



Wednesday September 6th, 2017

Adjustments to the Monetary Policy Decision-Making Process and Communication: Some Questions and Answers¹

The Central Bank of Chile (CBC) conducts monetary policy under an inflation targeting framework. The framework's success relies not only on the effective communication of policy decisions and their rationale, but also on in-depth analysis of incoming information and a proper understanding of the evolution of the domestic and global economy. Policy decisions and their communication are structured around Monetary Policy Meetings (MPM) and the Monetary Policy Report (MPR).

After an exhaustive internal evaluation based on the Institution's accumulated experience and international best practices, the CBC's Board has decided to make several adjustments to its monetary policy decision-making process and communication. These modifications are part of the Bank's strategic plan and aim at strengthening the decision-making process, enhancing the Institution's internal analysis, and improving the quantity, quality, and timing of the information that is publicly distributed.

In this note we provide additional information on the changes to be implemented in the form of questions and answers. The material presented herein complements the information published in the Box included in the Monetary Policy Report of September 2017.

Changes Related to Monetary Policy Meetings

Why is the frequency of MPMs being changed?

The Board has considered that, in the context of low inflation and well-anchored inflation expectations, there are important benefits associated with the new frequency, both in terms of the scope of the analysis and the communication of monetary policy decisions.

More time between meetings will allow for more information to be gathered and greater time for analysis, which will result in a more thorough assessment of the national and

¹ This is a translation of a document originally written in Spanish. In case of a discrepancy or difference in interpretation, the Spanish original prevails. Both versions are available at www.bcentral.cl.

international economy. Moreover, the new format will reduce the influence of typically volatile monthly data on policy decisions. All this will contribute to a more robust monetary policy decision-making process, which will thus strengthen the communication of monetary policy.

Every how often will MPMs take place?

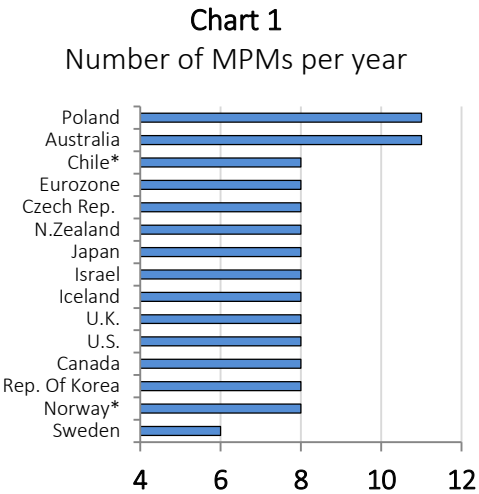
Under the new calendar, there will be eight MPMs per year, each set six to eight weeks apart, in the months of January, March, May, June, August, September, October and December.

Does the Bank lose policy responsiveness capability with fewer MPMs?

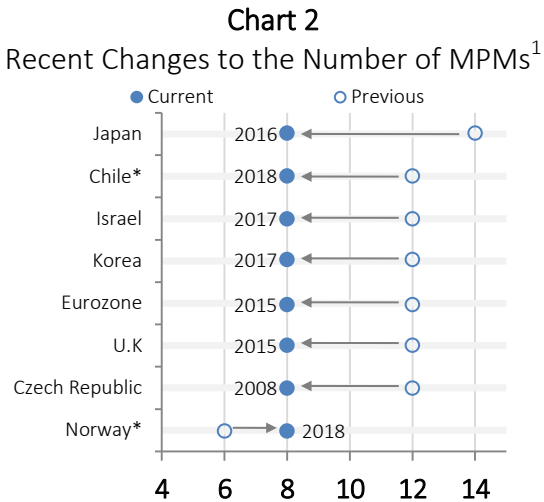
No. Although there will be fewer ordinary meetings, the Bank’s Board may call as many extraordinary and special meetings as deemed necessary, as noted in the Internal Rules of Procedure of the Board of the Central Bank of Chile.

How does the new MPM frequency compare with that of other central banks?

A large majority of inflation-targeting central banks of economies that have low and stable inflation also hold eight MPMs in the year. In fact, many central banks have recently adjusted their policy meeting frequency to eight.



