

# ■ The Executive Board of the Riksbank and its work on monetary policy – experiences from the first ten years

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*On 1 January 1999 the price stability target was confirmed by law. At the same time an Executive Board was appointed, consisting of six members employed full-time to make decisions on monetary policy issues and to govern the Riksbank. In our article we first describe the background to the establishment of the Executive Board and some characteristics of the Board's working methods during its first decade. We then summarise the results of a unique survey where we have asked all present and past members who have served on the Board questions about their experiences. It turns out, for instance, that many members consider the Executive Board to be slightly too large. Another result is that despite the members acting as individuals, there appears to be a willingness to compromise when the interest rate decisions are made – many members have sometimes refrained from entering reservations and say that there is a “bargaining margin” in the interest rate decisions.*

## More than a decade of a statutory price stability target and an Executive Board

On 1 January 1999 the laws governing the Riksbank's activities were radically amended. The monetary policy objective of maintaining price

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stability was now also put in print in the law. At the same time the management structure of the Riksbank was altered in that an Executive Board with six full-time employees was appointed to govern the Riksbank and to decide on monetary policy issues. The law text also contained an explicit ban on public authorities trying to influence the Riksbank's decisions in monetary policy matters.

The purpose of the amendments to the law was to reinforce the Riksbank's position and make it more independent. According to the bill that formed the basis for the decision, there were two reasons for doing so (Bill 1997/98:40, *Riksbankens ställning (The position of the Riksbank)*, p. 48). Firstly, it was considered easier for an independent Riksbank with a clearly-stated price stability target to give monetary policy the long-term perspective required to give credibility to the target. Secondly, as a result of EU membership, Sweden had undertaken to reinforce the Riksbank's independence – a requirement that was of course also based on an ambition to promote long-term thinking and credibility for monetary policy.

Although the amendments in the law were in formal terms rather radical, one can to a great extent regard them as a codification of the existing practice. The inflation target, which had been introduced in 1993 at the initiative of the Riksbank, was already well established. During the entire period with an inflation target the Riksbank had also in practice been able to act with a high degree of independence. Although political representatives had from time to time commented on and criticised monetary policy, the support for interest rate decisions being made by the Riksbank without political intervention had increased and was quite firmly rooted by 1999. In this sense the amendments in the law entailed no major differences in conducting monetary policy in practice, but could be regarded more as an insurance that the present system would continue to apply.

The amendment that had the largest practical consequences was the appointment of an Executive Board. From June 1994 the system had been that the Governing Council of the Riksbank, of which the Governor of the Riksbank was a member, made decisions regarding what was known as the interest rate corridor, that is, the Riksbank's lending and deposit rates. The Governor of the Riksbank then decided where in the interest rate corridor the repo rate would lie (Hörngren 1994).

This meant that even earlier, the interest rate decisions had been made, or at least influenced, by a group of people. However, unlike the Governor, the other members of the Governing Council were not full-time employees of the Riksbank and they often had other time-consuming assignments in addition to monetary policy. Therefore, the Governor's

views probably carried considerable weight when the decisions were made.

After 1 January 1999 these conditions changed fairly radically. The decisions were now to be made by a committee of six full-time employees voting on the interest rate. The Governing Council instead became the General Council, with a controller function and with the main task to appoint the members of the Executive Board.

Sweden is far from the only country to have introduced a system where the monetary policy decisions are made by a group of persons. During the past ten to fifteen years there has been an international trend towards allowing monetary policy to be determined by a committee rather than by an individual central bank governor.

With regard to monetary policy decision-making in committees, one can say that “practice has been ahead of theory” in the sense that the establishing of monetary policy committees around the world gave an impetus to research. Today there is relatively widespread and growing research into different aspects of monetary policy decision-making by committees.

Given the interest in this subject, it is somewhat surprising that no one has yet systematically surveyed people who have taken part in monetary policy committees with regard to their experiences. This is what we have done as part of this study. We have asked all of the people who have been members of the Executive Board of the Riksbank during some period since its inception in 1999 to respond to a questionnaire. The questions largely concern subjects that have been discussed in the research literature and may, for instance, aim to examine how well the members of the Executive Board feel that a particular theory fits in with their own experiences. The responses thus relate research to the views of initiated practitioners in a way that has not been done before. The results are summarised in the second part of this article. First, however, we shall provide a brief background to the establishment of the Executive Board, examine some specific characteristics of the way the Executive Board has chosen to work and report some statistics regarding the composition of and voting by the Executive Board over the years.

## Why an Executive Board and why six members?

One explanation for the trend of delegating the monetary policy decisions to a committee is that the central banks have become increasingly independent. Previously, when the central banks were often more or less agents of the government, there was little reason to appoint more than one person to make the interest rate decision (Blinder 2007). As the

central banks have become more independent it has probably also been perceived as more appropriate from a legitimacy perspective to delegate the monetary policy decisions to a group of people rather than to one individual (Svensson 2001).

Another explanation could be that groups tend to make better monetary policy decisions than individuals. There is some support for this theory in the research. For example, Blinder and Morgan (2005, 2008b) and Lombardelli et al. (2005) find in experiments where students make simulated monetary policy decisions that the decisions are better if made by a group than if made by individuals.

In the bill that forms the basis for the amendments to the law in Sweden in 1999 there does not appear to have been any consideration given to delegating the monetary policy decisions to one individual central bank governor. The starting point appears to have been to find a solution that was relatively close to the previous system with a Governing Council (although during the period with a Governing Council the governor had a decisive influence over the interest rate decisions). For instance, it is said that: "In a situation where the role of the Governing Council is severely limited and the responsibility for monetary policy and other ESCB<sup>2</sup>-related issues is transferred to the Executive Board, it seems appropriate to introduce a more collegial decision-making system where the Governor of the Riksbank is *primus inter pares* (chairman)." (Bill 1997/98:40, *Riksbankens ställning (The position of the Riksbank)*, p. 70.) One interpretation is that the legislator gave great importance to the argument that decisions should for democratic reasons be made by a group of persons rather than by an individual.

The argument that the decisions on average are better if they are made by a committee also appears to have carried some weight. For instance, that the Executive Board was to consist of six members was justified by stating that it will thus have "the requisite competence without being unnecessarily large". However, this probably did not merely refer to the competence to make good monetary policy decisions, but also to the competence to manage the Riksbank as a whole.

