



**NBP**

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Narodowy Bank Polski

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## **Policy panel 2: Central banks policy signals in informational noise**

Central Bank Communications: From Mystery to Transparency  
Annual Research Conference / Kiev, 24 May 2019



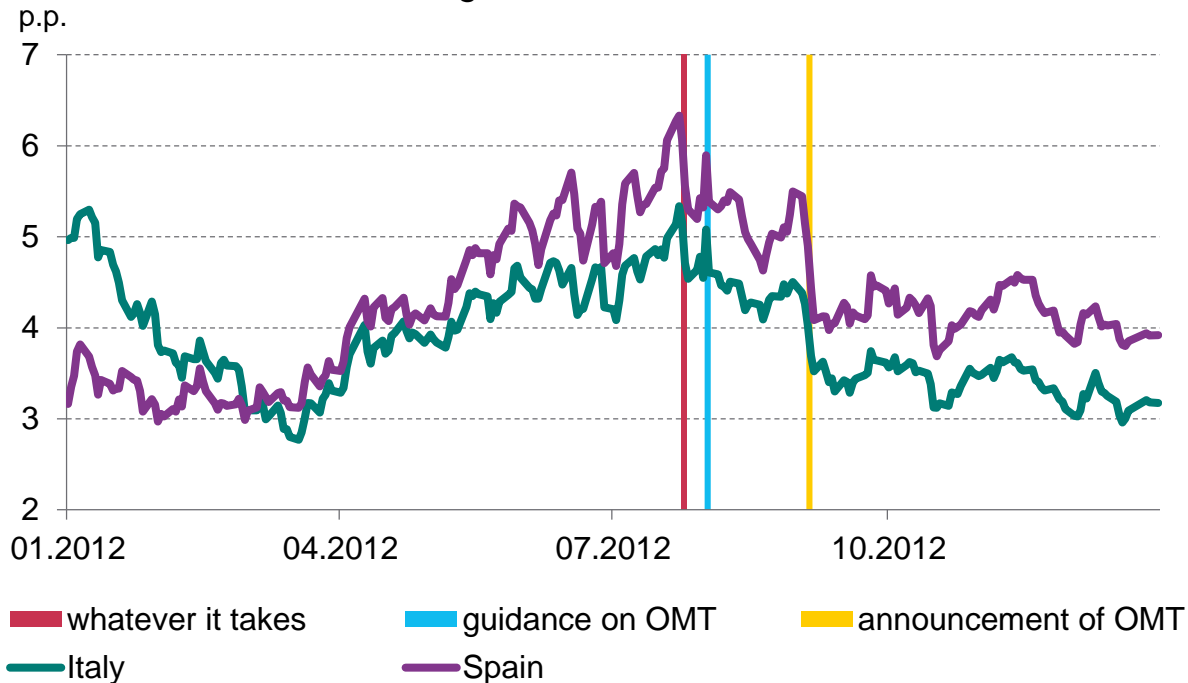
# Central bank's communication can have a decisive impact on the markets



*The ECB is ready to do **whatever it takes** to preserve the euro. And believe me, it will be enough.*

