

The Connotation and Channel of the Central Bank's Monetary Policy Communication in the Post-crisis Era and Its Implications for China

Wen Xu

Sichuan University
Chengdu, China 610065

Abstract—The central bank's monetary policy communication is not only the delivery of monetary policy information facing to the public, but also possesses the property of monetary policy tool which is continuously manifested with the development of central bank's monetary policy operation. After the international financial crisis in 2008, the failure of traditional monetary policy tool promotes main central banks in the world to pay closer attention to the monetary policy communication, especially the important role of forward-looking guidance in guiding public expectation, improving the efficiency of monetary policy and recovering the normal operation of financial system. The People's Bank of China also pays more and more attention to the role of monetary policy communication and is also continuously expanding communication channels and has achieved certain effects. However, compared with that of western developed countries, the monetary policy communication of central bank has still not become a kind of strong monetary policy tool which still needs further improvement.

Keywords—*central bank; monetary policy communication; forward-looking guidance; Federal Reserve Board; People's Bank of China*

I. INTRODUCTION

From 1920 to 1944, Montagu Norman, the President of Bank of England once said “never explain and never apologize” for the monetary policy operation of central bank. However, such time has gone forever. The mystery of monetary policy operation of central bank has been gradually disclosed and the monetary policy communication of central bank has been playing more and more important role.

After the global financial crisis broke out in 2008, under the restriction of lower limit of zero interest rate, many short-term interest rate tools cannot play their roles and the central bank cannot stimulate investment and consumption through further reduction of interest rate and the decision-making process of monetary policy of central bank became more complex which increased the difficulty in forecast of monetary policy of the public and also made more and more central banks realize the importance of monetary policy communication.

This paper firstly dissects the connotation of monetary policy communication of central bank and then takes Bank

of England, European Central Bank and Federal Reserve Board for example to explain the regular monetary policy communication channel and then emphatically analyze the special monetary policy tool which is forward-looking guidance in order to bring certain implications to the monetary policy communication of People's Bank Of China.

II. CONNOTATIONS OF MONETARY POLICY COMMUNICATION POLICY IN THE POST-CRISIS ERA

The connotation of central bank communication is a continuous development process. Blinder et al. (2008) defined the monetary policy communication of central bank as “the process where central bank discloses monetary policy objective, strategy, economic prospect, future monetary policy trend and other related information to the public”. [1] Li Xiangdong (2011) thought that “the information communicated in central bank monetary communication includes the objective and strategy of monetary policy, intention for issuing policy, domestic and foreign economic conditions, prospects and policy outlook and other contents and the communication of monetary policy objective and strategy is called the long-term communication and the communication of other information is called short-term communication”. [2] But such definitions mainly emphasize monetary policy communication and information disclosure functions.

Actually, the communication of central bank monetary policy is not just limited to information disclosure. It has the property of monetary policy tool which can be continuously manifested with the development of central bank's monetary policy operation. For the countries carrying out Inflation targeting, such as England, Sweden and Japan, etc, the central banks of such countries will regularly announce the orientation of monetary policy and inflation targeting which are the regular monetary policy tools. For some countries, such as New Zealand, Canada and Australia, etc, the central banks of such countries adopt the mode of announcement of operation to guide the changes of short-term interest rate of market which actually are the manifestation of communication as monetary policy tools. In November 2012, Yellen, the vice president of the Federal Reserve Board pointed out that “the monetary policy communication of central bank can help the public to correctly understand and

forecast monetary policy trend so as to enhance the effects of monetary policy.”¹ In 2015, Bernanke, the vice president of the Federal Reserve Board said “98% of monetary policies are just saying and only 2% are doing and it is the strongest tool of the Federal Reserve Board to rebuild the capacity of market of expectation on future policy changes through announcement” in the blog.²

Therefore, the development of monetary policy communication of central bank and the development of monetary policy operation after financial crisis are indispensable. The communication is not only manifested in the process of information disclosure of central bank to the public but is more like a kind of monetary policy tool that guides the market expectation and can ensure the economic financial indicators to develop towards the direction expected by the central bank.