The quotation above is the only actual explanation as to why exactly six members were chosen. It is also noted in the bill that "it may be discussed whether an Executive Board consisting of one governor and two deputy governors might be adequate". However the conclusion is drawn that "given that the Executive Board shall manage the Riksbank and be responsible for most of the tasks that were previously the responsibility

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<sup>2</sup> The European System of Central Banks, that is, the cooperation body that consists of the European Central Bank and the National Central Banks of the countries in the EU.

of the Governing Council, the working group finds reason to consider an Executive Board that consists of a larger number of members”.

So what does the research have to say about the appropriate size for a monetary policy committee? As we have already noted, there is some support in the research that groups on average make better decisions than individuals. If this was merely due to a group's total knowledge being greater than that of an individual, then the bigger the group the better. However, there are factors which mean that the advantages with increasing the size of a monetary policy committee begin to decrease or may even vanish if the group becomes too large. It could be a question of the monetary policy process being more unwieldy and that it is more difficult to conduct a good monetary policy discussion in an overly large group. At present there is no very precise consensus view as to what is an appropriate size for a monetary policy committee. The research appears to have resulted in the conclusion that 5-9 members is the preferable size (Erhart and Vasquez-Paz 2007). Moreover, the appropriate size of the monetary policy committee most likely varies according to the specific conditions prevailing in different countries (see, for instance, Berger et al. 2008). Internationally, the size of monetary policy committees varies, from 3 members in Switzerland to 22 in the European Central Bank (ECB).

The size of the Executive Board of the Riksbank has been discussed on some occasions since 1999. As early as 2000 the General Council proposed a review of the question of the size of the Executive Board. While awaiting this review the General Council proposed that the Sveriges Riksbank Act should be amended, setting the number of Executive Board members at a maximum of six and a minimum of three (General Council of the Riksbank 2000). However, the Riksdag (the Swedish Parliament) Committee on Finance rejected this proposal (Riksdag Committee on Finance 2000). The size of the Executive Board was also discussed in the evaluation of monetary policy in Sweden between 1995 and 2005 made by Francesco Giavazzi and Frederic Mishkin (2006) at the request of the Riksdag Committee on Finance. There it was stated that the Executive Board “could very well run with five or even four members” (p. 75). On this occasion both the Riksdag Committee on Finance and the General Council were negative to the idea of reducing the size of the Executive Board (Riksdag Committee on Finance 2007, General Council of the Riksbank 2007).

## With the Executive Board in place

When it became clear that an Executive Board with six members would govern the Riksbank with effect from January 1999 and would make decisions on the interest rate, preparations began internally to adapt the monetary policy decision-making process and communication to the new situation. Many of the guidelines laid down as part of this work still apply and have made their mark on the Riksbank's activities over the past decade.

### THE STAFF PLAYS AN IMPORTANT ROLE IN THE MONETARY POLICY DECISION-MAKING PROCESS

Fairly soon after the Executive Board came into force the monetary policy decision-making process also began to take form.<sup>3</sup> The process of producing a Monetary Policy Report takes around six weeks, while the time required to produce a Monetary Policy Update is slightly less. A preliminary draft for the forecasts is produced at a relatively early stage by the Monetary Policy Department following a series of meetings. These meetings are primarily intended as working meetings for the staff at the Monetary Policy Department, but the members of the Executive Board are also invited to attend. At a meeting of what is known as the monetary policy group the draft forecasts are then presented to the Executive Board and the Board members give their views on this and ask questions. On the basis of these forecasts and other background material the Executive Board then tries to reach a view which a majority will probably be able to support and which may be presented as the main scenario of the Monetary Policy Report (or Update). The Monetary Policy Department continues its work and compiles a preliminary draft of the Monetary Policy Report (or Update) in close collaboration with the Executive Board. The editorial work continues until the monetary policy meeting and the texts are regularly checked with the members of the Executive Board. The staff are well-represented at most of the meetings held during the process and can take part in the discussions. At the monetary policy meeting, too, some higher officials may attend and may express their own views.

Although the basic features of the monetary policy process have remained the same over the past decade, there have nevertheless been some changes. One such change is when the Riksbank in February 2007 began publishing its own repo rate forecast. As the Riksbank became more explicit about its own view on future interest rate developments,

<sup>3</sup> For a more detailed description of the current monetary policy decision-making process, see Rosenberg (2008) or Hallsten and Tägtström (2009). For a description of the earlier process, see Heikensten (2003).

more discussion about alternative repo rate forecasts during the monetary policy process was necessary. Therefore, the Executive Board needed to participate in the forecasting process in a more concrete manner, for example by taking part in discussions about different risks and possible alternative economic outcomes.

Although the interest rate decisions are of course made by the Executive Board, the staff plays an important role throughout the entire process. This has been a deliberate strategy right from the start. Heikensten (2003) writes for example: "In some aspects the Riksbank chose to go its own way. For example, the officials working on the background reports have a stronger position here than at many other central banks. They are requested to make an overall assessment of inflation, which is different from, for instance, at the Bank of England, where this is done by the corresponding body to the Executive Board, the Monetary Policy Committee. For several reasons we considered this a good idea. It is a question of both making good use of the competence of the staff at the Riksbank and of ensuring a form of continuity in the assessments. But it is also important for developing the competence of the staff and making their work more interesting." (p. 363).

#### EMPHASIS ON OPENNESS AND CLARITY

Something that was emphasized from the start was that the Riksbank would remain open and clear, or transparent, as it is usually termed, with regard to the assessments it made and why it acted in one way or another. Ever since the inflation target was introduced in 1993, openness and clarity had been guiding principles for the Riksbank. This was considered important, not least to quickly win confidence for monetary policy and the inflation target following the crisis at the beginning of the 1990s. The amendments to the law in 1999 made a high degree of transparency even more important. As observed in Heikensten (1999): "The strong statutory independence makes it extra important that openness is practised as much as possible and that what we do can be examined and evaluated." (p. 4).