London, 26 July 2012

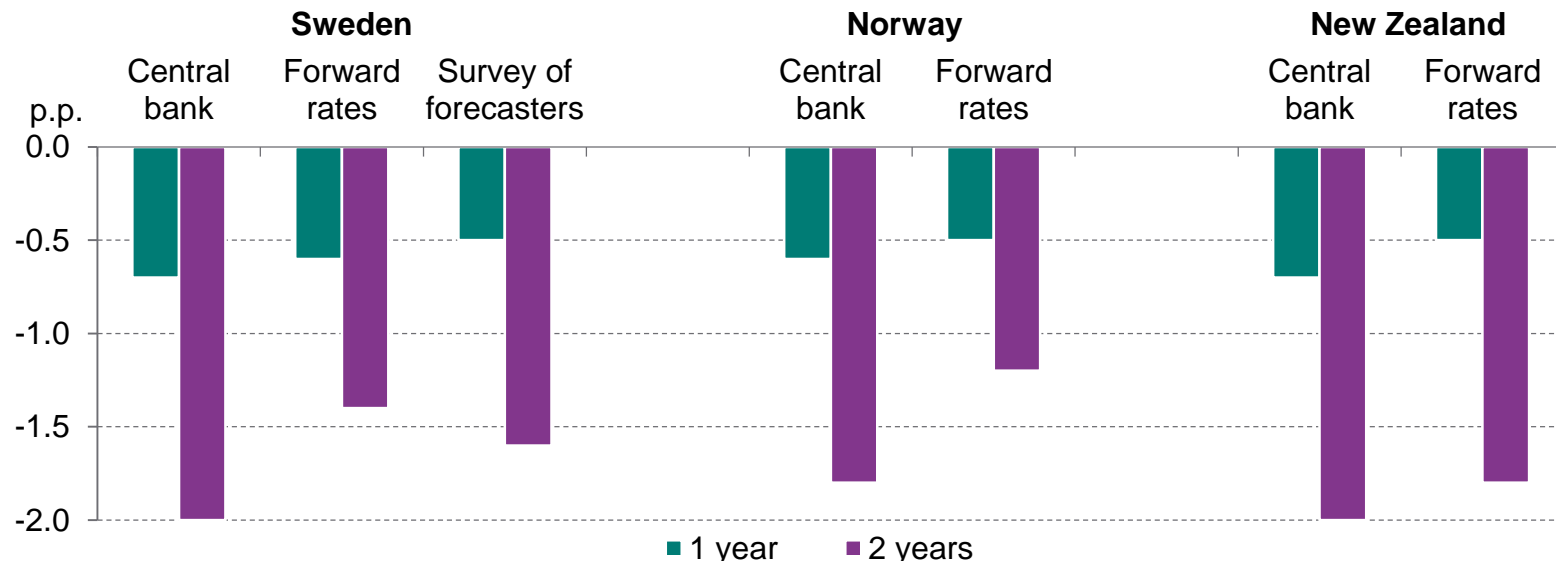
Spread between the yields on Italian or Spanish vs German 10Y government bonds



Source: Bloomberg.

# Central banks' policy rate projections seem to be less accurate than market expectations

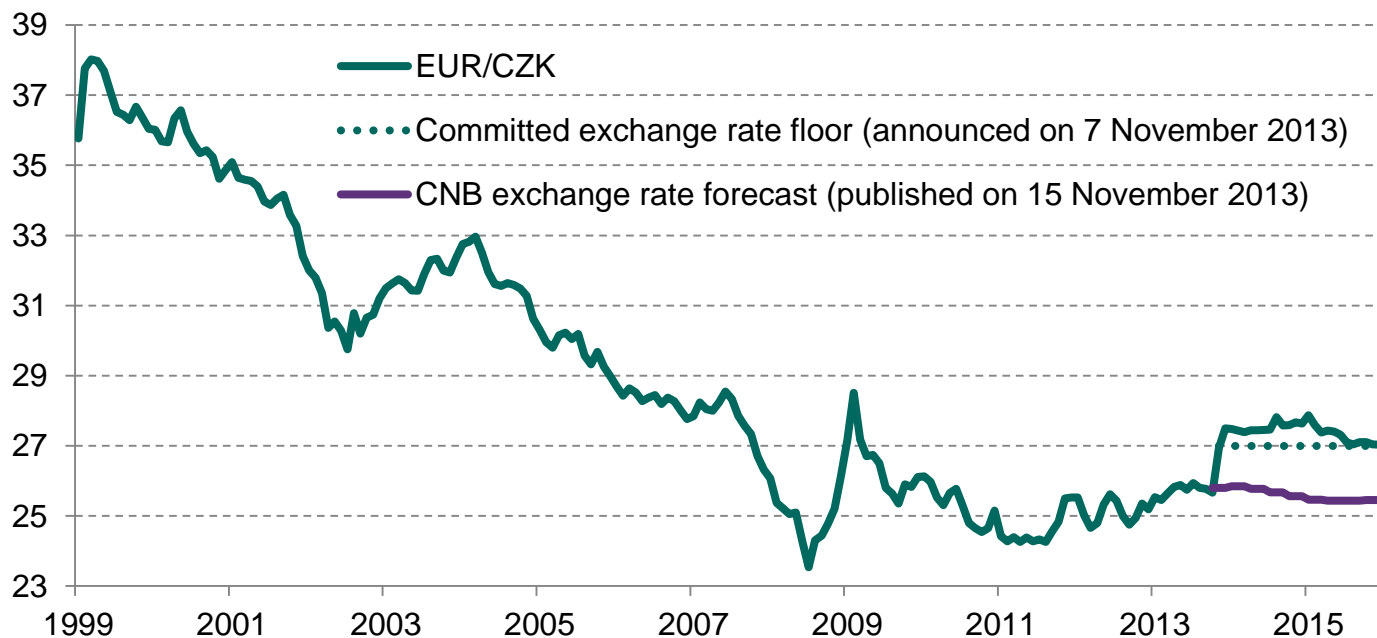
Policy rate forecasts: average deviation from outcome one and two years ahead (2007-2016)



