# AN INDEX FOR TRANSPARENCY FOR INFLATION-TARGETING CENTRAL BANKS (CBT-IT)

## APPLICATION TO THE CZECH NATIONAL BANK AND RESERVE BANK OF NEW ZEALAND

# The Presentation is Based on

- Dincer, N. N., and B. Eichengreen., 2014., "Central Bank Transparency and Independence: Updates and New Measures.," International Journal of Central Banking, Vol. 10, No. (1), March.

  https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2579544


- Al-Mashat, R., A. Bulíř, N.N. Dinçer, T. Hlédik, T. Holub, A. Kostanyan, D. Laxton, A. Nurbekyan, R. Portillo, and H. Wang, 2018, "An Index for Transparency for Inflation-Targeting Central Banks: Application to the Czech National Bank," IMF Working Paper No. 18/120

  https://www.imf.org/en/Publications/WP/Issues/2018/09/28/An-Index-for-Transparency-for-Inflation-Targeting-Central-Banks-Application-to-the-Czech-46192

# Comparison of CBT-IT and Dincer & Eichengreen (DE) Indexes

| DE | CBT-IT |
|---|---|
| Applied to more than 120 countries but, does not differentiate monetary policy regimes | Designed only for inflation-targeting central banks |
| Does not cover financial stability issues | Covers financial stability issues |
| Does not go into depth about how they use forecasts to communicate monetary policy | Includes the role of forecast, forecasters and policy-makers in policy-making |
| Inflation forecast targeting central banks are close to maximum score | A more ambitious index than DE, no central bank is close to the maximum score, and therefore is useful for identifying existing transparency gaps |

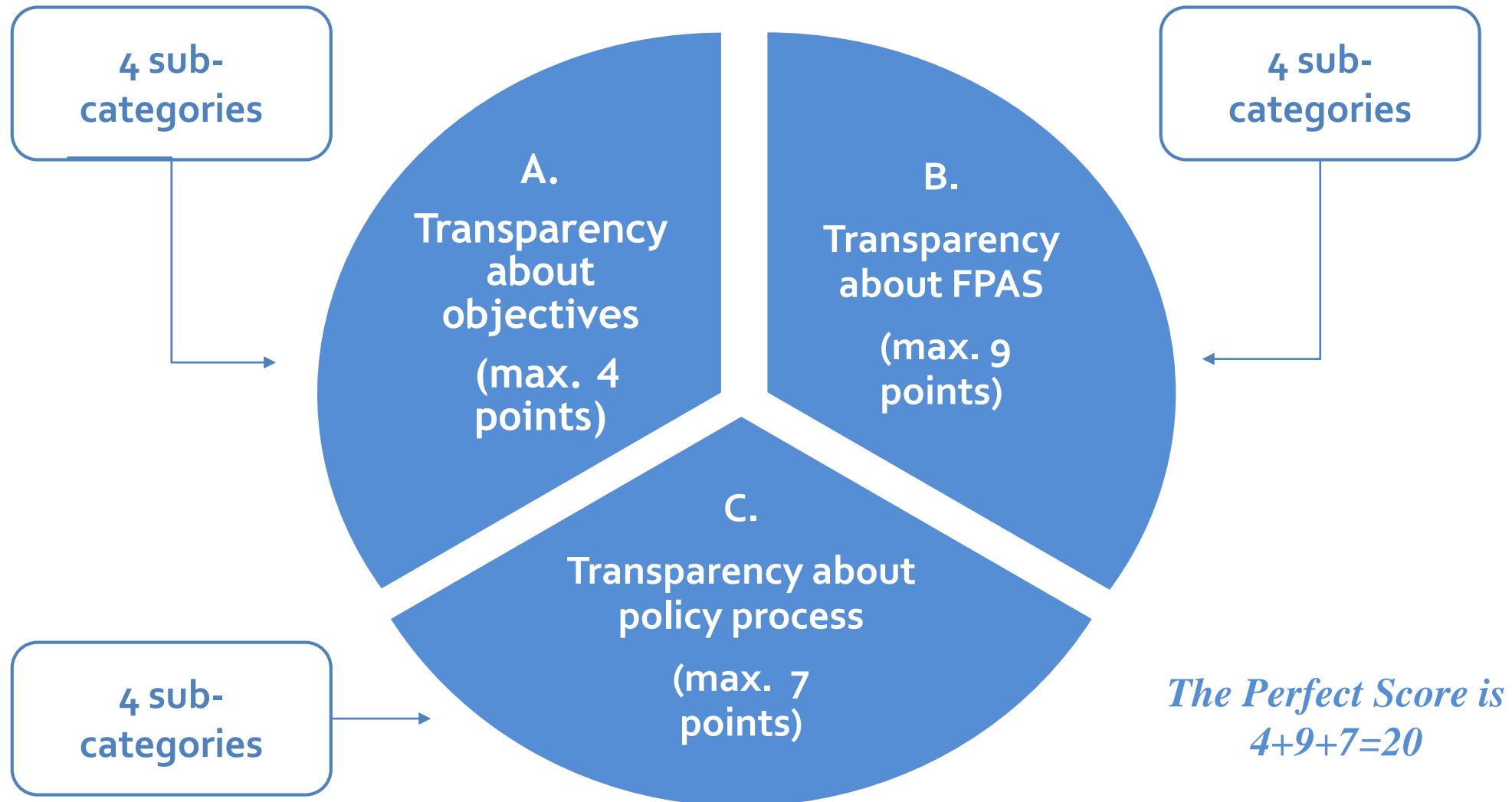# DE Measures for 2014 Suggest That IFT Central Banks are the Most Transparent

