

Impact case study (REF3)

Institution: University of Cambridge		
Unit of Assessment: 16 – Economics & Econometrics		
Title of case study: Bolstering central bank transparency and accountability		
Period when the underpinning research was undertaken: 2001 to date		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Petra Geraats	University Senior Lecturer	2000 to date
Period when the claimed impact occurred: 2014 to date		
Is this case study continued from a case study submitted in 2014? <input checked="" type="checkbox"/> /N (No)		
1. Summary of the impact (indicative maximum 100 words)		
<p>Central banks have become dramatically more transparent in recent decades. More transparent central bank communications make it easier for the public to infer the central bank's intentions and align private sector expectations, thereby making monetary policy more effective in stabilising financial markets and the economy more broadly, while also increasing public accountability. Dr Geraats, at the University of Cambridge, has made significant contributions to reviews of central bank transparency practices at the Bank of England (2014) and at the Central Bank of Chile (2019), which resulted in substantial reforms of the central banks' communication strategies. She served (2019-20) on a High-Level Advisory Panel to guide the development of the International Monetary Fund's (IMF) new Central Bank Transparency (CBT) Code, which is now the standard for all IMF members.</p>		
2. Underpinning research (indicative maximum 500 words)		
<p>Dr Geraats, based at the University of Cambridge, has since 2000 conducted theoretical, empirical and applied policy research on monetary policy, transparency and central banking. Her research provides clarity about the wide-ranging notion of transparency by developing a conceptual framework of five aspects of transparency (political, economic, procedural, policy, and operational transparency) that she presented in a highly cited paper from 2002 [R1]. This conceptual framework allows academics and policymakers to think systematically about various facets of transparency, to better understand their different roles and potential effects.</p> <p>Geraats used this framework to develop a popular index of central bank transparency in 2006 [R2]. The index pioneered a methodical quantification of this hard to measure, multi-faceted concept, and it has facilitated a systematic comparison across central banks and over time.</p> <p>This transparency index has been updated and extended by Geraats and others, including [R3], which documents and analyses the degree of monetary policy transparency for 112 central banks (covering nearly 150 countries) from 1998 until 2015. This 2019 Dincer-Eichengreen-Geraats index [R3] (and its predecessors, building on the 2006 Eijffinger-Geraats index [R2]) has become the standard in the literature. It has been widely used in empirical research and is well-known among central bankers.</p> <p>Geraats has used the deep insights she has gained from her theoretical and empirical research to do applied policy research, most notably involving the evaluation of central banks. In 2004, she participated in an independent evaluation of the Norwegian central bank and the report she co-authored [R7] was submitted to the Norwegian parliament as part of the formal accountability process of the central bank. She also co-authored an evaluation of the European Central Bank that focused on transparency and governance [R8]. In September 2018, Dr</p>		

Geraats was appointed by the Board of the Central Bank of Chile to an independent evaluation panel to assess the fulfilment of the Bank's legal objectives, including price and financial stability [R4].

Geraats's research has shown how greater transparency can improve macroeconomic outcomes. The publication of central bank forecasts allows central bankers to build reputation through their policy actions – instead of through policy outcomes, which take much longer to materialise. It gives central banks greater flexibility to engage in macroeconomic stabilisation [R5]. Her research shows that it is beneficial to provide clarity about the central bank's inflation target, although it may be desirable to communicate some other types of information (e.g., about its output objectives or supply shocks) with perceived ambiguity, encouraging a more nuanced view of central bank communications [R6].

