

## Central Bank Reviews

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## First Central Bank Reviews - 2001

- ▶ New Zealand
  - ▶ 1999 - New govt. announced Independent Review of the Operation of Monetary Policy
  - ▶ Delivered by Lars Svensson
  - ▶ Bold and unprecedented
- ▶ Canada
  - ▶ Internal (with Ministry of Finance)
  - ▶ Backward *review* element
  - ▶ Forward *renewal* element

## Since then

- ▶ More than 20 reviews have taken place in advanced economies
- ▶ Lots of internal reviews - we focus on public facing reviews
- ▶ This paper examines emerging themes in CB reviews
- ▶ focus on: RBNZ, BoC, Riksbank, CBI, Fed, ECB, RBA, BoJ

## Since then

Central Bank	Review Type	Years Reviewed
RBNZ	External	2001
	Internal*	2022
BoC	Internal	2001, 2006, 2011, 2016, 2021, 2026
	Internal*	2024
Riks	External	2006, 2011, 2016, 2021, 2025
CBI	External*	2018
	External	2023
US FED	Internal	2020, 2025
ECB	Internal	2003, 2021, 2025
ECB	External	2020
RBA	External*	2023
BoE	External	2003, 2012, 2024
BoJ	Internal*	2024

*Internal* review conducted by the central bank.  
*External* review conducted by external assessors.  
 \* denotes external advice or review sought.

- This paper examines emerging themes in CB reviews

## Central Bank of Iceland Law (2019)

### Article 36: External evaluation

Every **five year**, **the Minister** shall engage **three impartial experts** in the fields of monetary and financial economics and financial supervision to carry out an appraisal of the Central Bank of Iceland's performance in achieving its objectives concerning price stability, financial stability, and financial supervision. The appraisal shall also cover other aspects of the Bank's operations, such as organisational structure, distribution of tasks, and spheres of responsibility. One of the experts shall have sound knowledge of the Icelandic economy, and the other two shall have wide-ranging knowledge and experience of international financial activities and the operation of central banks outside Iceland.

*Source: <https://www.cb.is/library/Skraarsafn—EN/Laws/Act...>*

# Outline

- ▶ Overview of reviews
  - ▶ Purpose, initiation and frequency, models for conduct, ToR
- ▶ Emerging themes
  - ▶ 1. Mandates and frameworks
  - ▶ 2. Policy approaches and tools
    - ▶ Monetary policy evaluation, policy coordination, enhancing decision making under uncertainty
  - ▶ 3. Governance
  - ▶ 4. Communication
- ▶ Conclusion

# Why Public Facing Reviews

## Accountability and Independence

- ▶ Independence
  - ▶ insulates MP from short-term political pressures
  - ▶ increases the importance of accountability
- ▶ **Short run accountability**
  - ▶ Legislative mandates and agreements with Finance Ministries and Parliaments
  - ▶ Publications: annual reports, monetary policy statements, meeting minutes, research, data sharing
  - ▶ Communication: press conferences, speeches
  - ▶ Parliamentary committees