To some extent the transparency was regulated in the text of the law. The Sveriges Riksbank Act Chapter 6, Section 4, states that: "The Riksbank shall submit a written report on monetary policy to the Riksdag Committee on Finance at least twice a year." Chapter 10, Section 3, states that: "Each year, before 15 February, the Executive Board shall submit an Annual Report of the Riksbank's activities during the preceding accounting year to the Riksdag, the Swedish National Audit Office and the General Council. ... The Annual Report shall comprise ... an account

of foreign exchange and monetary policies and on how the Riksbank has promoted a safe and efficient payments system.”

But beyond these paragraphs, the Sveriges Riksbank Act does not say very much about how transparent the Riksbank should be. The Executive Board has thus decided on its own initiative to be much more transparent than is required by law.

The Executive Board decided at its first meeting on 4 January 1999 that the minutes of its monetary policy meetings should be published. This has been done since October 1999, with a time lag of around two weeks. The minutes were to contain a review of the discussion conducted and information on the individual Executive Board members’ final decisions. It was also decided that after the monetary policy meetings a press release would be published, containing a brief summary of the discussion. In the event of major changes in monetary policy and when Inflation Reports were published, the Riksbank would also hold a press conference. The members of the Executive Board would in addition give speeches, interviews and write articles.

The work on increasing the transparency of the policy has since continued in various ways. The Inflation Reports were gradually developed and in February 2007 replaced by Monetary Policy Reports, which also contain an in-depth account of the monetary policy deliberations. Forecasts are now published six times a year instead of the earlier four times a year. On three occasions this takes the form of a Monetary Policy Report, and on the other three it takes the form of a Monetary Policy Update, which contains forecasts for a more limited number of central macroeconomic variables. Clarifications of the monetary policy framework have been published on two occasions in the form of special documents – in February 1999 and in May 2006. Press conferences are now held after every monetary policy meeting and not only when the repo rate is changed, and the minutes of the monetary policy meetings, in addition to revealing how the members of the Board have voted, now also attribute the contributions to the discussion to individual members. The two latter changes were made in May 2007. From May 2009 the Riksbank began to publish the voting figures directly after the monetary policy decisions. If any of the Board members have entered a reservation, it is possible to read in the press release who this was and their main reason for doing so.

One change in recent years that has attracted much attention is that mentioned above – that the Riksbank began publishing its own repo rate forecast in February 2007. At that time the only other central banks publishing interest rate forecasts were those in New Zealand and Norway. Since then the Icelandic and Czech central banks have decided to follow suit.



The Riksbank's continuous work on becoming more open and clear has received attention both in the academic world and from other central banks. Studies that try to measure the degree of transparency in central banks around the world place the Riksbank in the top drawer (Eijffinger and Geraats 2006, and Dincer and Eichengreen 2007, 2009).

#### THE EXECUTIVE BOARD AND THE MONETARY POLICY MEETINGS – SOME STATISTICS<sup>4</sup>

Since its establishment in 1999, a total of 13 persons have served on the Executive Board under three different Governors (see Table 1). All in all, there have been six different numerically complete constellations of the Executive Board. During brief periods, when a member has left the Bank before a new member has been recruited, the Executive Board has consisted of five or even four members.

TABLE 1. THE COMPOSITION OF THE EXECUTIVE BOARD 1999–2009.

	<b>Governor Urban Bäckström</b>
1 January 1999–31 December 2000	Lars Heikensten, Eva Srejber, Villy Bergström, Kerstin Hessius, Lars Nyberg
1 January 2001–30 April 2001	Lars Heikensten, Eva Srejber, Villy Bergström, Lars Nyberg
1 May 2001–31 December 2002	Lars Heikensten, Eva Srejber, Villy Bergström, Lars Nyberg, Kristina Persson
	<b>Governor Lars Heikensten</b>
1 January 2003–31 December 2005	Eva Srejber, Villy Bergström, Lars Nyberg, Kristina Persson, Irma Rosenberg
	<b>Governor Stefan Ingves</b>
1 January 2006–29 March 2007	Eva Srejber, Lars Nyberg, Kristina Persson, Irma Rosenberg, Svante Öberg
30 March 2007–30 April 2007	Irma Rosenberg, Lars Nyberg, Kristina Persson, Svante Öberg
1 May 2007–20 May 2007	Irma Rosenberg, Lars Nyberg, Svante Öberg
21 May 2007–31 December 2008	Irma Rosenberg, Lars Nyberg, Svante Öberg, Lars E O Svensson, Barbro Wickman-Parak
1 January 2009–14 March 2009	Svante Öberg, Lars Nyberg, Lars E O Svensson, Barbro Wickman-Parak
15 March 2009–	Svante Öberg, Lars Nyberg, Lars E O Svensson, Barbro Wickman-Parak, Karolina Ekholm

The Executive Board of the Riksbank is what is usually referred to as an individualistic committee (Blinder 2007), where each of the members stands for his or her own opinion and communicates it externally. Interest rate decisions are made at monetary policy meetings by means of a vote. The Governor of the Riksbank is the Chairman of the Executive Board and has the casting vote if two proposals should have an equal number

<sup>4</sup> A more thorough compilation of statistics on the Executive Board can be found in Ekici (2009).

of votes. The members have the possibility to enter a reservation against the interest rate decision and/or the forecasts supported by the majority of the members.

Up to December 2009 the Executive Board had held 96 monetary policy meetings. During 1999 as many as 20 meetings were held, but it was noted that there was little justification for such a high meeting frequency. Since then, seven to nine monetary policy meetings have been held every year. In September 2007 the Executive Board made a decision that with effect from 2008 only six ordinary monetary policy meetings would be held each year.

At almost two thirds of the monetary policy meetings the interest rate decisions have been unanimous. This means that at around one third of the meetings at least one member of the Executive Board has entered a reservation. On four occasions the vote has been tied and the Governor's casting vote has decided the outcome – 5 July 2001, 1 December 2005, 3 May 2007 and 3 September 2008.

Most of the Executive Board members have entered a reservation against an interest rate decision at least once. The only exceptions (up to the end of December 2009) are Governors Urban Bäckström and Stefan Ingves, and the most recently-appointed member, Karolina Ekholm, who at the time of writing has only taken part in five monetary policy meetings. Lars Heikensten has entered a reservation against one decision, but this was in April 1999, before he took office as Governor of the Riksbank. The Governor in office has thus never entered a reservation against an interest rate decision, and has thus always been part of a majority. In our survey one of the questions was why the members believe this to be the case.