Source: Central bank websites. *The central banks of Chile and Norway will hold 8 MPMs starting in 2018.



Source: Central bank websites. 1/ Blue solid dot shows the year the frequency was changed. *The central banks of Chile and Norway will change to 8 MPMs in 2018.

Why is the duration of the MPMs extended from one day to one day and a half?

Slightly longer meetings are needed to provide more time and space for analyzing the national and international economic situation, the macroeconomic outlook and monetary policy options.

How will this one day and a half be structured?

In the current format, MPMs are performed over the course of a day in two sessions. In the morning, domestic and external economic and financial developments that have occurred since the last meeting, as well as their effects on the projections, are presented and discussed. In the afternoon session, monetary policy alternatives are discussed and assessed and, subsequently, each Board member votes and justifies their decision. In all these instances, the Finance Minister participates as a Board member with the right to speak. Once the voting process has concluded, the official communiqué of the Board is reviewed, approved, and finally released starting at 6:00 p.m.

Under the new format, there will be three sessions, beginning the afternoon before the day the policy decision is announced. In doing so, more time is allotted to the discussion of background information and the deliberation on monetary policy options, recognizing the vast amount of new data on the national and international economy that will be collected between MPMs. During the first session, on the afternoon of the first day, local and external economic and financial information collected since the last meeting will be examined. On the morning session of the second day, staff presents and discusses updated forecasts that take in to account the developments presented the previous afternoon, also analyzing monetary policy options. Later that day, in the afternoon session, each Board member will vote and substantiate his decision. Once voting has taken place, the Board's official communiqué will be reviewed and approved, and will be published starting at 6:00 p.m., as before. Neither of these amendments alters the participation of the Minister of Finance as a Board member with the right to speak.

Changes to the Communication of Monetary Policy

How is the official MPM communiqué being changed?

The Board has deemed it necessary to extend the current version of the communiqué to better convey the most important economic and financial information that led to the decision taken by the Board. The communiqué will have a similar structure to the current one, including the monetary policy bias.

In addition, the Board has decided to include the voting outcome, explicitly identifying the vote of each Board member present. This information is currently disclosed in the MPM minutes that are published 11 bank working days after the MPM.

The communiqué will continue to be released at the end of each MPM, starting at 6:00 p.m. of the second day.

What will happen with the MPM minutes?

The MPM minutes play an important role in the Bank's communication with economic agents and the general public, since they delve into the analysis carried out by the Board and the considerations that were taken into account for the policy decision. In this sense, the MPM minutes will continue to include detailed information on the issues that were analyzed and discussed at the meeting, and will continue to be released 11 bank working days after the MPM, broadly in line with the publication lag of other central banks.

The minutes will be amended in two dimensions. First, the current background minutes, which are published one day before the MPM, and the main charts of the MPM which are published the day after the MPM, will now be included in the MPM minutes. Thus the MPM minutes will become a unified self-contained document that will include all the data analyzed at each meeting.

Second, the MPM minutes will contain the analysis of the monetary policy options evaluated by the Board, together with the main arguments of its members for or against.

Why is the publication of the MPM background minutes being postponed until the release of the MPM minutes?

All types of communication from the Central Bank of Chile can be interpreted as a monetary policy signal. As a result, the Bank normally limits its communication efforts to the market in the days leading up to the policy decision. That is, for example, the spirit behind the black-out period that Bank's Board members and staff must respect. In this regard, it seems prudent to delay the publication of the background minutes and to publish such information together with the MPM minutes. This is to avoid giving signals before the Board's deliberation that may lead to confusion or over-interpretation by market players with respect to some data.

In this regard, it is worth bearing in mind that all of the information contained in the background minutes is public, so this measure does not reduce the amount of information available to the market.

The merging of the background minutes with the MPM minutes is common practice in other inflation-targeting central banks. In fact, a review of their practices reveals that the Central Bank of Chile is the only one that publishes a document summarizing public economic data before a monetary policy decision.