3. References to the research (indicative maximum of six references)

- R1. Geraats, P. (2002). Central bank transparency. *The Economic Journal*, 112(483), pp. F532-F565. DOI: [10.1111/1468-0297.00082](https://doi.org/10.1111/1468-0297.00082)
- R2. Eijffinger, S. C., & Geraats, P. (2006). How transparent are central banks? *European Journal of Political Economy*, 22(1), pp. 1-21. DOI: [10.1016/j.ejpoleco.2005.09.013](https://doi.org/10.1016/j.ejpoleco.2005.09.013)
- R3. Dincer, N., Eichengreen, B., & Geraats, P. (2019). Transparency of Monetary Policy in the Postcrisis World. In D. Mayes, P. Siklos & J.-E. Sturm (eds), *The Oxford Handbook of the Economics of Central Banking*. Chapter 10. Oxford: Oxford University Press. DOI: [10.1093/oxfordhb/9780190626198.013.10](https://doi.org/10.1093/oxfordhb/9780190626198.013.10)
- R4. Flug, K., Calvo, G., Geraats, P., Kohn, D., & Mendoza, E. (2019). *Independent Evaluation of the Monetary Policy and Financial Stability Policy of the Central Bank of Chile*, Santiago: Banco Central de Chile. Available at: https://www.bcentral.cl/documents/33528/2077651/Independent_Evaluation_Panel-Full_Report.pdf
- R5. Geraats, P. (2013). Transparency, Flexibility, and Macroeconomic Stabilization. In Siklos P. & Sturm J.-E. (eds.), *Central Bank Communication, Decision Making, and Governance: Issues, Challenges, and Case Studies* (pp. 49-82). Cambridge, Massachusetts: The MIT Press. DOI: [10.2307/j.ctt5hhkb0.6](https://doi.org/10.2307/j.ctt5hhkb0.6)
- R6. Geraats, P. (2007). The Mystique of Central Bank Speak. *International Journal of Central Banking*, 3(1), pp. 37-80. Available at: <https://www.ijcb.org/journal/ijcb07q1a2.htm>
- R7. Bjørnland, H. C., Ekeli, T., Geraats, P., & Leitemo, K. (2004), Norges Bank Watch: An Independent Review of Monetary Policymaking in Norway. Norges Bank Watch Report Series No 5. ISSN: 1503-7339. Available at: <http://home.bi.no/a0310125/NBW2004.pdf>
- R8. Geraats, P., Giavazzi, F. & Wyplosz, C. (2008) Transparency and Governance. Monitoring the European Central Bank (MECB) Report 6, Centre for Economic Policy Research (CEPR). Available at: https://cepr.org/sites/default/files/geneva_reports/GenevaP184.pdf

Research quality is evidenced by rigorous peer-review [R1, R2, R3, R5 and R6] or by external commissioning [R4], [R7] and [R8]. [R1] and [R2] have been cited 260 and 200 times, respectively, in Scopus. An extensive profile of Geraats and her research featured in Bloomberg Businessweek, entitled "[Central Bank Transparency Grows under Geraats Pressure](#)".

4. Details of the impact (indicative maximum 750 words)

In December 2014 the Bank of England (BoE) published an independent review it had commissioned on the transparency practices and procedures of the Bank's Monetary Policy Committee. The aim of the review was to improve the Bank's communication policies and procedures. "Transparency and the Bank of England's Monetary Policy Committee" [S1] (known as the 'Warsh Review') was written by former US Federal Reserve Board Governor Kevin Warsh. This Review heavily relies on Dr Geraats's research and fully reflects the views she expressed at a meeting she had with Governor Warsh (on 25 September 2014 at the BoE at his request).

The Warsh Review adopted Geraats's conceptual framework of transparency [R1], which is illustrated in Figures 2 and 4 of the Warsh report [S1, p.6 and p.16] and explained in its section "Transparency, defined" [S1, pp.15-16]. Section 4 of the report, "Peer review: comparison of central banks" [S1, starting on p.27], uses the 2006 Eijffinger-Geraats transparency index [R2], which is detailed in Annex 3 [S1, pp.54-57] and shown in Figures 10 and 11 [S1, p.27 and p.28]. The subsection "The Review's independent survey" [S1, pp.29-31] is explicitly structured around Geraats's 2002 transparency framework [R1], focusing on the economic, procedural and policy aspects. Finally, the Review's recommendations for transparency improvements are summarised in Figure 16 [S1, pp.41-42], which uses Geraats's framework [R1].

The BoE accepted the recommendations of the Warsh Review and announced significant changes to its transparency practices, outlined in the December 2014 BoE press release "Bank of England announces measures to bolster transparency and accountability" [S2]. Governor Carney stated that these are "*the most significant set of changes to how we present and explain our interest rate decisions since the Monetary Policy Committee was formed in 1997*" [S2, p.1]. With the intention of reducing market volatility caused by the previous 'drip-feed' of information, the Warsh Review recommended that the BoE adopt international best practice by releasing a prompt announcement of the monetary policy decision that includes an explanation and the individual voting records. The BoE implemented these transparency improvements in August 2015, thereby making it easier for financial markets and the general public to understand its monetary policy decisions. The Review's author thanked Geraats for her contribution: "*Many thanks for your keen insights and exhaustive research. You made an immeasurable contribution to our review of the MPC - and to actual reforms for implementation.*" [S3].

In September 2018 the Central Bank of Chile (CBC) commissioned a comprehensive external evaluation of the Bank's performance in achieving its legal objectives of price and financial stability. The CBC appointed Geraats to the independent evaluation panel, which consisted of five international experts. She contributed to the evaluation's terms of reference and drafted a large part of the report, including the two chapters on communications.