# Why Public Facing Reviews

## Accountability and Independence

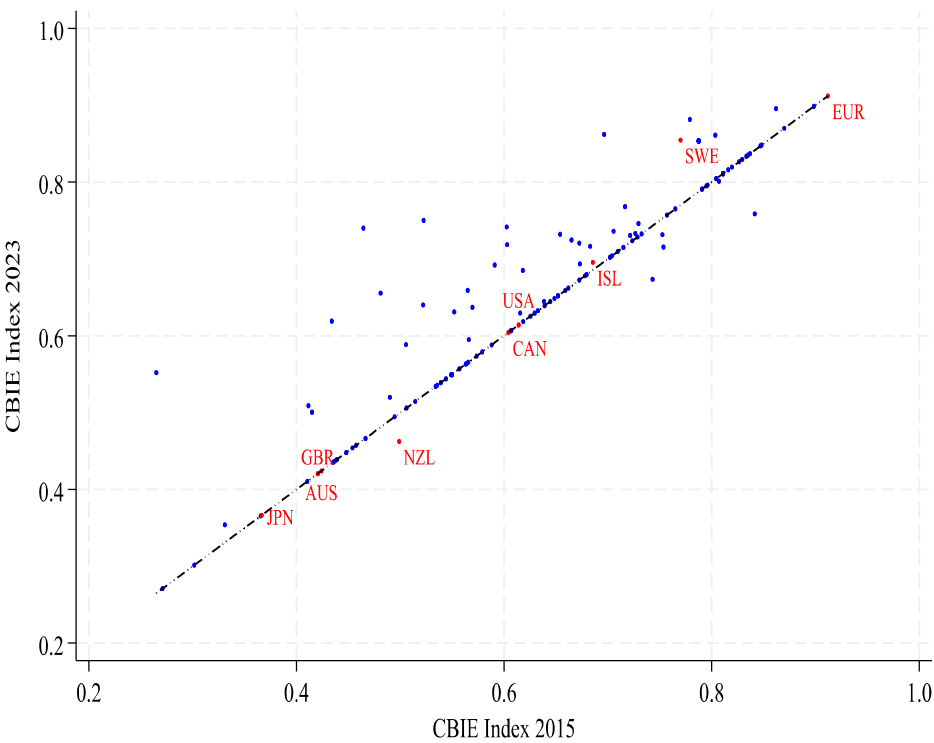
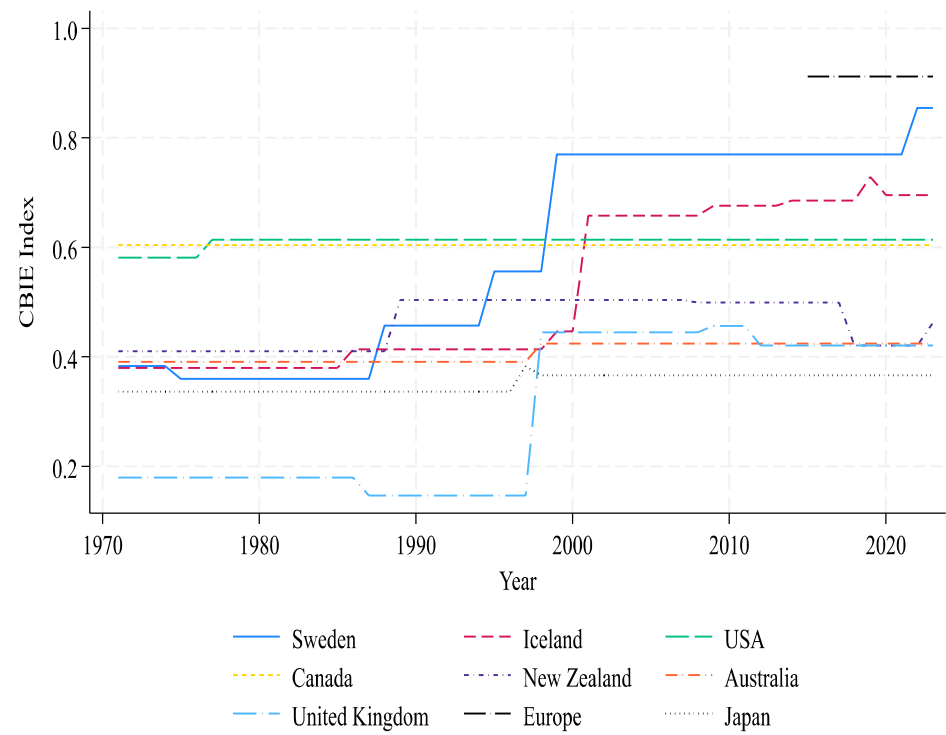
### Reviews for long run accountability

- ▶ Long-term perspective on governance, policy frameworks, and institutional arrangements
- ▶ Good institutional practice - benchmarks, frontiers, optimal choices
- ▶ Confirm the choices of society
  - ▶ Confirm operational independence
  - ▶ Appropriate use of discretion in policy decision making
  - ▶ Lessons from historical episodes
  - ▶ Avenues for new research
  - ▶ Address alternative viewpoints



# Why Public Facing Reviews

Central Bank Independence: CBIE Index



# Why Public Facing Reviews

## Initiation and frequency

- ▶ Initiation
  - ▶ external - often by government
  - ▶ internal - often self-initiated or in collaboration with Treasury or Ministry of Finance
- ▶ Recent trend - regular five-year reviews
- ▶ Sometimes through legislation - NZ, Iceland
- ▶ Sometimes CB - BoJ, ECB, Fed
- ▶ Some renewal element - Canada, Sweden, Australia