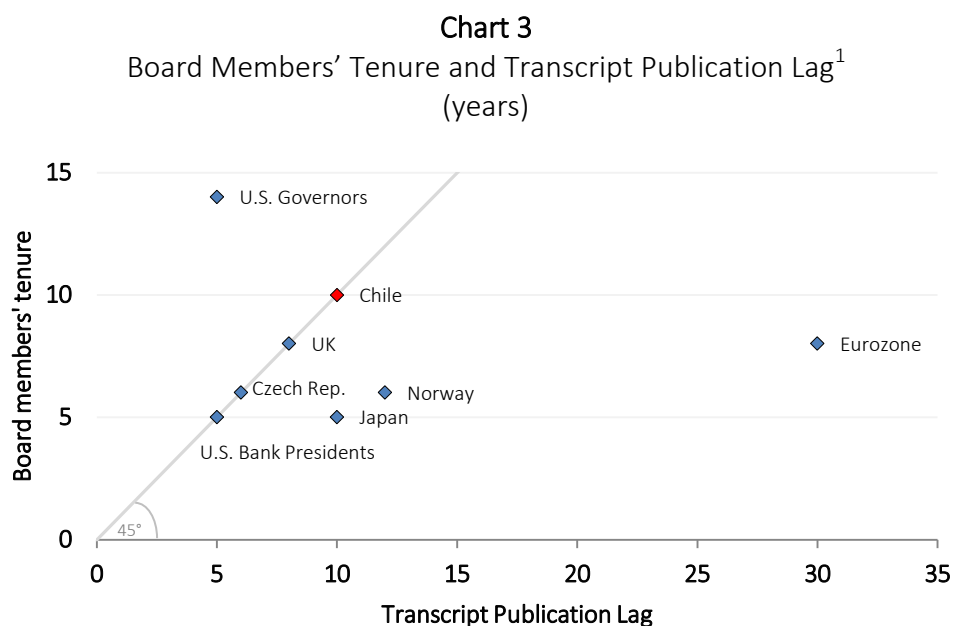
What is the objective of publishing the MPM transcripts with a ten-year lag?

The Board has decided to publish on its website the transcripts of their MPMs with a ten-year lag, retroactively since 2000, the year in which the current MPM scheme was implemented. Currently the MPM transcripts are kept in an archive in the General Secretariat of the Central Bank of Chile and are available for consultation by Board members, the Finance Minister, the General Manager, the General Counsel, the Certifying

Officer, and the Auditor General. The transcripts contain information on the topics analyzed and opinions expressed by the participants during the respective MPM.

Publishing MPM transcripts with a ten-year lag meets several objectives. On the one hand, it further strengthens transparency efforts towards the population and market agents on the Central Bank’s decisions and their rationale. On the other, it will contribute to the study of the country’s economic history and a better understanding of its decisions from a historical perspective.

The Board has resolved that a ten-year lag, which coincides with the tenure of the Board members, is sufficiently prudent to avoid any possible impact of the publication of the transcripts on the discussion process during MPMs. With some exceptions, the time for the publication of the transcripts in other central banks is equal to or longer than the term of the members of the respective Board.



Source: Central banks' websites. 1/ For the central banks of Norway and the UK the periods of the Board members of longer duration are used (UK governor, 8 years; Norway: internal Committee members, 6 years). For the Eurozone, the period of the members of the Executive Board is used.

Changes to the Monetary Policy Report and the Financial Stability Report

Why will the MPR be published the day after the respective MPM and not independently as it has been so far? Will the months of publication change as well?

One of the objectives of the broad set of changes is to improve the communication of monetary policy, emphasizing its relationship with the medium-term economic outlook, which is presented to the public on a quarterly basis in the MPR. The MPM and MPR coinciding four times a year strengthens this relationship, because by releasing this report right after the MPM, the Board's decision is further justified and contained within the MPR. Additionally, it avoids having instances of monetary policy communication that are too

close to each other, such as when an MPR is published only a few days away from an MPM. The publication of the MPR the same day or close to the MPM is common practice among most peer central banks.