**DE Transparency Indices for Different Types of Monetary Regimes**
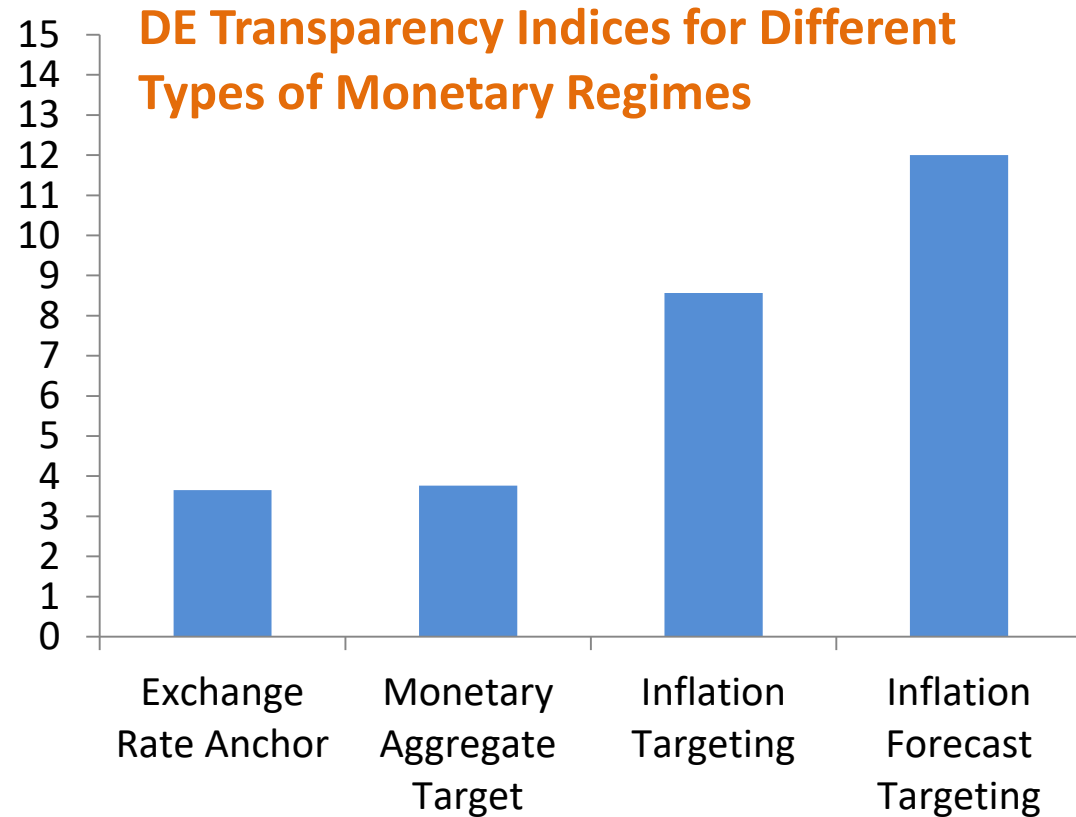


**DE IFT scores**

**Sweden-15**
**Czech Republic-14.5**
**New Zealand-14**
**Hungary-13.5**
**Israel-12.5**
**Norway-11.5**
**Chile-7.5**

**Source: Dincer and Eichengreen (2014)**

# Structure Of The New CBT-IT Index



4 sub-categories

A.
Transparency about objectives
(max. 4 points)

B.
Transparency about FPAS
(max. 9 points)

4 sub-categories

C.
Transparency about policy process
(max. 7 points)

4 sub-categories

*The Perfect Score is 4+9+7=20*

# A: Transparency about Objectives (Max. Score 4)

- Inflation is the primary objective of monetary policy. Any other objective (output, etc.) cannot be inconsistent with the primary objective of anchoring inflation and inflation expectations.
- CB has a well-defined point target for inflation.
- CB makes clear that financial stability objectives do not override the primacy of the inflation (price stability) objective.