## Models of Central Bank Reviews

- ▶ Acknowledge all reviews seek external input
- ▶ Classify as:
  - ▶ internal
  - ▶ internal with expert input or review
  - ▶ external
  - ▶ external with expert input
- ▶ Larger CBs more inclined to operate internal reviews
  - ▶ complex structures
  - ▶ greater depth and knowledge?
  - ▶ less willing to open to outsiders?
- ▶ Smaller central banks more likely to have reviews imposed

## External Reviewers, Expert advisors (1/2)

Bank	Year	Type	Reviewer	Advisors
RBNZ	2001	External	Lars Svensson	
	2022	Internal		Larry Schembri Warwick McKibbin
BoC	2024	Internal		Pablo Hernández de Cos Kristin Forbes Trevor Tombe
Riks	2006	External	Francesco Giavazzi Frederic Mishkin	
	2011	External	Charles Goodhart Jean-Charles Rochet	
	2016	External	Marvin Goodfriend Mervyn King	
	2021	External	Karnit Flug Patrick Honohan	
	2025	External	Morten O. Ravn Carolyn Wilkins	

## External Reviewers, Expert advisors (2/2)

Bank	Year	Type	Reviewer	Advisors
CBI	2018	External	Ásgeir Jónsson Ásdís Kristjánsdóttir Illugi Gunnarsson	Fredrik N.G. Andersson Lars Jonung Sebastian Edwards Kristin Forbes Athanasios Orphanides Patrick Honohan
	2023	External	Pentti Hakkarainen Joanne Kellermann Patrick Honohan	
ECB	2020	External		Yvan Lengwiler Athanasios Orphanides
RBA	2023	External	Gordon de Brouwer Renee Fry-McKibbin Carolyn Wilkins	Prasanna Gai Anil K Kashyap Eric M Leeper Andrew Levin Athanasios Orphanides
BoE	2024	External	Ben Bernanke	
BoJ	2024	Internal		Shin-ichi Fukuda Takeo Hoshi Takatoshi Ito Keiko Murata Etsuro Shioji Kotaro Tsuru Tsutomu Watanabe

## Terms of Reference 2001 Review of RBNZ

Six elements in the Terms of Reference:

1. The way monetary policy is managed in pursuit of the inflation target
2. The instruments of monetary policy and effectiveness
3. The information used in decision-making, including data and forecasting
4. The monetary policy decision-making process and accountability structures
5. The coordination of monetary policy with other economic policies
6. The communication of monetary policy decisions to the public and financial markets

## ToR in later reviews

- ▶ All reviews are different, but
- ▶ Most overlap on some of these fundamentals, but also include concerns such as:
  - ▶ Climate change considerations
  - ▶ Institutional culture
  - ▶ Assessment of non-traditional monetary policy tools

# Emerging Themes



# 1. Mandates and frameworks

# 1. Mandates and Frameworks

- ▶ CB **mandate** is usually set out in the legislation
- ▶ More likely to be assessed by an external review
- ▶ **Framework for achieving and interpreting the mandate** is often a major element of reviews
- ▶ All reviews endorse a FIT framework of some form
  - ▶ inflation target is understood, accepted, and anchors inflation expectations

## Changes to mandate: Australia and Iceland

- ▶ Australia Mandate changed
  - ▶ from: i) stability of currency; ii) full employment; iii) wealth and prosperity of the Australian people
  - ▶ to: i) price stability; ii) full employment
- ▶ Iceland - external experts reviewed monetary policy options
  - ▶ Three papers backed inflation targeting; one proposed a currency board
  - ▶ Final report endorsed inflation targeting plus (attention to exchange rate developments)
  - ▶ Financial stability to take priority over price stability if needed

## Mandate consideration often part of the renewal process

- ▶ Canada
- ▶ New Zealand Remit Review
  - ▶ Required in legislation every 5 years, separate to review
  - ▶ 2019 government changed the RBNZ mandate to a dual mandate
  - ▶ 2023 returned to a single inflation target mandate

## Interpretation of mandates and framework

- ▶ Often expressed in terms of monetary policy strategy e.g. Fed and ECB
- ▶ Role of flexibility
- ▶ Language on operation through time evolved
- ▶ Different targets, bands and points, horizons and management of tradeoffs
- ▶ Examination alternatives - average inflation targeting, price level targeting, nominal income level targeting, nominal income growth targeting