Source: Riksbank (2017) *The Riksbank's experiences of publishing repo rate forecasts.*

## Central bank's bilateral exchange rate forecast can lead to inconsistent communication

Nominal exchange rate of the Czech koruna against the euro with a CNB forecast




Source: CNB, Bloomberg.

# Central bank communication in Poland

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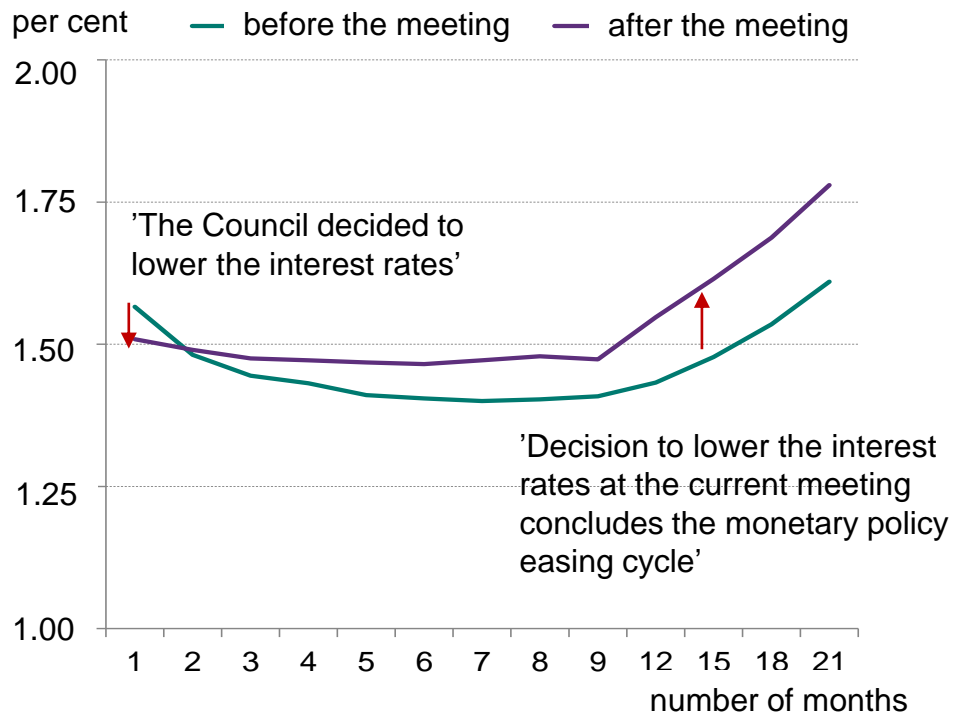
# Evolution of monetary policy communication in Poland