## The Executive Board members' own experiences – the results of a survey

We sent a questionnaire to all 13 members who have served on the Executive Board since its start in 1999 and received 12 responses.

The survey takes up to a great extent changes that have been discussed in the growing research into decision-making in groups in general, and in monetary policy committees in particular. As far as we know, there has not previously been any similar systematic collection of information from people who have taken part in a monetary policy committee. In total, the survey covers around ten areas. The focus is on the monetary policy part of the Executive Board's work. The compilation below is a relatively brief summary of the results. A more detailed account can be found

in Apel, Claussen and Lennartsdotter (2010), which also contains a more detailed review of the research into monetary policy committees.

#### BETTER DECISIONS WITH A COMMITTEE

As we have concluded above, there are mainly two explanations for the international trend towards having monetary policy decided by a committee rather than an individual. One is that central banks have on the whole become more independent and that it is regarded appropriate for democratic reasons to delegate the decisions to a group of people. The other is that there are arguments in favour of groups tending to make better monetary policy decisions than individuals, although the research is not unequivocal on this point.<sup>5</sup> In the survey we asked the members of the Executive Board to express their opinion, based on their experiences of conditions in Sweden and of the Riksbank's Executive Board, on the following two statements:

*"To gain sufficient acceptance among the general public and politicians for a system where the Riksbank is independent it is required that the monetary policy decisions are made by a group of persons and not by an individual."*

and

*"Over time the monetary policy decisions will be better if they are made by a group of persons instead of by one individual."*

A large majority of the members responded that both statements "apply completely". Thus, the members find that the interest rate decision on average are better if they are made by a group of people. But why, more specifically, would this be the case? We asked the members to rate the importance of three potential reasons for this. The first was that the decisions are better when a group of people with different backgrounds, experience and knowledge *discuss and interact* prior to a repo rate decision – what one might call pooling by talking. One could express this as the monetary policy committee "pooling" its experiences and knowledge through the discussions and that the decision can thus have a better and broader foundation. The second reason was that the decisions are better if a group of persons with different backgrounds, experience and knowledge *vote* on the repo rate – pooling by voting. Unlike the first reason, it is the actual voting that is central rather than the discussion and interac-

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<sup>5</sup> See Sibert (2006) for a survey of problems associated with decision-making in groups.

tion between the members prior to the decision.<sup>6</sup> The third reason was that if the decisions are made by a group of people, this functions as an *insurance* against extreme preferences held by one individual. For example, this could be a central bank governor wanting to keep inflation down at any cost, without giving any consideration to the real economy, or the reverse, taking the task of combating inflation too lightly.

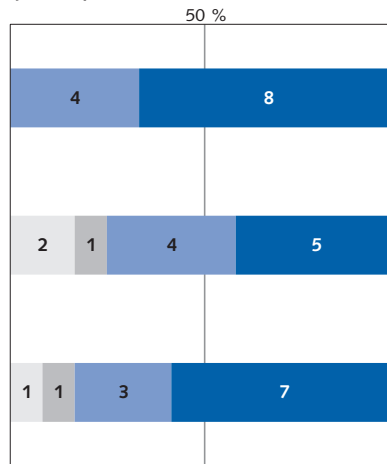
All three reasons are regarded as good arguments for interest rate decisions being better on average if made by a group of people, see Figure 1. The first statement – that the decisions are better because the Executive Board discusses and interacts – appears to be the most important; all of the members considered this to be “fairly important” or “very important”.

**Figure 1. If you find that monetary policy decisions improve if they are made by a group, how important are the following reasons for your response?**

When the Executive Board, a group of persons with different backgrounds, experiences and skills, discusses and interacts, the basis for decision-making is enriched and the decisions are better than what even the most competent member of the Executive Board could achieve alone. A “collective wisdom” is created.

The fact that a group of persons with different backgrounds, experiences and skills votes on the decisions means that they are better than they would have been if made by one individual.

Group decisions function as an insurance against extreme preferences held by one individual.



■ Unimportant ■ Slightly important ■ Fairly important ■ Very important

### STAFF MORE IMPORTANT THAN COLLEAGUES

The stylized picture of how monetary policy decisions are made probably shows a group of initiated people sitting down to discuss the appropriate level of the policy rate. Arguments are put forward and discussed, knowledge and experience are “pooled”, and the group gradually reaches a view that most can support (pooling by talking). The discussion is central to the quality of the decision. As can be seen from the previous question, the Executive Board members consider the discussion prior to a repo

<sup>6</sup> One could say that this is an application of Condorcet’s jury theorem from the end of the 18th century, which states that a committee which makes decisions (between two alternatives) by a majority rule has a greater probability of making the best decision than any of the individual members would have if they acted on their own. The theorem also states that the probability of making the right decision approaches one when the number of members on the committee approaches infinity.

rate discussion to be important. But what does the “pooling” involve in greater detail? What type of information is exchanged?

To learn more about this we asked the members how important contributions from colleagues on the Executive Board, and contributions from the Riksbank staff respectively, have been for their own assessments regarding three different aspects:

- (i) The current economic situation and trends that the Riksbank is unable to influence, such as future oil prices and international economic developments.
- (ii) How the Swedish economy functions and thereby how things will develop if the Riksbank acts in one particular way or another.
- (iii) How quickly inflation should be brought back on target, that is, prioritising between stabilising inflation and stabilising the real economy.

In more technical terms the breakdown represents (i) the exogenous variables; (ii) the model and (iii) the preferences regarding stabilising inflation relative to stabilising the real economy (the relative weights in the monetary policy objective function).

For all three aspects the most common response was that the colleagues were only “slightly important”, see Figure 2. The results contrast somewhat with the view that the monetary policy decisions are better because a group of persons with different backgrounds, experience and knowledge discuss and interact – a statement which was given relatively high scores. The discussion within the Executive Board is thus considered important, but at the same time the colleagues’ possibilities to influence one another’s decisions appear fairly limited.

