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Monetary Policy Transparency in the Inflation Targeting Countries: the Czech Republic, Hungary and Poland

Non-technical summary

This study explores different aspects of transparency of monetary policy in the three European Union (EU) New Member States that have adopted direct inflation targeting (DIT) strategy: Czech Republic, Hungary and Poland.

The study is motivated by the fact that a high degree of transparency is among the most important prerequisites for positive outcomes of monetary policy. Central banks need to communicate policy goals, strategies, and tactics to the legislature, financial markets, and the public at large in order to build credibility and gain widespread public and political support for the policy direction. Transparency is particularly important for the successful implementation of DIT strategy.

In this study, transparency of monetary policy is measured along two dimensions:

- institutional measure reflects the extent to which central bank discloses, information that is related to the policymaking process,
- behavioral measure reflects the clarity about the true course of monetary policy among financial market participants.

The former measure is obtained through the compilation of the index that reflects adequacy of information provided by central banks in their official documents. The latter measure is derived from the econometric analysis of short-term market interest rates responses to changes in official interest rates.

The authors find that:

- introduction of the DIT framework generally increased transparency of monetary policy in accession countries,

- there is no substantial gap in transparency between central banks in question and the European Central Bank (ECB),
- Poland has the most transparent and Hungary the least transparent monetary policy as measured along behavioral dimension,
- the last result cannot be readily explained by differences along institutional dimension.

In interpreting these empirical findings, the authors suggest that:

- association between institutional and behavioral measures of transparency of monetary policy is weak,
- transparency is influenced more by the clarity about true intentions and a unique goal of central bank rather than by detailed patterns of information disclosure,
- at least in countries implementing the DIT strategy, the absence of active exchange rate policy is a crucial factor determining the transparency.

Keywords

monetary policy, institutional and behavioural transparency, direct inflation targeting, EU New Member States, European Monetary Union