## Examples of change

### Fed Dual Mandate

- ▶ Congress sets the Fed's dual mandate: stable prices and maximum employment
- ▶ Interpretation evolved over time:
  - ▶ Before 2012, no explicit inflation target
  - ▶ **2012**: 2% longer-run inflation target introduced
- ▶ **2020 Review** refined interpretations:
  - ▶ Prices: Adopted flexible average inflation targeting
  - ▶ Employment: Focus shifted to broad-based, inclusive employment; asymmetric emphasis on shortfalls

## Examples of change

- ▶ **ECB review of monetary policy strategy**
  - ▶ Introduce symmetry - **Symmetric** 2% inflation target over medium term
- ▶ **RBA**
  - ▶ Framework refined - statement on conduct of MP
    - ▶ inflation joint responsibility with government
    - ▶ aim for midpoint of target 2-3 percent
    - ▶ clarify how use flexibility

## **2. Review of Policy Approaches and Tools**



## 2. Review of policy approaches and tools

- ▶ Aim to assure public that monetary policy decisions are sound
- ▶ Assess proper:
  - ▶ appropriateness of policy settings
  - ▶ application of monetary policy tools
  - ▶ decision-making processes
  - ▶ consideration of evolving economic circumstances
- ▶ Best practice involves reflection and lessons from past episodes
  - ▶ With available information at time  $t$
  - ▶ With hindsight

## Reviews of monetary policy tools

- ▶ Understand systematic policy errors
  - ▶ comparison of decisions with policy rules
  - ▶ comparison with in house models
  - ▶ comparison with goals
  - ▶ comparison with peers
  - ▶ comparison with other forecasters
- ▶ Enables understanding of (changes in) monetary reaction functions
  - ▶ perhaps reveals underlying concerns
  - ▶ reconcile monetary policy statements with circumstances
  - ▶ role of other policy arms
- ▶ Builds understanding of public and credibility of CB
  - ▶ also comparison of economic outcomes pre-post inflation targeting

## Reviews of Monetary policy tools - conventional

- ▶ Identifies successes and shortcomings in processes
- ▶ RBA - confusing mandate and insufficient time in board decision making processes
- ▶ Riksbank and RBA - muddled role for financial stability
- ▶ Riksbank - conflicting objectives led to committee division
- ▶ RBNZ 2001 - recommended establishment of committee

## Reviews of unconventional monetary policy

- ▶ Japan's entire review on assessing use of unconventional tools
- ▶ All note extreme uncertainty in real-time decision-making
- ▶ Conventional monetary policy preferred
- ▶ None rule out future use

## Unconventional monetary policy tools

- ▶ Highlight side effects of unconventional policy
  - ▶ Reviews of RBA, ECB, BoJ, BoC and Riksbank
- ▶ Improving clarity on
  - ▶ distinction between operational and policy decisions and their implementation
    - ▶ RBA and CBI (pension funds and foreign exchange)
  - ▶ using unconventional tools for market functioning versus monetary stimulus
    - ▶ BoC for design of tools
    - ▶ BoJ poorly functioning JGB market, but long term effects on capital and human capital accumulation/productivity

## Unconventional monetary policy tools

- ▶ Design of tools
  - ▶ assessment of the costs and benefits of the tools
  - ▶ agreements between the government and the monetary policy committees in advance
  - ▶ fiscal policy as an alternate lever and coordination between fiscal-monetary policy
  - ▶ clarify in advance design and implementation of these tools might be used in the future
  - ▶ how tools should be used as a package
  - ▶ managing risks and considering exit strategies under different scenarios
- ▶ Caution in providing calendar versus state-based forward guidance
- ▶ Some have questioned the suitability for small open economies

# Policy coordination

## Financial stability

- ▶ Analysis of episodes raises questions of financial stability management since GFC
- ▶ Different across countries - lender of last resort, prudential regulation and systemic risk
- ▶ Vigilance required - reviews useful in identifying areas of improvement
- ▶ RBNZ 2001 recommended publish Financial Stability Reports
- ▶ CBI specifically states financial stability takes precedence
- ▶ RBA and Riksbank - change legislation
- ▶ RBA memorandum of understanding and formal communication if APRA is not addressing
- ▶ BoE - specified financial stability/monetary policy/forecasting should be looked at soon

