fairly strong correlation seems to exist between different criteria for the quality of reports, i.e. a central bank that does well on one dimension tends to do well on most others. Likewise, there is a statistically significant relation between the quality of the inflation report and the predictability of monetary policy, i.e. the better the inflation report, the more transparent the monetary policy.<sup>4</sup>

The readers were asked to evaluate various aspects of the credibility of the analytic framework and the accessibility and thoroughness of information about banks' assumptions, policies and interpretations, the detail and thoroughness of their economic forecasts and how clearly the forecast assumptions were explained. Finally, they made an overall assessment of how convincing the reports were, how well they reflected each bank's expertise, and their completeness, readability and information content.

The Bank of England emerged as a clear leader in terms of inflation report quality. On virtually every

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1. The 21st country, Columbia, was not included in the survey due to lack of data.

2. Andrea Fracasso, Hans Genberg and Charles Wyplosz, "How Do Central Banks Write?", *Geneva Report on the World Economy, Special Report 2*, International Center for Monetary and Banking Studies (ICMB) Geneva, May 2003. The study is available from the Norges Bank website: [www.norges-bank.no/pengepolitikk/konferanser/2003/fracasso.pdf](http://www.norges-bank.no/pengepolitikk/konferanser/2003/fracasso.pdf).

3. The definition of *Monetary Bulletin* as the Central Bank of Iceland's inflation report effectively applies to the Introduction, the chapter on Economic and monetary developments and prospects and, where appropriate, the chapter on Financial markets and Central Bank measures (plus the data appendix). Other inflation-targeting countries publish a separate inflation report as well as a quarterly report on monetary policy and other central banking activities. In Iceland, these are combined into a single publication.

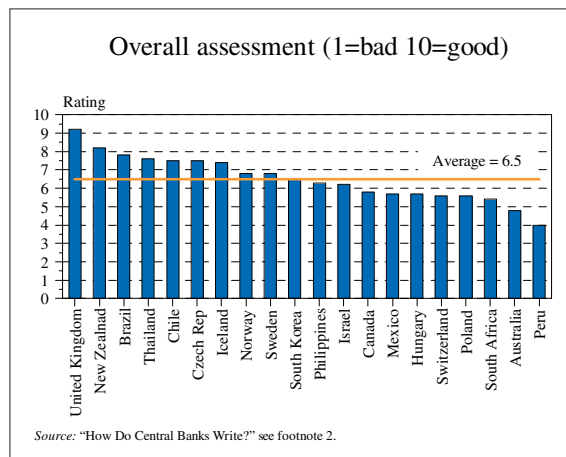
4. It is generally assumed that the effectiveness of monetary policy depends on how easy market participants find it to forecast the central bank's actions, i.e. how predictable its monetary policy responses are. The reason is that the transmission of monetary policy shocks to, for example, long-term interest rates operates through market participants' expectations, making it increasingly effective, the more transparent and credible that it is.

dimension its report scored highest in the survey. It is pleasing to see how well the Central Bank of Iceland's *Monetary Bulletin* was rated in this comparison, especially with regard to the quality and credibility of its analysis and its detail and completeness. In the readers' view, the main shortcomings were a lack of information about when and by whom monetary policy decisions are made, the views of individual decision-makers and disagreements among them. The comparison suggests that, on the whole, the Central Bank of Iceland's inflation report is rather well presented, with a professional and credible analysis. Nonetheless, it also indicates scope for improvement, and as such is of great value to the Central Bank.

In terms of convincingness, the analysis presented in *Monetary Bulletin* is rated at 7.8 out of 10. The average score in this category is 6.4 and *Monetary Bulletin* ranks third after the reports from Bank of England and New Zealand Reserve Bank. It also scored well for reflecting the Central Bank's expertise. With a rating of 7.0 in this category, *Monetary Bulletin* shared 7th-9th place with the Hungarian and Norwegian reports, while the average score was 6.3. For completeness it received a rating of 7.2 (the same as the reports from Chile and the Czech Republic) compared with the average of 5.9. *Monetary Bulletin* scored relatively lowest for its writing style with 7.4, slightly below the average. The Bank of England inflation report again heads that category with a score of 10, while *Monetary Bulletin* is placed only eleventh, leaving clear scope for improvement. Finally, the information provided in *Monetary Bulletin* is considered fairly thorough. On this point *Monetary Bulletin* scored 7.6 as against the average of 6.5, and it is ranked 6th-7th with the report from the Bank of Thailand.

The overall score of *Monetary Bulletin* is 7.4, placing it sixth in the survey. The Bank of England inflation report heads the list with an average score of 9.2, followed some way behind by the report from the New Zealand Reserve Bank with 8.2. A cluster of reports come immediately afterwards: The report from Brazil with 7.8, the Thai report with 7.6, the reports from Chile and the Czech National Bank with 7.5, and finally *Monetary Bulletin*. Given the reported standard deviation for the assessment, however, the difference between these five reports is hardly

statistically significant. Rated some way down are the next reports, from Norway's Norges Bank and Sweden's Riksbank with an average score of 6.8. The average for the sample is 6.5, as shown in the chart below (Figure 3.3 in the ICMB report).



Among other findings, the readers rated the information presented in *Monetary Bulletin* highly in terms of quality and quantity. Overall, information was neither excessive nor insufficient, and considered easy to find. For example, *Monetary Bulletin* ranked second of the sample for arguments for future decisions. It was also close to the top for clarity of assumptions made at time of decision, apart from its treatment of foreign financial conditions. The report also scored well for transparency of underlying forecast assumptions.

One evaluation focused on explanation of the policy decision-making process and *Monetary Bulletin* scored well on this point too, except for reporting of discussions and disagreements by decision-makers, as mentioned above. This is because the Central Bank of Iceland is the only inflation-targeting central bank which does not hold scheduled meetings to fix interest rates. Many central banks also make the minutes of their monetary policy committee meetings public in order to increase transparency even further. The Central Bank of Iceland has been examining such a procedure for some time.

A final criterion was the quality of the executive summary (which in the case of *Monetary Bulletin* is the Introduction). Readers found the Introduction to be a comprehensive summary of the main issues of

the analysis, conveying the rationale of policy decisions and being generally convincing. Once again, however, it was the lack of coverage of objections among policy-makers that brought down the overall

rating for this category. On the whole, however, the executive summary was rated second-best among the sample, after the Bank of England inflation report.