III. MONETARY POLICY COMMUNICATION CHANNELS OF MAIN CENTRAL BANKS IN THE WORLD

A. Conventional Monetary Policy Communication

Bank of England carries out Inflation targeting where the target of inflation is set by the government which currently is 2%. The high transparency of monetary policy is the typical characteristic of Inflation targeting system. Bank of England issues the quarterly Inflation Report to provide the forecast on economic growth and inflation and quantitative assessment of risks to be faced in the forecast of the Monetary Policy Committee; holds the monetary policy meeting every month and immediately releases the interest rates and release the minutes of the meeting two weeks after the meeting, including the minutes of the meeting and voting results, etc.

European Central Bank adopts double-support monetary policy framework including “economic analysis” and “monetary analysis” and the first objective is to maintain stable price of commodities in Eurozone and sets up the annual growth objective of 2% of harmonised index of consumption price in Eurozone in middle term. Because European Central Bank is the transnational central bank and the members of its Monetary Policy Committee come from different countries, the minutes of meeting and voting results of monetary policy meeting will not be disclosed but the resolutions will be published immediately after the meeting, the press conference will be held and the press release will be published. European Central Bank issues the economic situation and monetary policy report every month and conduct forecast to the economic growth and inflation every half year.

American Federal Reserve Act stipulates that the medium to long-term objectives of Federal Reserve Board’s monetary policy include full employment, price stability and temperate long-term interest rate. But the short-term quantitative

criteria will not be disclosed to the public. Actually, Federal Reserve Board maintains certain regularity in the monetary policy operation (such as Taylor rule) to ensure its monetary policy framework to possess the characteristics similar to the inflation targeting system. The Federal Reserve Board will immediately announce the resolutions after the monetary policy meeting and will publish the minutes of the meeting and voting results after 6-8 weeks. The Federal Reserve Board will publish monthly economic situation and monetary policy report and will conduct forecast to the economic growth and inflation quarterly. [4][5]

Although there are differences in the communication of the monetary policy framework of different central banks, we can see that the monetary policy communication of main central banks in the world has realized the systematism and publicity.

B. Unconventional Monetary Policy Tool- forward Looking Guidance

1) *Connotation of forward-looking guidance*: Since the global financial crisis in 2008, because of the restriction of lower limit of zero interest rate, the Federal Reserve Board, European Central Bank, Bank of Japan and Bank of England, etc have successively carried out forward-looking guidance which has gradually become the important expression form of monetary policy communication and is also be deemed as unconventional monetary policy tool by many scholars. Wan Zhihong (2015) defined the forward-looking guidance as the central bank guides the public to form the monetary policy standpoint or the expectation on the changes of policy paths in the future through release of macroeconomic forecasting and low interest rate commitment guidance. [6] Yang Xiuping (2017) thought that the forward-looking guidance is the qualitative description of central bank for future policy interest path, including interest rate path forecast and low interest rate commitment guidance. In New Zealand, Norway, Sweden and other countries, interest rate path forecast is carried out as part of monetary policy execution framework and belongs to conventional monetary policy tool. But the forward-looking guidance that we usually study refers to the unconventional monetary policy tool which the main central banks in the world carry out after global financial crisis which belongs to low interest rate guidance. [7]

2) *Classifications of forward-looking guidance*: There are many kinds of classification methods for forward-looking guidance. Currently, the classification method of Carney (2013) is widely adopted in the world to divide forward-looking guidance into open guidance, time guidance and state guidance. [7]

Open guidance is the guidance mode which is adopted the earliest which means that the monetary authorities provide qualitative indication for the paths of future monetary policies to disclose the principle conditions for changing future monetary policies. The expression of open guidance is relatively unclear and is more flexible for the

¹ Yellen J. Revolution and Evolution in Central Bank Communications[C]. Remarks at the Haas School of Business, University of California, Berkeley, California, November 13, 2012.