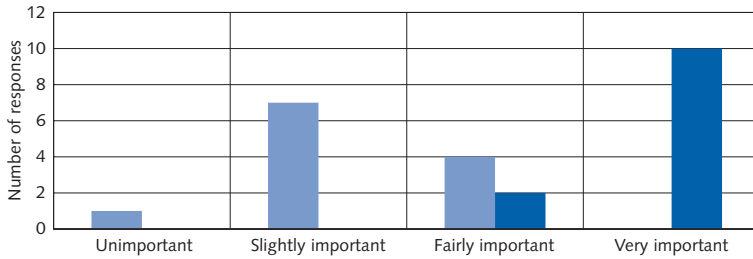
One reason for this could be the central role the staff plays in the monetary policy process. A large majority of the members considered the staff to be very important for their own assessment of (i) and (ii), see Figure 2. As shown in the same Figure, however, the importance of the staff for the members’ assessment of how quickly inflation should be brought back on target, point (iii), is much lower. This is quite natural and supports the notion that the members’ deliberations in this respect reflect their personal preferences.

#### SEVERAL CONSIDER THE EXECUTIVE BOARD TO BE TOO LARGE

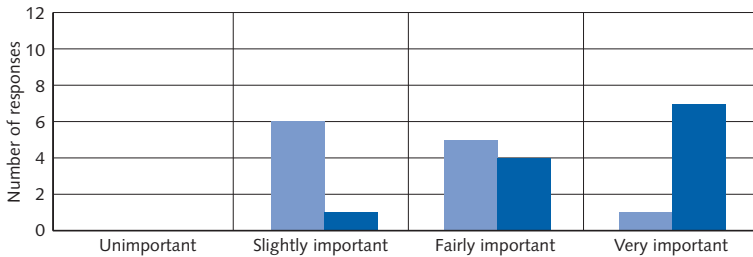
What is the appropriate number of members for a monetary policy committee? This is a question that has been much discussed, as we observed

**Figure 2. How important were/are your colleagues on the Executive Board to you...**

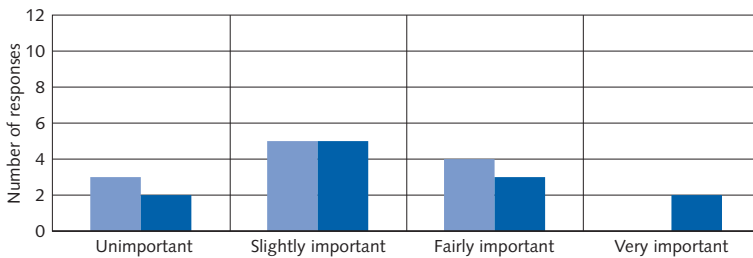
i)... as sources of information on the current economic situation and on developing trends that the Riksbank is unable to influence, such as the way the oil price and international economic activity develop?



ii)...for your view on how the Swedish economy functions and thereby how things will develop if the Riksbank acts in one particular way or another?



iii)... for your assessment of how quickly inflation should be brought back on target/prioritising between stabilising inflation and stabilising the real economy?



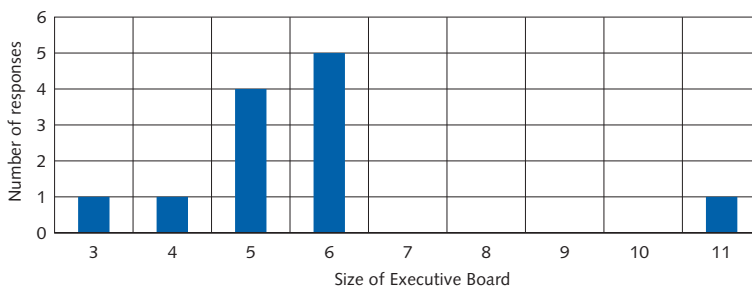
■ Executive Board ■ Staff

earlier. According to the survey responses, six of the members considered the Executive Board to be too large, five appropriate, and only one considered it too small.

We then asked what they consider to be the appropriate size for the Executive Board, again from a monetary policy perspective. For those who considered the Executive Board too large the responses varied from 3 to 5 persons, see Figure 3.<sup>7</sup> The member who considered the Executive Board too small thought an Executive Board of 9 or 11 members was appropri-

<sup>7</sup> Some members stated two alternatives, for example "3 or 5", or "6 but it could just as well be 5". Figure 3 shows the highest alternative.

**Figure 3. What do you believe to be the most appropriate number of members for the Executive Board, seen from a monetary policy perspective?**



ate. Several members also commented that the Executive Board should have an uneven number of members.

In an international perspective, the Riksbank has a relatively small monetary policy committee, see Figure 4. Nevertheless, many members find that it can be reduced further. The members thus prefer a committee size in the lower region of the span of 5 to 9 members that the academic research points to as suitable.

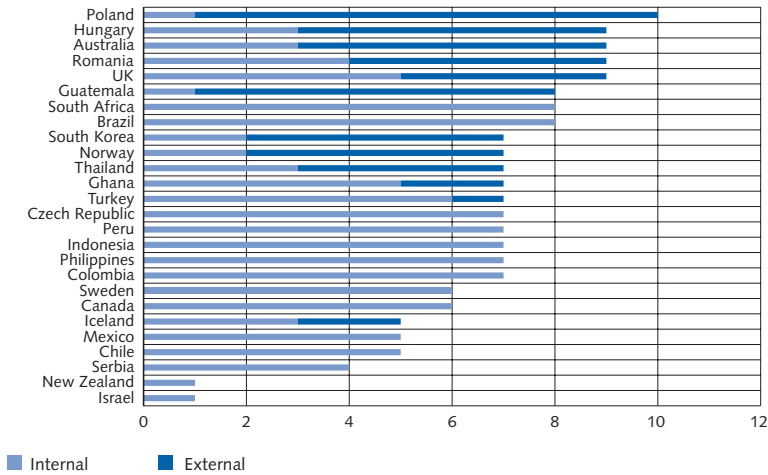
#### SCEPTICISM TOWARDS EXTERNAL MEMBERS

The size of the monetary policy committees differs between countries. The composition of the committee also varies, see Figure 4. In some countries, for instance Norway and the UK, some of the members of the monetary policy committee are external and employed on a part-time basis. At the Bank of England the purpose of having external members is said to be “to ensure that the MPC benefits from thinking and expertise in addition to that gained inside the Bank of England”.