# B: Transparency about Forecasting and Policy Analysis System (FPAS) (Max. Score 9)

*Well-structured FPAS is critical for monetary policy deliberations and effective communications. The CB should make publically available:*

- All relevant data used for conduct of monetary policy including financial variables.
- Quarterly Projection Model (QPM) with documentation (equations, coefficients, codes etc.) to make it easy to replicate CB forecast.
- Forecast with uncertainty bands.
- Assessment of forecast revisions.
- Alternative scenario(s).

# C: Transparency about Policy Process (Max. Score 7)

*CB should:*

- Explain policy decision at press conference immediately after it is announced.
- Hold meetings with market analysts to present forecast and to answer questions.
- Publish detailed minutes with attribution and discussions during policy deliberations.
- Invite external evaluation of policy framework.

# Application of the CBT-IT index to Czech National Bank (CNB)
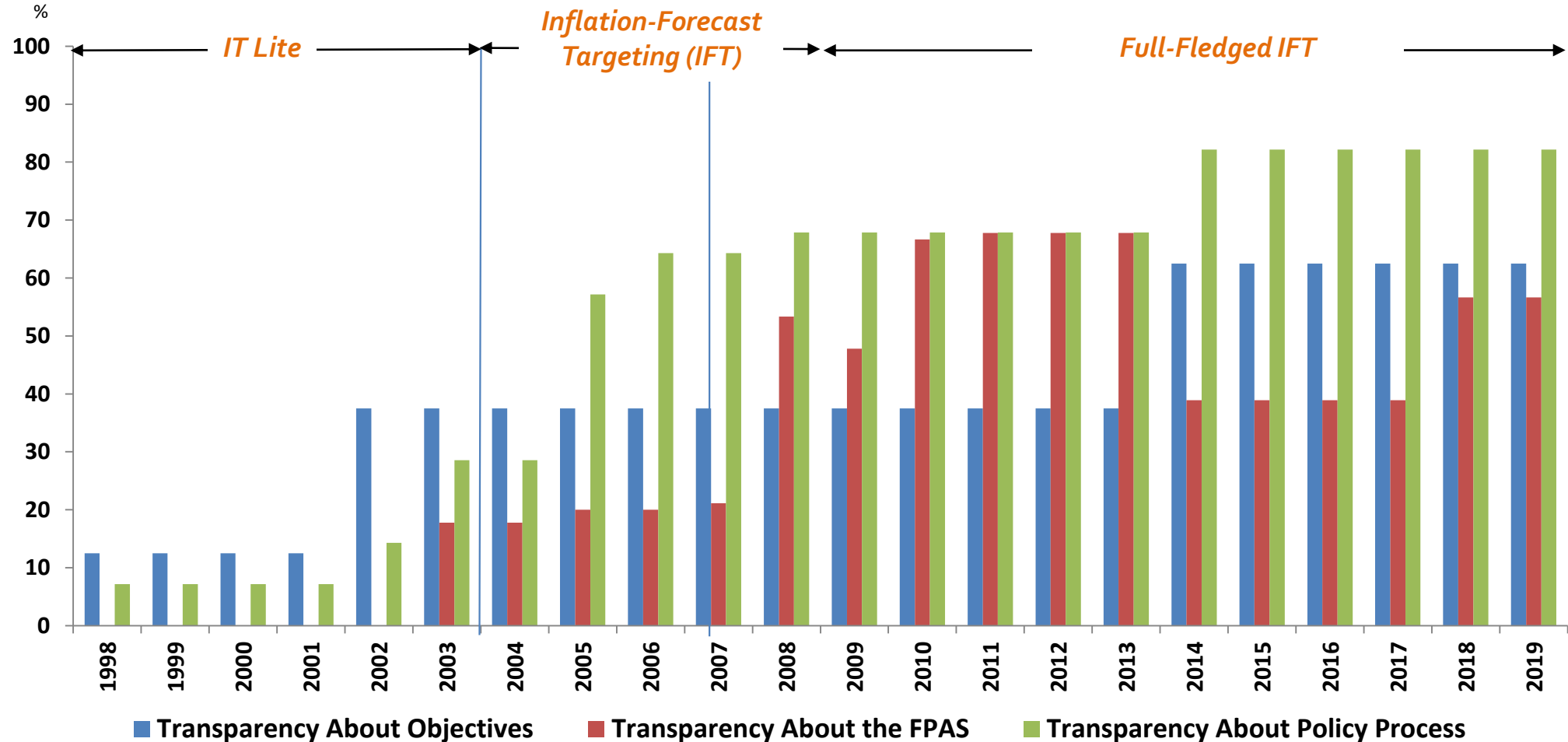
# Evolution of the CNB Transparency Over Time
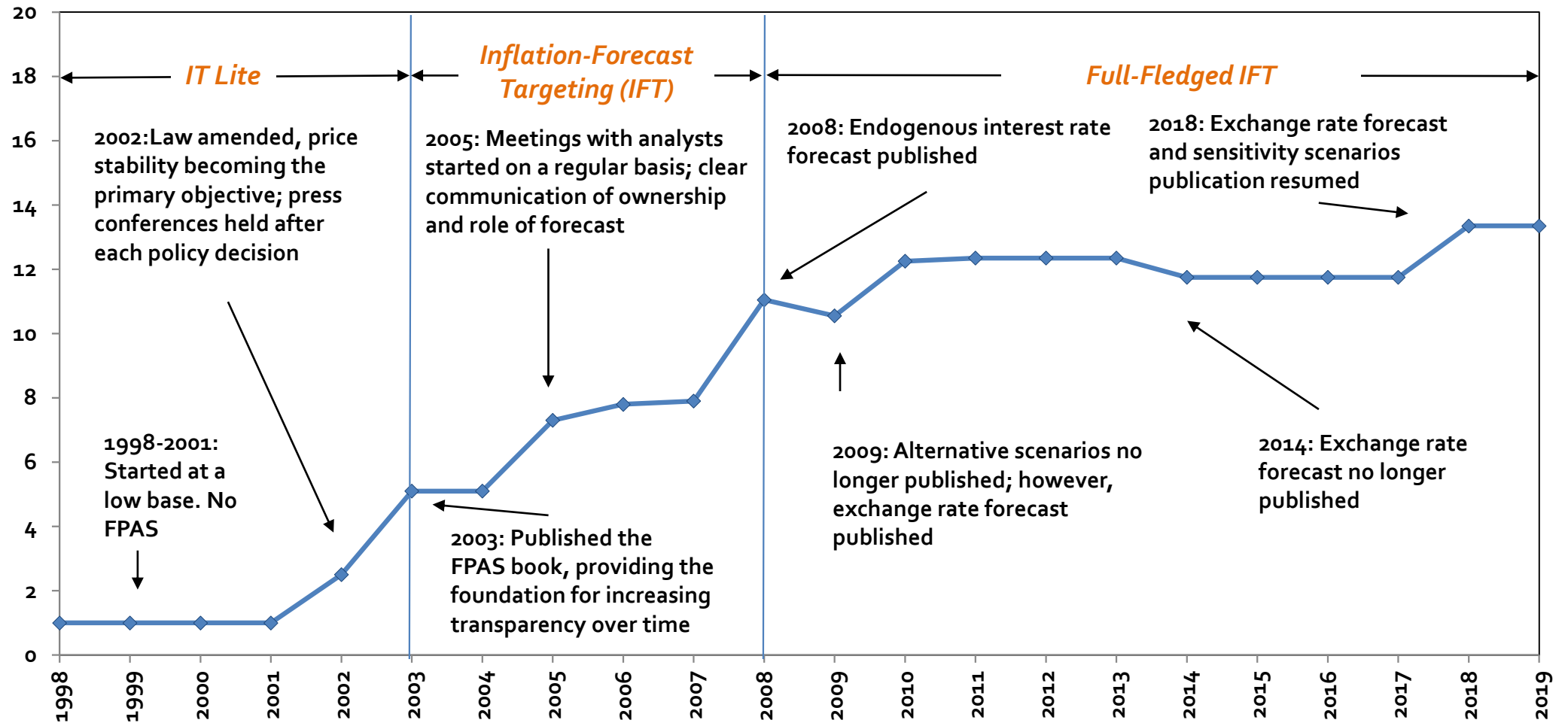


Source: Authors' calculations

Evolution of Components of the CBT-IT Index (in Percent of Each Component's Max Score)

