**Central Bank Transparency**

**Background:** One of the issues surrounding central banking is how transparent central banks should be. Essentially, how much information should they provide the public and the timing of that information? Historically, central banks operated under a cloud of secrecy. This was seen as the best way to avoid erroneous signals to financial markets. Over the last 2 to 3 decades, however, there has been a move away from secrecy to transparency. This is seen in the web sites of central banks which you can link through the Bank for International Settlements: <http://www.bis.org/cbanks.htm>

In addition, central bankers are regularly “quoted” in the financial press, expressing their views on financial matters and monetary policy. In addition, the major central banks of the world provide press releases immediately after their scheduled policy meetings to inform the public as to their decisions. Three central banks in particular – the Bank of England, The ECB and the Bank of Japan– actually hold press conferences (question and answer sessions) immediately after their policy meetings.

On March 25, 2011, Ben Bernanke announced that he too would be holding press conferences after policy meetings. He said that he will begin by holding four press conferences per year, beginning with the policy meeting in April of this year.

The Bloomberg article which reported on this decision is as follows:

**Bernanke Betting Briefings to Promote Clarity Instead of Market Volatility**

**Bloomberg.com March 25, 2011**

[Federal Reserve](http://topics.bloomberg.com/federal-reserve/) Chairman [Ben S. Bernanke](http://topics.bloomberg.com/ben-s.-bernanke/) is betting that by holding regular press conferences he’ll provide clarity about monetary policy without saying something that may disrupt financial markets.

The Fed said yesterday that Bernanke will begin holding four press briefings a year. The first sessions in April and June will give Bernanke an opportunity to discuss his next steps after completing the record stimulus from the purchase of $600 billion in [Treasury securities](http://topics.bloomberg.com/treasury-securities/) through June.

Bernanke is trying to dispel concerns from investors, lawmakers and the public that the second round of so-called quantitative easing, or QE2, is inflationary and ineffective in spurring growth. He said last month that officials were weighing the benefits of greater transparency against the risk that remarks are “misinterpreted” and trigger “unnecessary volatility” in financial markets.

“If we were to have a person that was unskilled in this trade, it might not succeed, it might end up backfiring,” said former Fed Governor [Lyle Gramley](http://topics.bloomberg.com/lyle-gramley/), now senior economic adviser with Potomac Research Group in Washington. “But I think Bernanke is a very skilled guy in communications. He will do a good job.”

While press conferences were unthinkable for central bankers three decades ago, the Fed’s recent resistance had set it apart from peer institutions. European Central Bank President [Jean-Claude Trichet](http://topics.bloomberg.com/jean--claude-trichet/) and Bank of [Japan](http://topics.bloomberg.com/japan/) Governor Masaaki Shirakawa each hold one after every policy meeting, while [Bank of England](http://topics.bloomberg.com/bank-of-england/) Governor [Mervyn King](http://topics.bloomberg.com/mervyn-king/) speaks once a quarter. Bank of Canada Governor Mark Carney also holds regular briefings.

The decision is an effort by the central bank to catch-up with a longstanding trend, said Gregory Hess, a former Fed researcher who is now an economics professor at [Claremont McKenna College](http://topics.bloomberg.com/claremont-mckenna-college/) in [California](http://topics.bloomberg.com/california/). “This bus left the station maybe 10 years ago,” Hess said.

The press conferences will be broadcast on the Fed’s website and coincide with the Federal Open Market Committee meetings when officials update economic projections, allowing Bernanke to present the figures three weeks earlier than prior practice. The first will be April 27 at 2:15 p.m. in [Washington](http://topics.bloomberg.com/washington/), the Fed said yesterday. The FOMC’s statement will be released at 12:30 p.m. on the days when Bernanke is speaking, instead of the usual time of 2:15 p.m., the central bank said.

“The introduction of regular press briefings is intended to further enhance the clarity and timeliness of the Federal Reserve’s monetary policy communication,” the Fed said in a statement yesterday. “The Federal Reserve will continue to review its communications practices in the interest of ensuring accountability and increasing public understanding.”