# Policy coordination

## Fiscal

- ▶ Need to set policy independently, but sometimes reasonable to coordinate
- ▶ Unconventional monetary policy tools can blur the lines between fiscal and monetary policy
- ▶ All reviews - not at the expense of independence
- ▶ RBA
  - ▶ bank retain instrument independence
  - ▶ agreement with Treasurer
  - ▶ Treasury secretary on board
  - ▶ joint research program RBA/Treasury
- ▶ BoJ - crucial to clearly explain goal of monetary policy is to achieve price stability, not monetary financing of government debt
- ▶ RBNZ - coordination through medium-term objectives and transparency



## Enhancing decision-making under uncertainty

- ▶ Recent reviews emphasize real-time uncertainty in monetary policy decisions
- ▶ Uncertainty is expected to persist due to geopolitics and frequent supply-side shocks
- ▶ Common recommendations focus on strengthening internal policy tools:
  - ▶ improved data frameworks
  - ▶ enhanced forecasting and modeling
  - ▶ scenario analysis development
  - ▶ better communication strategies

## Data: Reviews and Measures of Inflation

- ▶ Longer-term reflection on appropriate measures of inflation
- ▶ BoC Reviews (2001, 2006, 2016):
  - ▶ extensive discussion of core inflation measures
  - ▶ 2016 Review recommended replacing the single core measure with three alternatives
- ▶ ECB 2021 Review:
  - ▶ confirmed use of HICP
  - ▶ Flagged future inclusion of owner-occupied housing costs
- ▶ Riksbank Reviews:
  - ▶ 2006 - recommended excluding housing cost distortions from inflation targeting
  - ▶ 2020 evaluation confirmed success of this approach.

# Forecasting

- ▶ Common theme across reviews since RBNZ 2001
- ▶ Reviews place increasing emphasis on decision making under uncertainty (as a conclusion of review and a reason for review)
- ▶ More scrutiny of forecast errors and role of judgment (BoE)
- ▶ Investment in data, systems and humans (BoE)
- ▶ Better communicate uncertainty/limits of forecasts
- ▶ Riksbank (2020) - make clear forecasts are not unconditional commitments.

## Scenario analysis

- ▶ Greater role in use of scenario analysis for supply side disruptions
- ▶ BoE, BoC, RBA, RBNZ
- ▶ Climate, geopolitics, pandemics
- ▶ Developing MP strategies for alternative futures
- ▶ Including in use of unconventional tools

# 3. Governance

## Governance

- ▶ 2001 RBNZ - concerned single decision maker/chairperson of the board (changed 2019/2003)
- ▶ 2023 RBA
  - ▶ inadequate process for decision making
  - ▶ risks of single decision maker for governance
  - ▶ separate board into monetary policy board and governance board
  - ▶ RBA and APRA - clarified roles for financial stability in the legislation and amongst Council of Financial regulators
  - ▶ Clarified appointments to board through formal process and selection criteria
- ▶ 2018 CBI - Central Bank solely responsible for macroprudential and micro-prudential policies, nominate a Deputy Governor for financial stability
- ▶ 2023 CBI - reform governance to avoid key person risk
- ▶ Ambiguity between roles of Riksbank and Financial Stability Authority
  - ▶ Roles clarified in legislation

## 4. Communication

# Communication

- ▶ Supports transparency and accountability
- ▶ Informs public debate on monetary policy decisions
- ▶ 2021 ECB Strategy Review highlighted changes in the communication landscape:
  - ▶ Declining reach of print media
  - ▶ Fragmented audiences
  - ▶ Rising importance of direct communication channels
  - ▶ Growing public demand for scrutiny and transparency



## Issues in Central Bank Communication

- ▶ Large role for the institutional history and culture of countries in communication
- ▶ Role of press conferences
- ▶ Information on policy deliberations
- ▶ Attributed vs. unattributed votes in committees
- ▶ Publications on monetary policy evaluations
- ▶ Annual conferences and public engagement
- ▶ Parliamentary scrutiny
- ▶ Communication challenges during policy pivots
- ▶ Fed - communication will be a major focus of its 2025 review

## Conclusion

- ▶ Likely reviews will be called for more frequently
- ▶ Review by external independent experts
- ▶ Opportunity for communication with and from public
- ▶ Reviews can have longevity