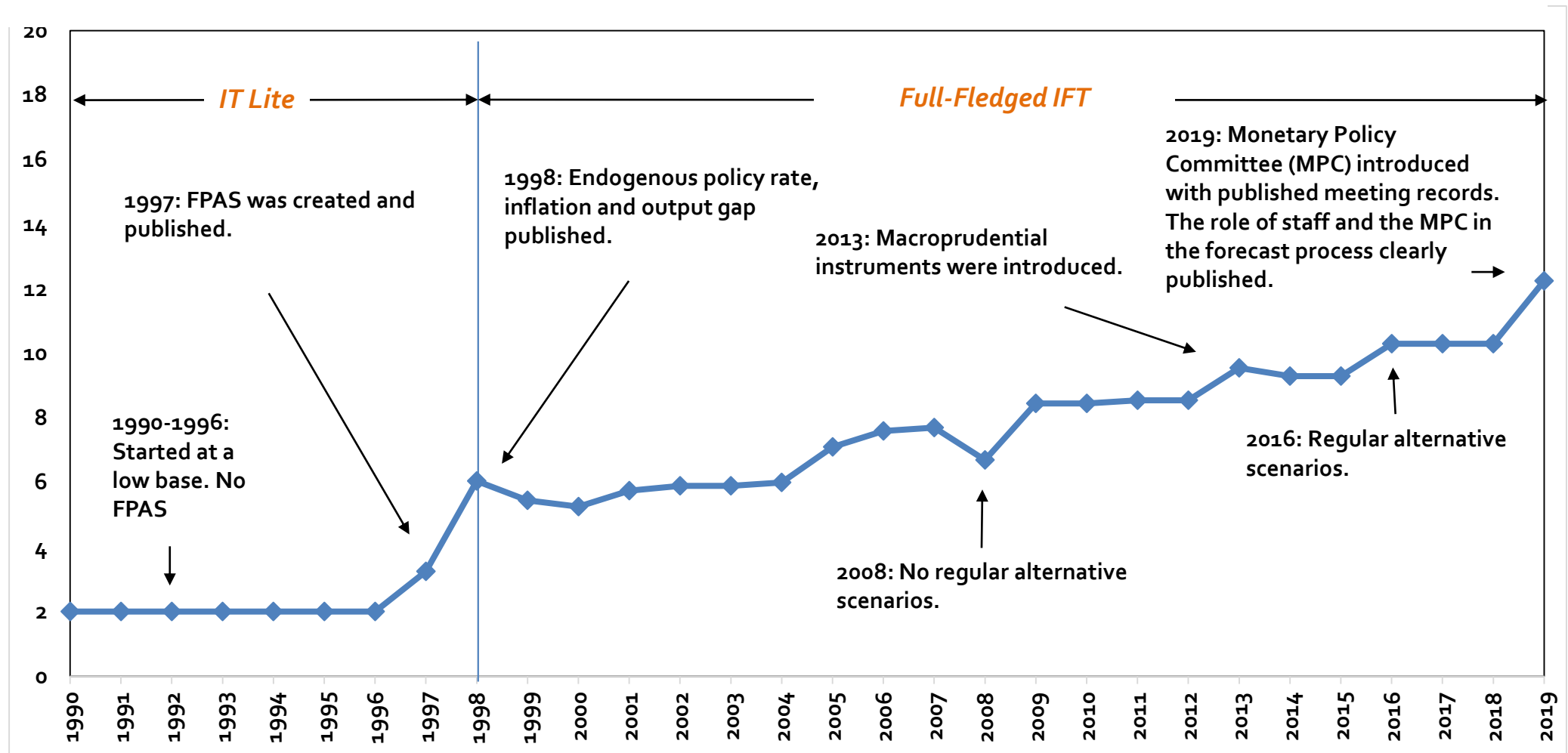Source: Authors' calculations

# Transparency Gaps at CNB

- Point target is not communicated clearly.

- CNB is not transparent about loss and reaction functions.

- Documentation on the core model is not available.

- CNB does not publish forecasts for financial variables.

- There was no external review of FPAS at least five years.