² <https://www.brookings.edu/>. Blog of Bernanke, 2015.3.30

monetary authorities. However, such type of guidance doesn't provide other information except for policy communication and may lead to misunderstandings, such as "how long is a relatively long period?" Such information that is hard to be quantified needs the further explanation of monetary authorities.

Time guidance means to clearly point out when the monetary policy will change just as its name implies. Compared with open guidance, time guidance is easier for the public to understand but it has obvious defects: the changes of economic situation may cause monetary authorities to adjust the interest rate policy. The changes of monetary policy which is declared in advance may not be completely trustworthy and the public cannot understand the reaction function³ of monetary authorities which will easily cause deviation between public expectation and the actual actions of central bank and will further cause fluctuation of economic operation and asset price. In addition, if central bank fails in realizing time guidance or revising the guidance again and again due to special events, it may lower the credibility of central bank policy.

State guidance means to clearly point out the economic state upon changes of monetary policy. Currently, the Federal Reserve Board and Bank of England all adopt state guidance as the mode of forward-looking guidance. For example, it was determined to increase interest rates by 25 base points on the FOMC Meeting of the Federal Reserve Board in December 2015. Later it was proposed in the bulletin of meeting that "the trend of future interest rate depends on whether the real and expected economic conditions can reach the objective of full employment and 2% of inflation" which delivers the rhythm and range of interest rates according to economic situation. State guidance links monetary policy path with specific economic conditions which gives the public relatively clear information about the reaction function of monetary authorities and can help the public to understand reasons and mode of policy changes so as to reduce the deviation between expectation of the public and actual actions of central bank. Therefore, central bank needs to weight and balance the various indicators reflecting inflation, output, employment and financial stability and must have profound understanding on the current economic operation change rules for successful state guidance.

3) *Development path for forward-looking guidance of the federal reserve after financial crisis:* The subprime crisis broke out in America in 2008. From September 2007 to December 2008, the Federal Reserve Board reduces the interests for successive ten times which make the interest rate of Federal funds reduce from 5.25% to 0.25% and approach the lower limit of zero interest rate. The Federal Reserve Board started to use unconventional monetary

³ Reaction function means that how the monetary authority makes reaction information according to unknown changes. The reaction function can help the public to know what conditions may cause central bank to change its policy change data and the specific direction of policy change.

policy tool which is forward-looking guidance to obtain easier monetary policy operation space.

TABLE I. DEVELOPMENT PATH OF FORWARD — LOOKING GUIDANCE OF FEDERAL RESERVE BOARD DURING 2008-2015

Date	Description	Type
December 2008	The weak economic conditions may cause the interest rate of Federal Reserve Board to be maintained at extremely low level within a certain period.	Openess guidance
March 2009	The weak economic condition will make the ultra low interest rate "continue for a certain period"	
September 2010	Conduct continuous monitoring on the economic prospect and financial development and prepare extra mobility at any time to support economic recovery and inflation to transfer to the stated objective.	
August 2011	The ultra interest is at least maintained to middle of 2013.	Time guidance
January 2012	The ultra low interest rate is at least maintained to the end of 2014.	
September 2012	Ultra low interest rate is maintained to the middle of 2015.	State guidance
December 2012	If the unemployment rate is higher than 6.5%; and the inflation level in future 1-2 years is expected to be less than 2.5% or the inflation level is expected to be stable in a long term, the ultra low interest rate will still be maintained.	
December 2013	Strengthen forward-looking guidance even the unemployment rate falls to below 6.5%; if it is expected that the inflation will still be maintained below 2%, the ultra low interest rate will still be maintained.	
March 2014	Determine whether to adjust the current interest rate of federal fund according to the comprehensive assessment on the objective of 2% inflation and employment conditions.	
April-October 2015	When the economy recovers growth in the future; the labor force market will be clearly improved; and the inflation rate returns to about 2%, the interest rate will be increased.	
December 2015	Determine to increase the interest by 25 base points; the trend of future interest rate depends on whether the real and expected economic conditions have reached the objective of full employment and 2% of inflation.	