According to studies using voting data from the Bank of England’s Monetary Policy Committee, the external members enter reservations against policy rate decisions more often and tend to prefer lower policy rates compared with the internal members (see for instance Gerlach-Kristen 2003, 2009).

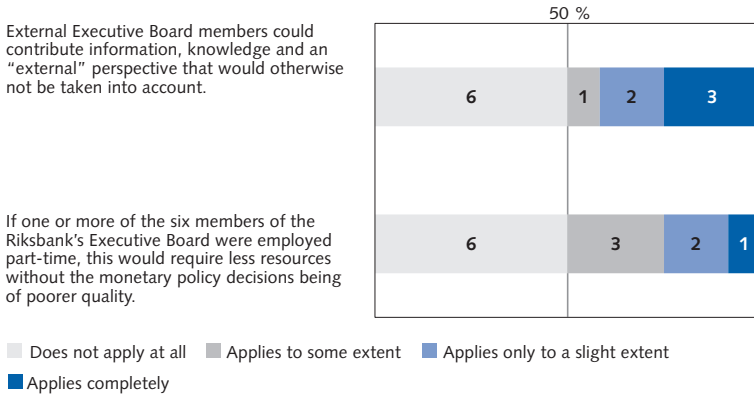
The results of the survey reveal some scepticism towards a solution where a number of the Executive Board members are external, although opinions vary, see Figure 5. The scepticism may indicate that most members consider there to be no lack of “external perspective” or risk of groupthink on the Riksbank’s Executive Board. The members have different backgrounds and they may retain much of their own way of thinking and their own channels of information even during their period of office at the Riksbank. The fact that the Riksbank’s policy from the start has been that the members of the Executive Board shall act as individuals and

**Figure 4. Monetary policy committees in inflation targeting countries. Size and share of external members**



Source: Hammond (2009)

**Figure 5. External members. How well do you think that the following statements apply?**



represent their own opinions externally may have reduced the risk of an overly narrow perspective.

The scepticism may also indicate that the members consider the process leading to the repo rate decision, with an intensive interaction with the Riksbank staff and within the Executive Board, to be essential to a good repo rate decision. It is possible that it may be difficult for someone who is not full-time at the Riksbank to fully participate in this process.

#### MUCH IN PLACE BEFORE THE MONETARY POLICY MEETING

To obtain more information about the final phase of the monetary policy decision-making process, we asked the members to stipulate the frequen-

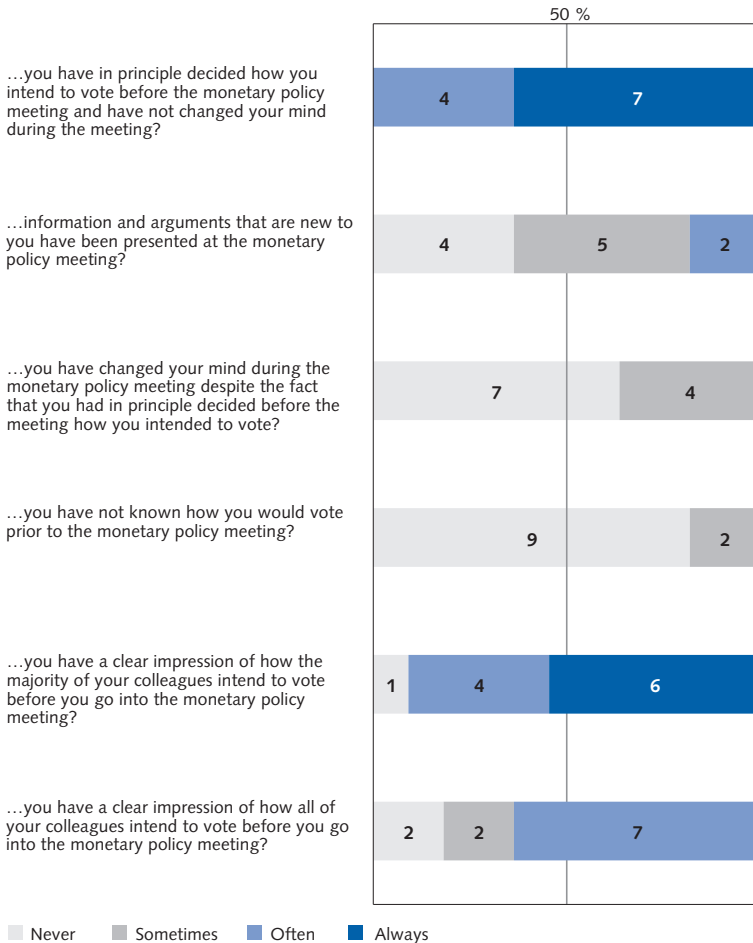


cy of some incidences, for instance, how often they had decided how they would vote prior to the monetary policy meeting, or how often they had a firm idea of the other members' views prior to the meeting.

Our results show that the majority of the members have *always* made up their minds as to how they intend to vote, and do not change them during the meeting, see Figure 6. It is very common that members prior to the meeting have a clear idea of how the *majority* of their colleagues intend to vote. It is slightly less common that they have a firm idea of how *all* of their colleagues intend to vote. It is unusual that new information or arguments come up at the monetary policy meeting. Furthermore, most members never change their minds during the meeting and it is very rare that members do not know prior to the meeting how they will vote themselves.

On the whole the results show that although the final decision is made at the monetary policy meeting, most of the pieces are already in

**Figure 6. How often has it happened that...**



place prior to the meeting. This is not surprising, given the design of the monetary policy process at the Riksbank. A detailed and thorough Monetary Policy Report (previously Inflation Report) or Monetary Policy Update is published at the same time as the repo rate decision is announced, explaining and providing the foundation for the decision made. This makes it necessary to work out forecasts and alternative scenarios on which a majority can probably agree prior to the monetary policy meeting. As stated by Svensson (2009, p. 26): "The discussion and exchange at the final monetary policy meeting do not start from scratch, but are the culmination and summary of [a long series of]...meetings. Therefore, one would not expect too much spontaneity but rather the presentation of the essential summaries and the reasons for the decision by each member." Changes at the last minute are of course always possible and there is a preparedness for this. As pointed out in Hallsten and Tägtström (2009), the work process is designed so that the forecasts and the Monetary Policy Report can be changed after the meeting if a majority of the Executive Board so desires.