The Monetary Policy Report will continue to be published in March, June, September and December, in the morning of the day after the respective MPM.

Table 1

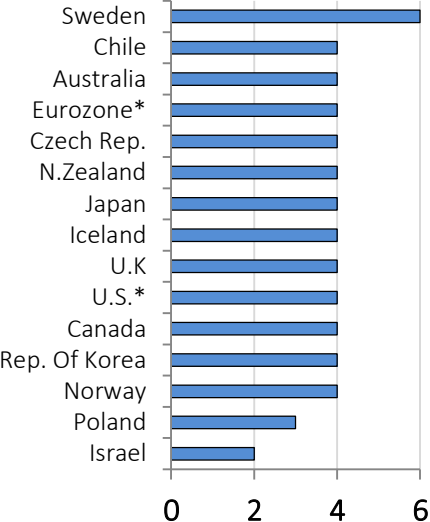
Average number of days between the Monetary Policy Report and the MPM*

Central Bank of ...	Days since MPM
Canada	0
U.S.	0
Eurozone	0
Iceland	0
Japan	0
N.Zealand	0
Norway	0
U.K.	0
Sweden	0
Czech Rep.	0.5
Australia	3
Poland	5

Source: Central bank websites. * In 2017.

Chart 4

Number of Monetary Policy Reports per year



Source: Central bank websites. * US and Eurozone data refer to the Summary of Economic Projections and ECB staff projections, respectively.

Will the MPR still be presented to the Senate?

Yes. The MPR will still be presented to the Senate immediately after its publication, at dates to be agreed upon with the relevant authorities.

What will happen with the press conference after the MPR presentation?

Together with the publication of each MPR, the Governor of the Central Bank will hold a press conference at the Institution's premises.

Why will the Financial Stability Reports be presented separately from the Monetary Policy Reports?

The Financial Stability Report will continue to be published twice a year, only now it will appear separately from the MPR, every May and November. Currently, the messages in the FSR have less exposure when presented jointly with the MPR and, sometimes, it is difficult to differentiate the messages between both reports. The latter communicates the monetary policy implemented by the Central Bank, while the former discusses the main risks to financial stability envisioned by the Board. Thus, publishing and presenting the FSR on a different date than the MPR will allow for a more effective communication of the FSR's messages.

Implementation

When will the changes become effective?

These changes will begin to be implemented in January of 2018.

When will the dates of upcoming monetary policy meetings, monetary policy reports and financial stability reports be informed?

In September of each year the Bank's Board will publish the annual calendar of the following calendar year, including the dates of MPMs, MPRs and FSRs. The 2018 annual calendar will be published next Thursday September 14th.

What about the MPMs of January and February 2018, which have already been announced?

As the new schedule will become effective in January 2018, the January MPM will be rescheduled and the February meeting will be eliminated.

And what about the December Financial Stability Report?

As the new schedule will become effective in January 2018, the Financial Stability Report of the second half 2017 will be published as previously announced, next December.

Table 2
Adjustments to the Monetary Policy Process

CURRENT		NEW	
Background minutes (1 day before MPM)	<ul style="list-style-type: none"> Background of the evolution of the national and international economy since the last MPM 	<ul style="list-style-type: none"> Main background of the evolution of the national and international economy since the last MPM Monetary policy decision Board decision rationale Voting outcome 	Official Communiqué (at the end of each MPM)
Official Communiqué (at the end of each MPM)	<ul style="list-style-type: none"> Brief review of economic environment Monetary policy decision 		
MPM minutes (11 bank working days after MPM)	<ul style="list-style-type: none"> Voting outcome Options proposed by staff Summary of the discussion 	<ul style="list-style-type: none"> Main charts and tables submitted by staff to the Board Policy options examined by the Board Arguments for and against either option 	MPM minutes (11 bank working days after MPM)
MPM transcript (reserved, not disclosed)	<ul style="list-style-type: none"> Detail of statements by each Board member and the Finance Minister 	<ul style="list-style-type: none"> Detail of statements by each Board member and the Finance Minister 	MPM transcript (published in 10 years' time)

Source: Central Bank of Chile