## 1998: adoption of inflation targeting

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- 1998 first regular MPC press releases on the website and regularly held MPC press conferences
  - 1999 first Monetary Policy Guidelines and Report on Monetary Policy (Implementation); first Inflation Report (without projection)
  - 2001 first MPC voting results published in an Inflation Report
  - 2003 announcement of the current inflation target (CPI at 2.5% +/- 1 percentage point in the medium term)
  - 2004 first Inflation Report with a full-blown macroeconomic projection
  - 2007 first MPC Minutes published on the website
  - 2011 first MPC voting results published regularly on the website
  - 2012 press conference following the decision-making meeting first streamed

# Do MPC press releases and conferences have any impact?

Expectations on NBP reference rate implied from FRAs

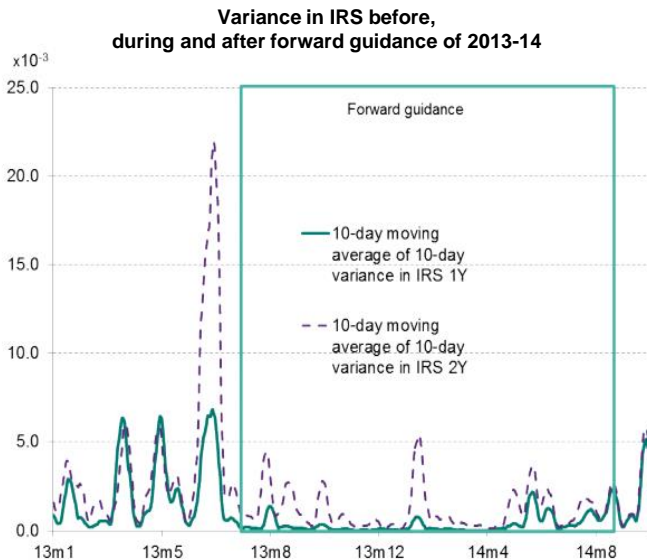


Source: Bloomberg and the Council's press releases.

## Do MPC press releases and conferences have any impact?

### ■ NBP's 'forward guidance' (1)

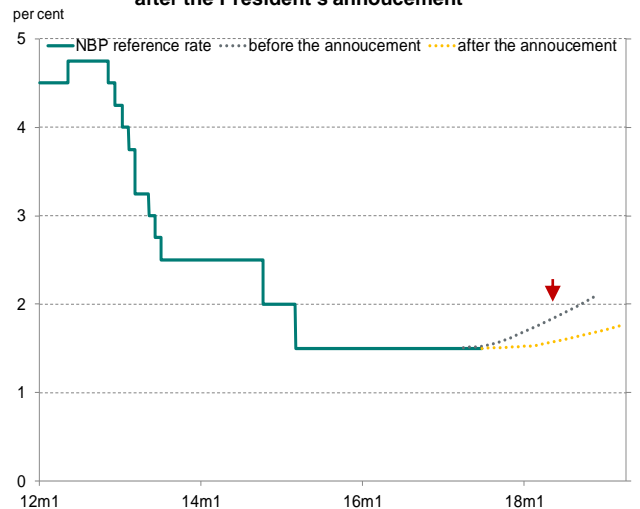
*mid 2013 to late 2014: 'The Council maintains its assessment that NBP interest rates should be kept unchanged at least until (...).'*



### ■ NBP's 'forward guidance' (2)

**President Glapinski at a press conference after a decision-making meeting in March 2017:**  
*'If nothing currently unanticipated happens, even 2018 might not see an interest rate hike'*

NBP reference rate – current and implied from FRAs before and after the President's announcement