On 4 September 2019 CBC Governor Marcel presented a summary of the main findings of the independent evaluation panel before a plenary session of the Chilean Senate [S4]. In his presentation of the panel's main findings [S4, pp.15-17 and p.26], he made special mention of the panel's evaluation of monetary policy transparency [S4, p.16] and showcased the 2019 Dincer-Eichengreen-Geraats [R3] monetary policy transparency index [S4, p.25]. The CBC published an official response to the evaluation in September 2019 [S5] and pledged to act on nearly all recommendations. The full report was released on 6 December 2019 [R4]. The sections on monetary policy communications [R4, chapter 4, pp.38-73] extensively draws on Geraats's research and contains a dozen references to her publications.

At his annual testimony [S6] before the Senate on 2 September 2020, Governor Marcel presented a detailed progress update [S6, Table 4] and reported that 23 of the panel's 40 main recommendations "*have been fully complied with*", while another ten "*are close to completion*" and five others still "*under study*" [S6, p.7]. Nine of the ten recommendations pertaining to communications have been implemented or are 'soon to be implemented' [S6, Table 4]. The Governor highlighted publication of the CBC's updated monetary policy framework, and the introduction of a new (graphical) tool for communicating the orientation of future monetary policy, thereby improving transparency and making it easier for the public to understand monetary policymaking. Additionally, Governor Marcel drew attention to the first-ever formulation and publication of the CBC's financial policy framework, which "*has been especially relevant in framing the Bank's decisions in light of the various volatility episodes experienced in Chile since last November [when social turmoil erupted]*" [S6, p.8]. Moreover, Governor Marcel highlighted the constitutional and legal reform that is on the agenda, emanating from the evaluation panel's report [R4], and that will "*entitle the Bank to acquire fiscal instruments in the secondary market to contain risks to financial stability*" [S6, p.8]. According to Governor

Marcel, *“this power will allow the Bank to prepare itself to address future episodes of volatility in the markets that may jeopardize financial stability and, thus, the welfare of the population.”* [S6, p.8].

In November 2019 the International Monetary Fund (IMF) appointed Geraats to a High-Level Advisory Panel that helped shape the IMF's new Central Bank Transparency (CBT) Code [S7]. The new Code was approved in July 2020 by the IMF's Executive Board and replaces the IMF's Monetary and Financial Policies Transparency Code from 1999. The new CBT Code aims to provide clear, detailed guidance to central banks regarding their own transparency and echoes [S7, p.6] Geraats's transparency framework [R1]. The CBT Code is now the standard for all IMF members, enabling them to improve their policy effectiveness and accountability. The Managing Director of the IMF states, *“Your [Geraats's] many contributions [...] allowed us to incorporate valuable insights from your extensive central bank experience. They allowed us to better address a range of complex issues, including how transparency can improve the effectiveness of monetary and macroprudential policy, the delicate balance between confidentiality and transparency, and key aspects of central bank governance, organization, and autonomy”* [S8].

5. Sources to corroborate the impact (indicative maximum of 10 references)

- S1. Warsh Report: Transparency and the Bank of England's Monetary Policy Committee (2014). Available at: <https://www.bankofengland.co.uk/-/media/boe/files/news/2014/december/transparency-and-the-boes-mpc-review-by-kevin-warsh.pdf>
- S2. Bank of England press release about the Warsh report, also including Governor Mark Carney's remarks: "Bank of England announces measures to bolster transparency and accountability". Published on 11 December 2014 and available at: <https://www.bankofengland.co.uk/-/media/boe/files/news/2014/december/boe-announces-measures-to-bolster-transparency-and-accountability.pdf>
- S3. Handwritten letter from the author of 'Transparency and the Bank of England's Monetary Policy Committee' ('Warsh Review'). Written on 12 December 2014.
- S4. Presentation from Mario Marcel, President of the Central Bank of Chile to the Chilean Senate on 4 September 2019 (In Spanish). Available at: <https://www.bcentral.cl/documents/33528/133214/mmc04092019.pdf>
- S5. Central Bank of Chile official response to the independent evaluation (in Spanish). Published September 2019. Available at: https://www.bcentral.cl/documents/33528/2077651/BCCh_Evaluaci%C3%B3n_Externa-Respuesta_BCCh.pdf
- S6. Annual testimony by Governor Mario Marcel before the Chilean Senate (in plenary session) on 2 September 2020. Available at: https://www.bcentral.cl/documents/33528/133214/mmc02092020_eng.pdf
- S7. The Central Bank Transparency Code. IMF. Published 30 July 2020. Available at: <https://www.imf.org/~media/Files/Publications/PP/2020/English/PPEA2020038.ashx>
- S8. Letter of support from the Managing Director of the IMF. Received 22 September 2020.