A January global poll of 1,000 Bloomberg customers who are investors, traders or analysts found that a plurality of respondents, 35 percent, said the second round of quantitative easing hasn’t had any significant effect on the economy. Another 33 percent said the asset purchases risk causing a dangerous acceleration of inflation. A majority of Americans said in a December poll by Bloomberg that the Fed should either be brought under tighter political control or abolished outright.

It’s important to the Fed that “they be seen as transparent, that they’re not hiding secrets and that they head off any criticism from Congress,” [Diane Swonk](http://topics.bloomberg.com/diane-swonk/), chief economist at Mesirow Financial Inc. in [Chicago](http://topics.bloomberg.com/chicago/), said in an interview with Bloomberg Television.

Bernanke, 57, had been the only head of a Group of Seven nation’s central bank not to give press conferences to explain actions and projections. He had previously relied mainly on speeches, congressional testimony and occasional interviews to convey his messages.

Congress and the courts have forced the Fed to become more transparent in other ways over the past year. The Fed is preparing to release details of emergency loans it made to banks in 2008 after the [Supreme Court](http://topics.bloomberg.com/supreme-court/) on March 21 rejected an industry appeal to shield the records, leaving intact victories in a lawsuit by Bloomberg LP, parent of Bloomberg News.

The Supreme Court ruling filled a transparency gap after the central bank, under the Dodd-Frank Act of 2010, on Dec. 1 named the counterparties of about 21,000 transactions from $3.3 trillion in aid provided to stem the worst financial panic since the Great Depression. The law exempted the past discount window lending from disclosure.

“When you’ve seen some efforts in Congress to try to dramatically undermine the Fed, that are not in the long-term interest of our country’s financial system, this kind of added transparency helps,” Senator Mark Warner, a Virginia Democrat, said today at a press conference in Brussels.

Gramley said that during his years as a Fed board member from 1980 to 1985, “no one would have even dreamed” of holding press conferences. Officials operated on the assumption that the Fed “would succeed best if it surprised the market,” he said. The FOMC began announcing interest-rate moves in 1994 and has incrementally increased transparency since then by shortening the release time for meeting minutes and expanding economic projections.

A four-person Fed subcommittee of policy makers unanimously recommended starting press conferences, said Dallas Fed President [Richard Fisher](http://topics.bloomberg.com/richard-fisher/), who was on the panel. “It’s in the interest of greater transparency,” Fisher said at the same Brussels press conference.

Bernanke got off to a rocky start with the media after he took office in 2006. In April of that year, he told CNBC reporter Maria Bartiromo at a Washington party that markets had misinterpreted his remarks to Congress that had suggested the Fed was finished raising rates. Bonds tumbled when CNBC reported the conversation. Bernanke later said the incident was a “lapse in judgment.”

The chairman has increasingly opened up to the press and public since the financial crisis intensified in 2008 and he took unprecedented steps to revive the economy and bail out companies such as [American International Group Inc. (AIG)](http://www.bloomberg.com/apps/quote?ticker=AIG:US)

Bernanke sat for interviews with CBS Corp.’s “60 Minutes” program in 2009 and 2010, and led a town-hall-style discussion on PBS television. He has also engaged with business leaders and college students around the country for question-and-answer sessions and discussions about the economy.

Press conferences may give Bernanke’s remarks more prominence at the expense of colleagues who disagree. As part of yesterday’s action, the Fed shortened its informal blackout period on remarks by other policy makers to run through Thursday instead of Friday after the meetings, a central bank official said on condition of anonymity. Bernanke’s briefings will take place on Wednesdays.

“These press briefings will elevate the message of the consensus on the committee,” said Dana Saporta, a U.S. economist with Credit Suisse in [New York](http://topics.bloomberg.com/new-york/).

Kansas City Fed President [Thomas Hoenig](http://topics.bloomberg.com/thomas-hoenig/), who dissented from all eight FOMC decisions last year, said in a statement yesterday that “I support all members’ efforts to communicate their views as clearly and as timely as they deem appropriate and necessary.”

For Bernanke, the advantages are that he “gets to talk before everybody else, and gets to provide some nuance on the message,” said [Vincent Reinhart](http://topics.bloomberg.com/vincent-reinhart/), who was the Fed’s director of monetary affairs from 2001 to 2007.