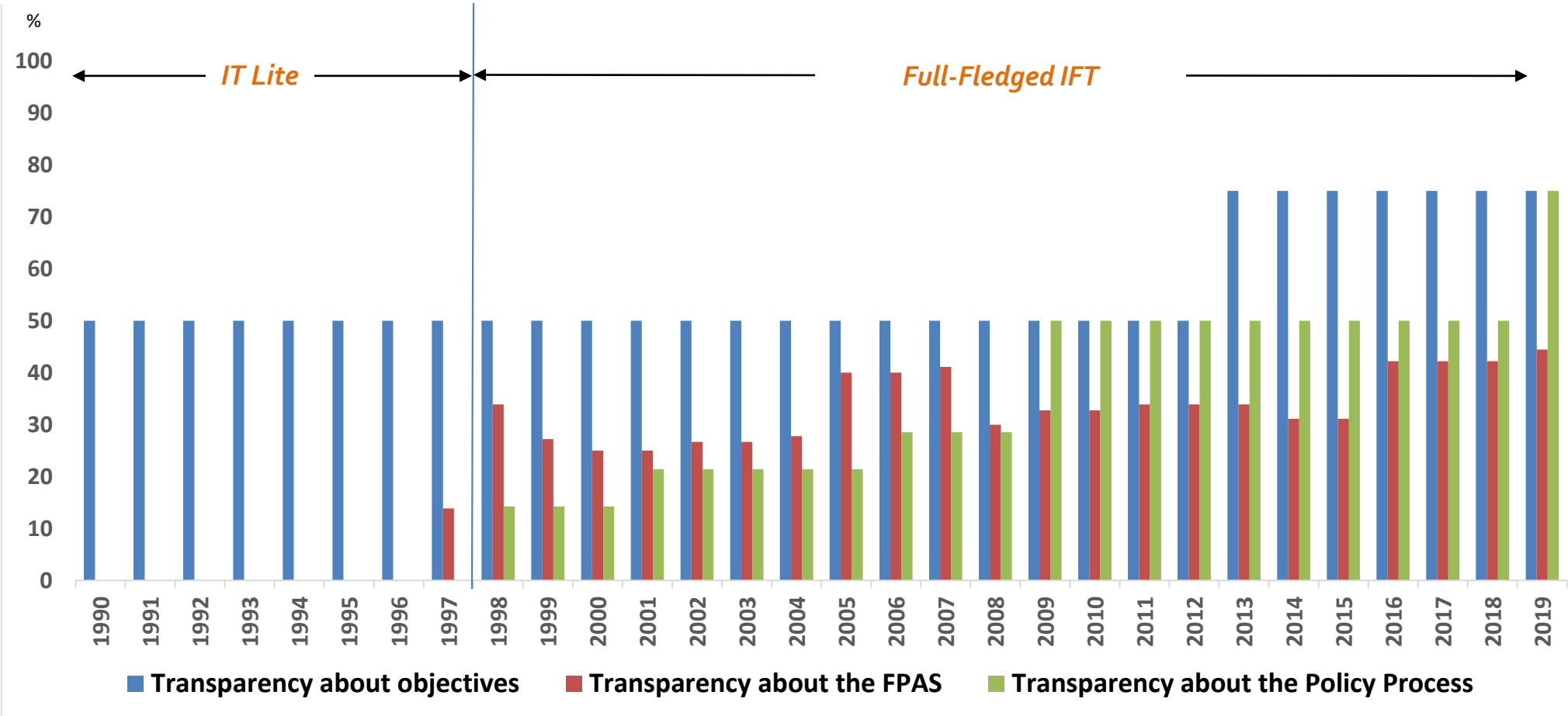# Application of the CBT-IT index to Reserve Bank of New Zealand (RBNZ)

# Evolution of the RBNZ Transparency Over Time

*IT Lite* ← → *Full-Fledged IFT*

**1997: FPAS was created and published.**

**1998: Endogenous policy rate, inflation and output gap published.**

**2013: Macroprudential instruments were introduced.**

**2019: Monetary Policy Committee (MPC) introduced with published meeting records. The role of staff and the MPC in the forecast process clearly published.**