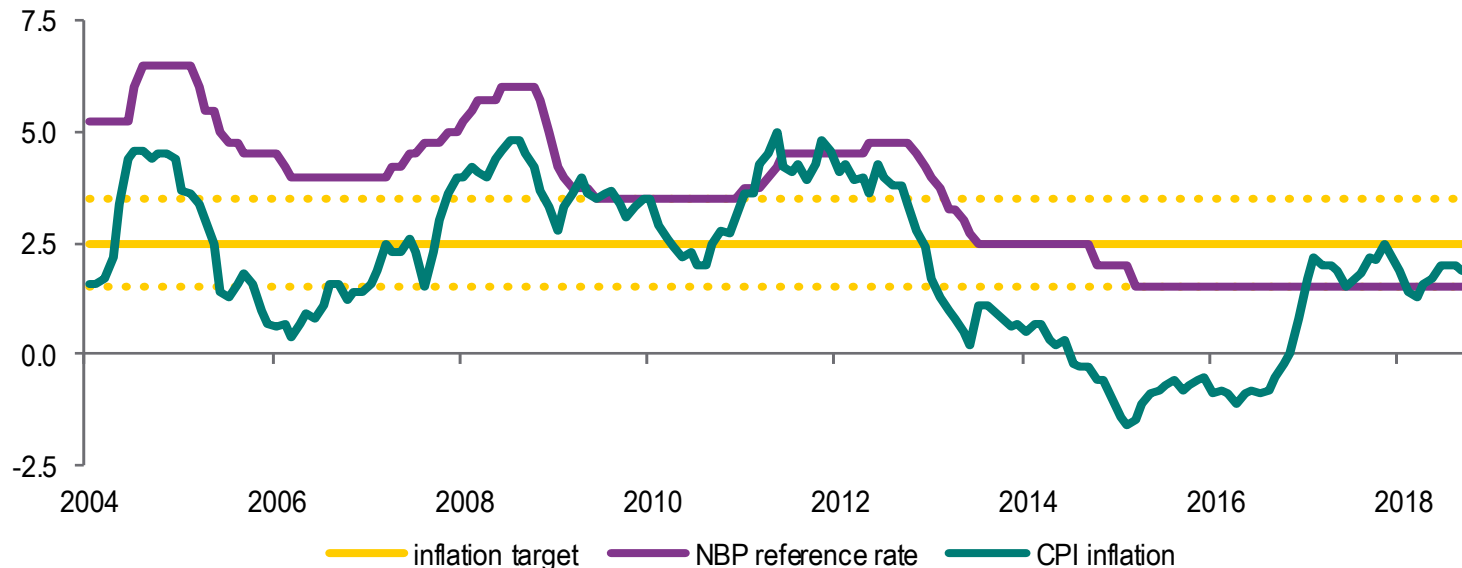


Source: Bloomberg and the Council's press releases, NBP.



## Case study: NBP concluded monetary policy easing cycle in 2015, with the reference rate at 1.5%, despite deflation...

Inflation and NBP reference rate (%)



Source: Bloomberg

## ... to avoid creating economic imbalances and to foster stability of the banking sector

### MPC Minutes:

#### ■ July 2015

*Certain members of the Council assessed that sustained high growth in mortgage lending in PLN, combined with a rising share of households whose income net of interest payment had fallen below the subsistence level, might be a source of **risk to financial stability**.*