The way the members have perceived the situation prior to and during the monetary policy meeting is of course something that may have varied over time. The more intense and comprehensive the process leading up to the policy rate decision, the more likely it is that the members have a firm idea of their own and their colleagues' views, and the less new material will come to light at the policy meeting. As we have noted above, both the method of working internally with the forecast and the method of communicating externally changed when the Riksbank began to publish its own forecast for the repo rate in February 2007. The monetary policy process, with preparatory meetings and interaction with the staff and within the Executive Board, then became even more intense and comprehensive than it was before.

One hypothesis is thus that the members who have been active on the Executive Board after the Riksbank began publishing its own repo rate forecast might perceive that even more is in place prior to the monetary policy meeting. We divided the responses into two groups – prior to and after the Riksbank began publishing repo rate forecasts and we examined whether the responses differed.<sup>8</sup> The results appear to support the hypothesis. Members who had been active on the Executive Board after the Riksbank began publishing the repo rate forecast had more often decided how they would vote prior to the monetary policy meeting and more often had a firm idea both of how the majority of their colleagues

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<sup>8</sup> Members with reasonably long experience of both conditions were asked to respond both with regard to the situation prior to the publication of the repo rate forecast and with regard to the situation afterwards.

would vote as well as how all of the others would vote. They also considered that new information and new arguments were more rarely put forward at the monetary policy meetings, they more rarely changed their opinion during the meeting and were more rarely uncertain as to how they would vote prior to the meeting.

We also put a follow-up question to the members, asking them to state why they had a firm idea of how the others intended to vote. Also the responses to this question support the hypothesis that publication of the Riksbank's own repo rate forecast has changed the monetary policy process and meant that more is in place prior to the meeting. Members who have served on the Executive Board after the publication of the repo rate forecasts considered that the others' views often became clear at the preparatory meetings, for instance, within the monetary policy group and less often from the members' public statements<sup>9</sup> or from the fact that the members have a predictable reaction pattern. However, the publication of the repo rate path does not appear to have had any effect on how common it is for the members to obtain information on one another's views in discussions outside of the meetings, in private or in groups.

#### WILLINGNESS TO COMPROMISE DESPITE MANY RESERVATIONS

Many of the interest rate decisions have not been unanimous. On average, one or more members has entered a reservation against approximately one in three repo rate decisions. We asked the members to stipulate the importance of three alternative reasons for their reservations, see Figure 7.

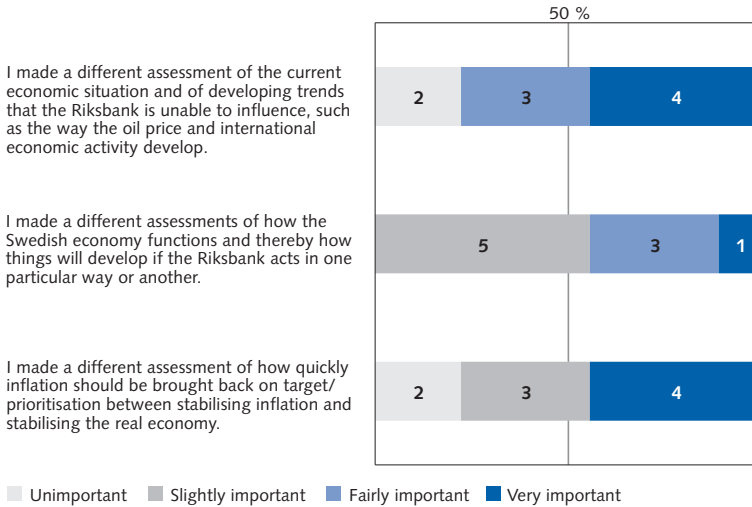
There was large variation in the responses. For each alternative some members found the explanation "very important" and others found it "unimportant" or "slightly important".

Although there have been many reservations, members might still *refrain* from entering reservations, despite having a different opinion from the majority. In such cases there is a risk that the diverging opinion will not be very well expressed in the minutes.

We asked the members whether they had refrained from entering a reservation against one or more monetary policy decisions, despite considering that another decision would have been better. A majority of seven members responded that they had. Judging by the survey responses, the single most important reason for this was that the majority decision was *reasonably close* to their own assessment. There is a "bargaining

<sup>9</sup> One important explanation is probably that the Riksbank decided, in connection with the publication of its own repo rate forecasts, that Executive Board members would no longer "signal" in advance how they considered the repo rate should be set at the coming monetary policy meeting.

**Figure 7. If you have entered a reservation against one or more interest rate decisions, how important were the following reasons for your stance?**



margin” in the repo rate decisions. According to all but one of the seven members who responded to this question, this reason is “very important”. A few members also state that they have refrained from entering a reservation out of consideration for the general public’s confidence in monetary policy or to avoid creating unease in the financial markets. One explanation that is dismissed by all is that the reservation would change the majority and this in turn would lead to costs for changing the forecasts and reports at the last minute.

As we have observed above, the Executive Board of the Riksbank is usually referred to as an individualistic committee, where lack of unanimity is considered natural. Nevertheless, our results show that there is willingness to compromise. The members’ own views must differ sufficiently from the majority view before they enter a reservation. The members “choose their battles”. Thus, there is some collegial element in the individualistic committee. The results probably also relate to the fact that members do not regard monetary policy as an exact science.