**1990-1996: Started at a low base. No FPAS**

**2008: No regular alternative scenarios.**

**2016: Regular alternative scenarios.**

Source: Authors' calculations

# Evolution of Components of the CBT-IT Index (in Percent of Each Component's Max Score)



*IT Lite* ← → *Full-Fledged IFT*

Legend:
- ■ Transparency about objectives
- ■ Transparency about the FPAS
- ■ Transparency about the Policy Process
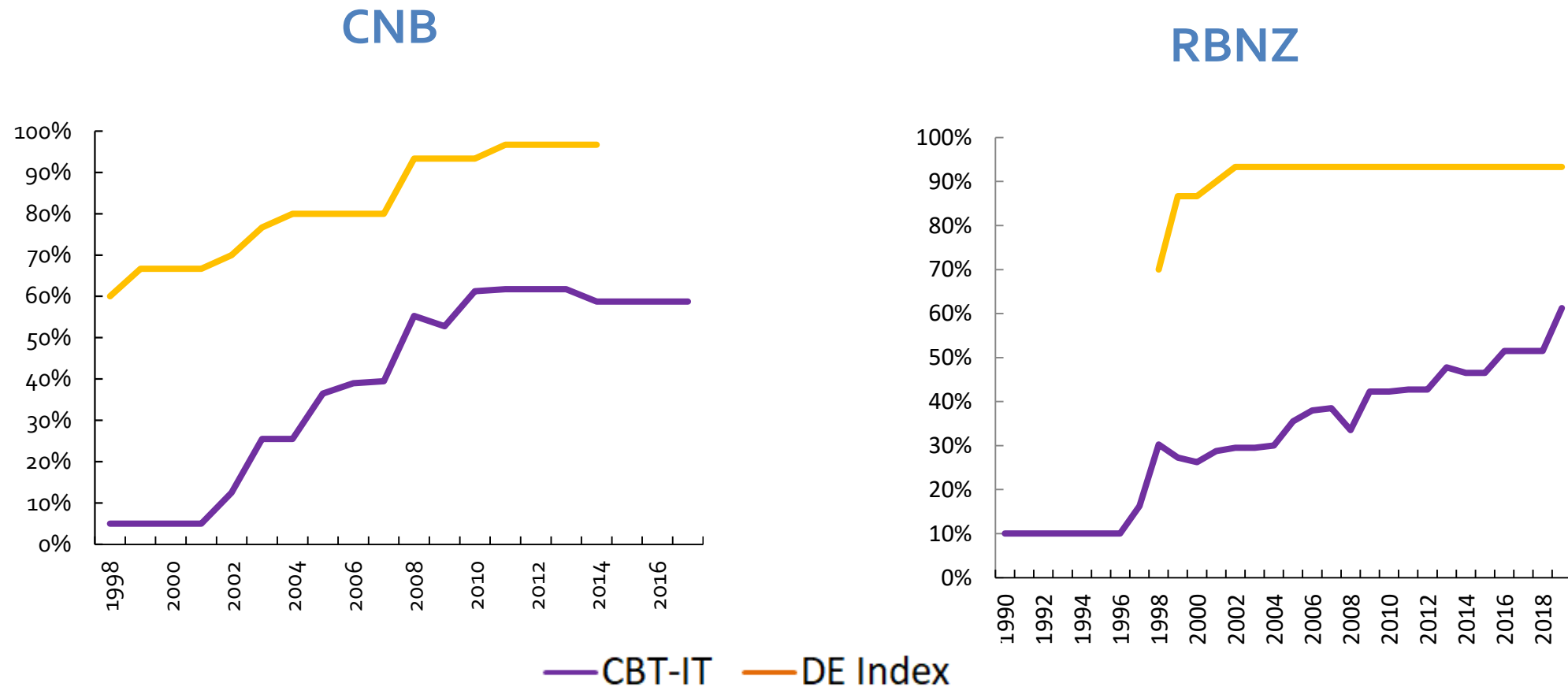
# Transparency Gaps at RBNZ

- RBNZ does not publish full list of financial variables and forecasts.

- No loss function is used in decision making or Monetary Policy Statement.

-  No fan charts in forecasts.

- There is a little published information on the forecasting model.

- Bilateral exchange rate is not published  and calculation of Trade Weighted Index (TWI) is not communicated clearly.

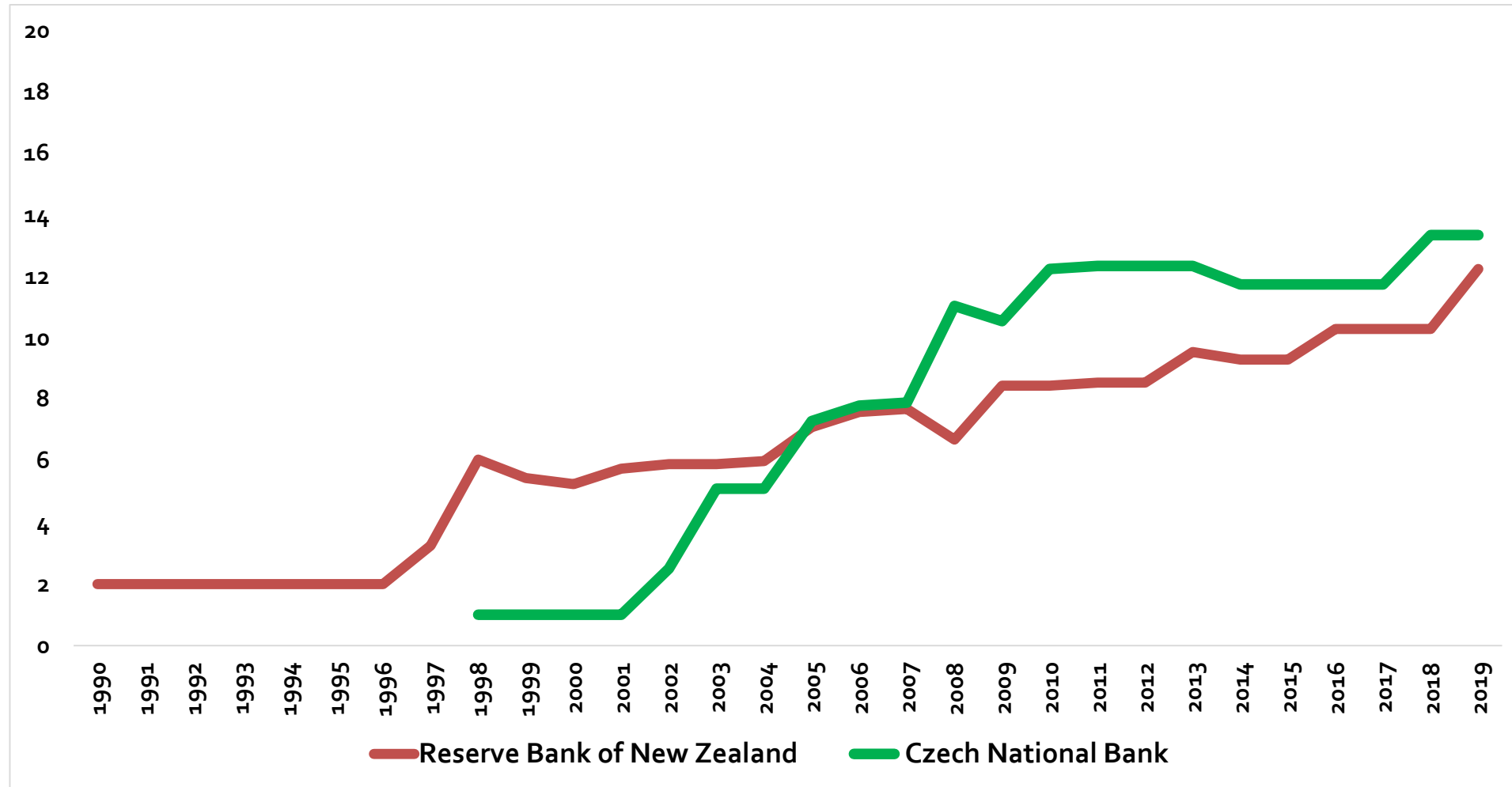-  There was no external review of FPAS at least five years.