#### ■ December 2015

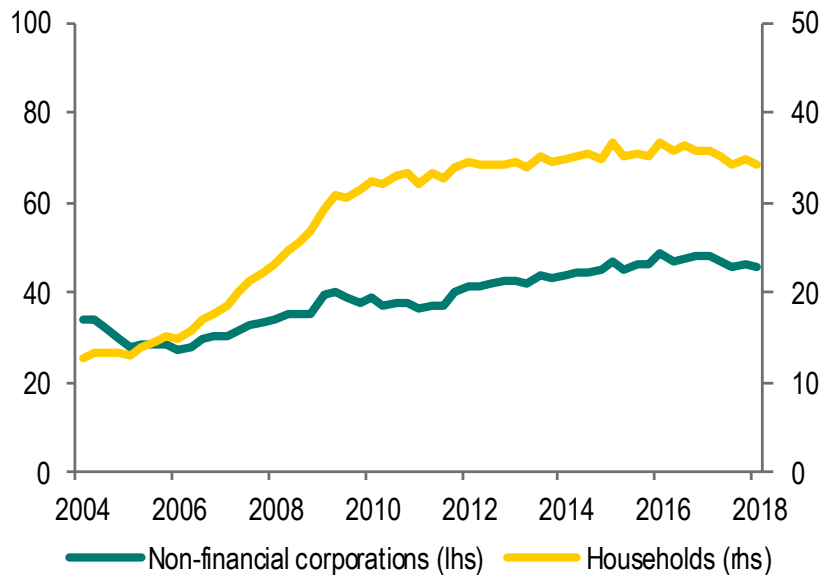
*Other Council members argued that **lowering interest rates** would not contribute to acceleration of corporate lending – which was restricted by demand factors – yet it could have an **adverse effect on the stability of the financial system**.*

#### ■ January 2016

*Moreover, some Council members assessed that when deciding about the **level of interest rates** they should factor in their **impact on the financial sector stability**. In this context, those members pointed out that **interest rate cuts could have a negative impact on the performance of the banking sector**, a factor which could not be downplayed given the increased financial burden imposed on the sector.*

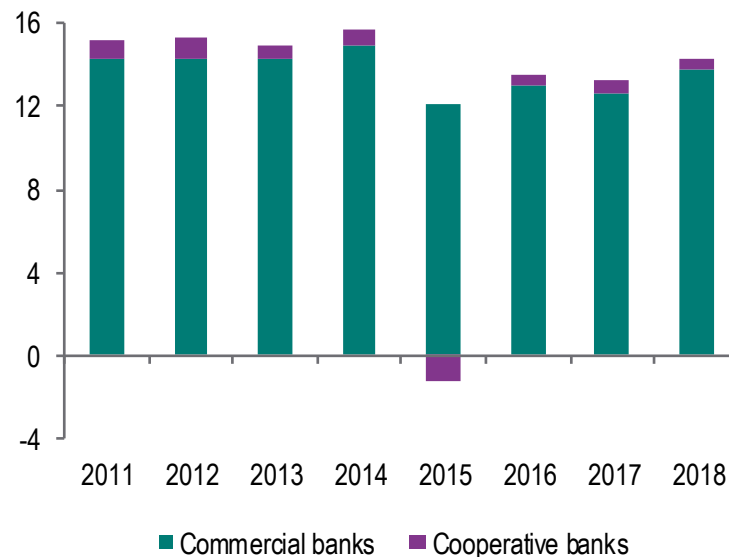
# Indeed, financial stability and the banking sector soundness have been maintained

Credit to GDP (%)



Source: Eurostat

Banking sector profit (PLN billion)



Source: FSA.

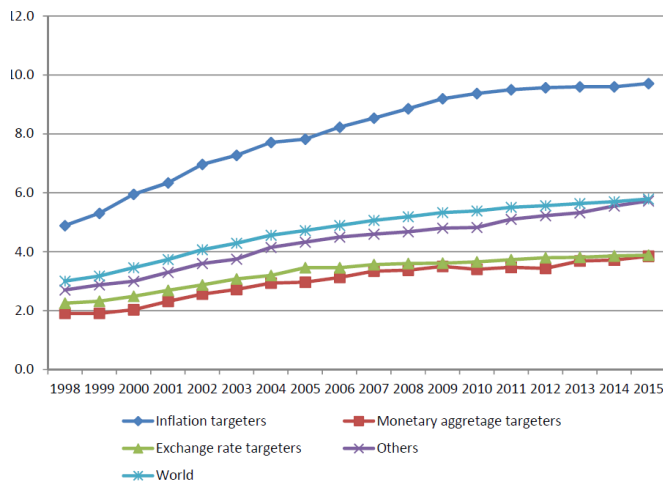
*We protect the value of money*

# Additional slides

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# Why is central bank's transparent communication important?