⁴ Data source: announcement of all previous FOMC meetings

We can see from "Table I" that the forward-looking guidance of Federal Reserve Board experienced the development process from open guidance to time guidance to state guidance. From end of 2008 to end of 2015, over the seven years, the monetary policy of Federal Reserve Board is gradually returning to the normal monetary policy from quantitative and easy unconventional operation. Thereinto, the forward-looking guidance plays an important role in leading the expectation of the public, reduction of expectation and the deviation from actual operation of Federal Reserve Board and smoothing the economic fluctuation and is the unconventional monetary policy tool

with higher use frequency in Federal Reserve Board in the post-crisis era. In December 2015, since the Federal Reserve Board has officially stepped into interest rate increase channel, the Federal Reserve Board announced to increase the interest by 0.25% until December 19, 2018 which increases the target zone of interest rate of federal fund from 2%-2.25% to 2.25% -2.50%. American economy is in rapid recovery and forward-looking guidance may be canceled as the low interest rate commitment after financial crisis. On the FOMC meeting in June 2018, Powell, the president of Federal Reserve Board announced that: from January 2019, every follow-up FOMC meeting will add the press conference and will continuously update the economic expectation of new quarter. He also indicated that: since the Federal Reserve Board started to use forward-looking guidance, we can only wait and see what happens. However, it is undeniable that the forward-looking guidance plays an important role in stabilizing market confidence and recovering normal operation of financial system as the American monetary policy communication tool after financial crisis.

IV. PRACTICE AND IMPLICATIONS OF MONETARY POLICY COMMUNICATION IN CHINA

Up to 2018, China's reform and opening-up has gone through 40 years. In the 40 years, the economic development of China has achieved great achievements and creates the miracle of growth one after another which makes China become the second largest economic entity in the world. With the deepening of China's reform and opening-up level, the monetary policy of China is also receiving more and more attention. The communication of monetary policy of People's Bank of China plays an important role in improving the transparency of China's monetary policy and keeping sustainable and steady economic development of China. At the same time, in consideration of the constantly strengthening global influence and constantly enhancing linkage among financial departments, the monetary policy communication of China becomes more and more important for the international community.

A. *Main Channels for Monetary Policy Communication of People's Bank of China*

Since China started publishing the data of money supply from 1994, the disclosure of target and decision-making mechanism of monetary policy and information related to financial economy has been gradually increasing. The monetary policy communication of the People's Bank of China is also continuously developing and currently there are mainly four channels for communication as follow:

- The People's Bank of China publishes the Monetary Policy Execution Report quarterly which contains the recent decisions of monetary policy; analysis of output, price and money supply; related information of important economic sectors and the evaluation of macro-economic situation of China, etc. The report is mainly about the review on the events occurred. However, since the first quarter of 2001, it also covered the elements of "forward-looking guidance"

[7]. Since 2011, the report began to introduce and publish the monthly data of total social financing and take it as the important monitoring indicator to make up the shortage in money supply indicator. [4]

- Since 1997, the Monetary Policy Committee began to hold meetings at the end of each quarter and publishes the meeting resolutions one or two days after the meetings.
- We call the various kinds of public speeches made by the president and vice president of the People's Bank of China and press conferences as oral policy communication which are mostly after the events and place emphasis on explanation but not guidance of expectation, especially upon significant policy changes (such as RMB exchange rate reform and cancellation of interest ceiling of deposit in 2015) and rapid fluctuation of stock price, the quantity of oral policy communication is also clearly increased.
- Since 2003, the People's Bank of China began to conduct open market operation once a week which was changed into twice a week since 2004. To better explain the theory of open operation to the public, the People's Bank of China began to develop the open market operation every day and publish announcements. There are frequently the words including "in consideration of adequate liquidity, the People's Bank of China conducts intervention to maintain the stable liquidity", etc. to describe the background of open market operation. [6]