# COMPARISON

# CBT-IT versus DE Index for the CNB
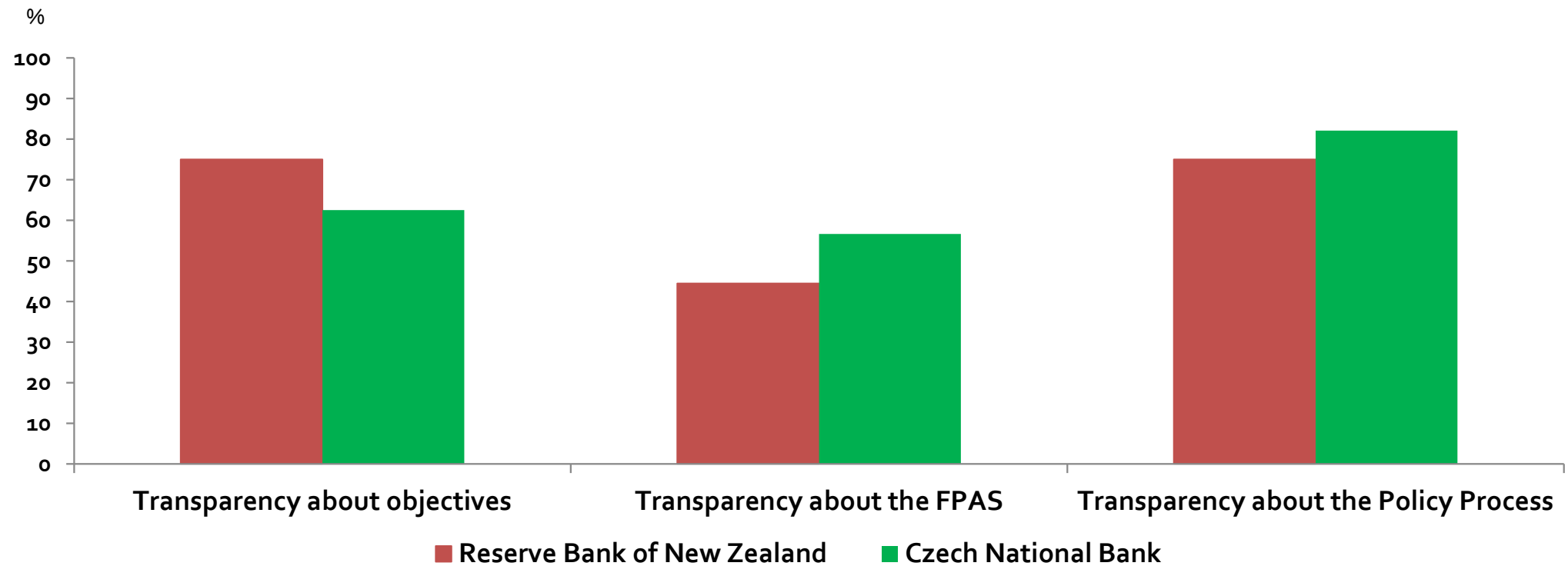# (Rescaled In Percent Of Maximum Score)

**CNB**

**RBNZ**

CBT-IT — DE Index