Transparency trends by monetary policy framework



Source: Dincer et al. (2016).

## Time inconsistency problem solved

- Central bank's commitment to its target is reinforced (Mishkin 2004).

## Expectations are anchored

- ... making it easier to meet the target (Blinder 2008).

## Accountability

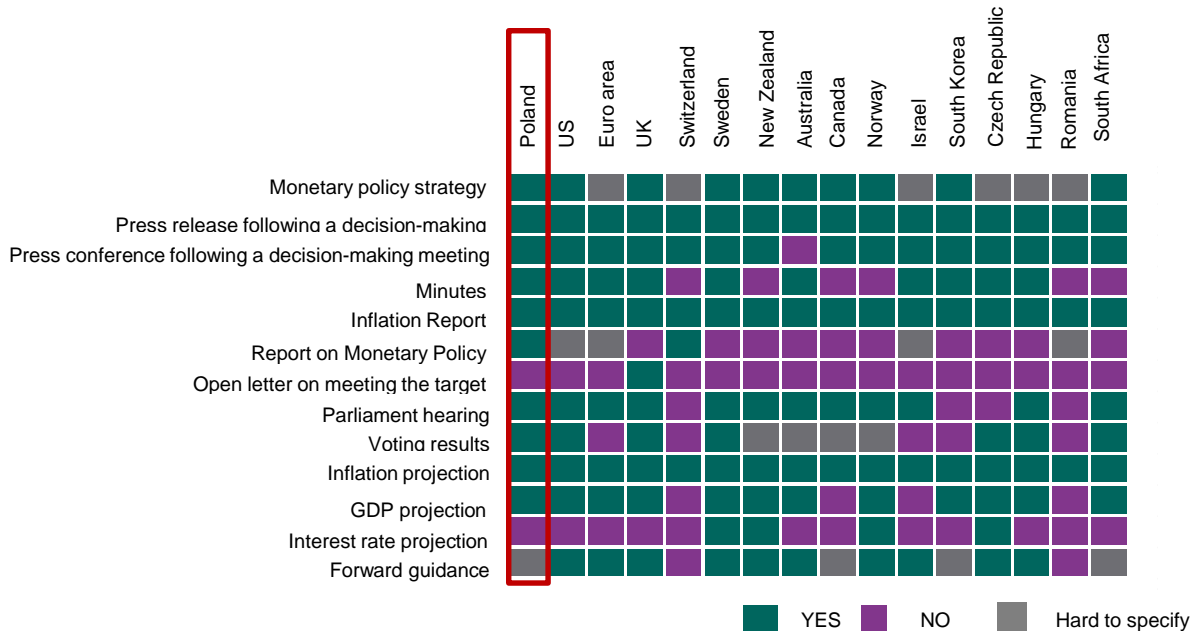
- Even if wholly independent, the central bank should still inform the public about its activities for the sake of public control.

## Economic awareness raised

- ... strengthening the efficiency of future policy actions.

# NBP is one of the most transparent inflation targeters

Monetary policy communication channels among inflation targeters (as of 2016)



Source: NBP and central bank's websites.

# Ad-hoc communication on financial stability: a recent example

- In early 2016, a coop bank in Ciechanow was placed under a corrective action plan.
- In October 2016, the information that the operation of another coop bank, in Nadarzyn, was suspended, sparked a mini-bank run among the coop bank customers in Ciechanow.
- Straight away, NBP's President, jointly with FSA's and BGF's heads, issued a statement. On NBP's part it went as follows:

*'As NBP's President, I would like to reiterate that the central bank, if needed, is ready to provide liquidity to the coop bank in Ciechanow, in line with the legal provisions – so that this coop bank can continue to meet the obligations towards its customers.'*

- This alleviated the situation and the Ciechanow coop bank operates until today.