B. *Implications on the Monetary Policy Communication of People's Bank of China*

In the past few years, the People's Bank of China continued to enhancing the monetary policy communication. In 2018, the People's Bank of China reiterated that "we will continuously increase the credibility and transparency of the People's Bank of China", "intensify the reading of policy release and positive disclosure of information and timely deliver the intentions of the People's Bank of China's policies and reasonably guide the market expectation". [9] With the development of internet media and the increase of demands on instant message (IM) of the public, currently the People's Bank of China is also conducting regular policy communication through social media (such microblog and Twitter). Since 2018, the People's Bank of China increased the times of press conference and media interviews and increased the information contents of Monetary Policy Execution Report in order to better realize the communication and reasonably guide the market expectation. [8]

However, compared with the central banks of developed countries (such as Federal Reserve Board and Bank of England), the monetary policy communication of the central bank of China has not become a strong monetary policy tool and still needs further improvement.

On one hand, the communication in policy execution process is not sufficient enough. For example, the quarterly

meeting of Monetary Policy Committee only discloses the resolutions but not the whole process (such as minutes of meeting and voting, etc); and rarely explains the economic data and decision-making models that the formulation of monetary policy is based on to the public. Although those enhance the independence and flexibility of monetary policy, those may also cause the monetary policy to be short-term and incoherent due to lack of public supervision and the public expectation may also deviate from the policy expectation of central bank so as to impact the effectiveness of monetary policy and impact the stable operation of economy.

On the other hand, the forward-looking guidance is still in shortage. After the financial crisis in 2008, the forward-looking guidance has been taken as unconventional monetary policy tool and widely used by many developed countries. But China has not officially proposed the implementation of monetary policy with “forward-looking guidance”. Although the Monetary Policy Execution Policy has contained forward-looking information since 2001, it rarely publishes clear opinions on economic trends and monetary policy changes, etc in the future and is relatively conservative about the application of the monetary policy tool of forward-looking guidance. For example, when mentioning the future monetary policy orientation, the China Monetary Policy Execution Report of Third Quarter of 2018 published in November 2018 described it as “prudent monetary policy shall keep neutral and shall possess moderate tightness”. Such unclear expression can hardly guide the expectation of the public. Although some scholars use empirical approach and statistical analysis to study the expression of potential forward-looking guidance in Monetary Policy Execution Report published by the People’s Bank of China and it is found in the study that such potential forward-looking guidance has clear effects in China, the effects of forward-looking guidance will be significantly increased if central bank can obtain market trust through more accurate forecast and more enduring commitments so as to further promote the effectiveness of monetary policy and reduce the financial market fluctuations.[10]

V. CONCLUSION

This paper concludes the connotations of monetary policy communication of central bank in post-crisis era and points out that the monetary policy communication of central bank is not just limited to information disclosure but has more the property of monetary policy; then the paper takes the Bank of England, European Central Bank and Federal Reserve Board as examples to explain the conventional monetary policy communication channels; then introduces the unconventional monetary policy tool- forward-looking guidance and takes Federal Reserve Board as example to explain the development history of forward-looking guidance; finally combs the monetary policy communication channels of the People’ Bank of China at the present stage and proposes several improvement suggestions. The author thinks that the evolution of monetary policy communication of central banks of developed countries plays an important enlightening role in the monetary policy communication of

central bank of China and we should focus on and analyze the monetary policy communication of central bank of developed countries and combine with practical situation of China to timely improve the monetary policy communication channel of China which has significant meanings for improvement of effectiveness of monetary policy and reasonable guidance of market expectations.

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