#### THE GOVERNOR’S INFLUENCE

As we have noted, approximately every third interest rate decision has not been unanimous. Reservations have thus been relatively common. However, something that has never occurred is for a Governor to be in a minority and to enter a reservation. During the Executive Board’s first decade, all members except the Governor had entered a reservation at

least once.<sup>10</sup> One explanation for this could be that the Governor holds the casting vote if the outcome of the voting is completely even. The governor has used the casting vote on four occasions. But even if four votes are required for the Governor to be in a minority, it nevertheless appears somewhat surprising that this has never happened. In one way or another, the Governor appears to differ from the other Executive Board members.<sup>11</sup>

The role of the central bank governor has been discussed in research (see, for instance, Blinder and Morgan 2008a and Gerlach-Kristen 2008). We asked the members to stipulate the relevance of some explanations to why the Governor of the Riksbank has never been in the minority, explanations that were based on research literature or which we otherwise considered might be relevant. The members did not appear to consider any of the explanations to be particularly convincing. The hypothesis that the Governor has greater influence over the forecasts and other materials, for instance, was only considered to apply to a slight extent. The explanations that members tend to support the Governor's view, or vice versa, that the Governor tends to support the majority view, were considered slightly more important. The median response there was "applies to some extent". These results, like the earlier results for the question of why one has refrained from entering a reservation, indicate that there is some willingness to compromise when making repo rate decisions.

There seems to be particular scepticism towards the hypothesis that the Governor as chairman at the monetary policy meeting can influence the discussion and thereby the interest rate decision. This result is well in line with the above result, namely that members have in principle decided before the meeting how they will vote. No particular explanation as to why the Governor has never been voted down is highlighted. But at the same time, the members respond that it is not mere coincidence that the Governor has never been in a minority.

#### POSITIVE WITH ATTRIBUTED MINUTES

In June 2007 the Executive Board decided that the minutes of the monetary policy meetings are to contain the names of the members together with their contributions to the debate. The Riksbank is one of few central banks in the world to apply this practice. Previously, names of individual

<sup>10</sup> The most recently-appointed member of the Executive Board, Karolina Ekholm, who joined in March 2009, had at the time of writing this not yet entered a reservation, either.

<sup>11</sup> The results are similar for other central banks with individualistic committees. In the United Kingdom, for instance, the central bank governor has actually been voted down, although this has only happened on two out of more than 150 decision-making occasions (and where around 60 per cent of these have not resulted in a unanimous decision).

members were only revealed in association with the votes. The purpose of the change was to make it easier for external analysts to evaluate each member's analysis and reasoning and how consistent they are over time.

Exactly how transparent a central bank should be is debated both within academic research and in central bank spheres (see, for instance, Eijffinger et al. 2008). One argument that is put forward against publishing attributed minutes – and sometimes against publishing the minutes of monetary policy meetings at all – is that the discussion may then be more limited and “tied to a script”. One advantage of attributed minutes, apart from increasing transparency, could be that the members' individual responsibility becomes even clearer. This could in turn result in the members preparing even more thoroughly for the meetings (Gersbach and Hahn 2008). It could also reduce the risk of groupthink.

The survey responses indicate that the members only to a slight extent consider that the discussion becomes more inhibited and less spontaneous. There is more support for the assertion that attributed minutes lead to a better discussion; the median response indicates that members on the whole consider that it “applies to some extent”. That attributed minutes lead to more time and work being put into the monetary policy process, and to greater focus on the individual members are also assertions considered to apply to some extent.

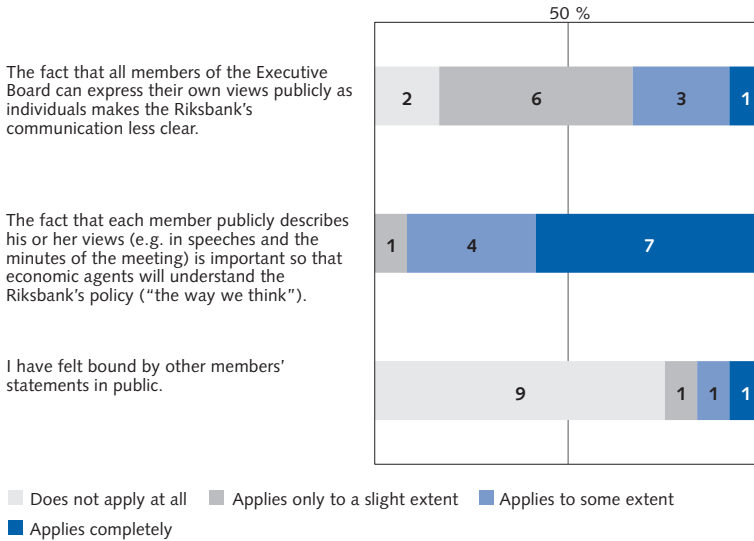
The publication of an own repo rate forecast (in February 2007) coincides roughly with the Riksbank beginning to publish attributed minutes (in June 2007). If one examines the responses in the same two groups as before, prior and after publication of an own repo rate path, it is clear that opinions appear to have changed slightly over time. The members who actually have experience of a system where the contributions are attributed in the minutes are much more positive than those who lack this experience. For instance, none of these think that the statement that the discussion becomes more inhibited and less spontaneous applies. The results are perhaps not surprising given that many of the members in this group have taken part in the decision to introduce names into the minutes.

#### DIFFERENCES OF OPINION MORE INFORMATIVE THAN CONFUSING

Questions regarding the Riksbank's communication and how well it has functioned can of course best be answered by people outside the bank. But we nevertheless found it interesting to ask the members for their views on a couple of aspects discussed in the academic research.

When communicating monetary policy, monetary policy committees have to strike a balance between two potentially opposing effects. On the one hand information on the opinions of the different members helps explain the monetary policy decisions and can make monetary policy more predictable. On the other hand uncertainty may increase if members give different, conflicting signals. As Blinder (2007) put it: “A central bank that speaks with a cacophony of voices may, in effect, have no voice at all” (p. 114). At the same time, the basic idea behind an individualistic committee is that its members shall be able to express, in speeches and otherwise, their own individual opinions as to how monetary policy should be conducted. Economic agents thus receive valuable information regarding the differences in opinion and the relative strengths prevailing in the committee and can use this as a base to form an opinion of the future policy.

**Figure 8. How well do you think that the following statements apply?**



We asked the members to judge the following two statements:

*“That all members of the Executive Board can express their own views publicly as individuals makes the Riksbank's communication less clear”,*

and

*“That each member publicly describes his or her views (for example, in speeches and the minutes of the meeting) is important so that economic agents will understand the Riksbank's policy (“the way we think”).*

regarding their own view, or even to support, against their will, an opinion already expressed by someone else.

The balance tipped in favour of the second argument, see Figure 8. The majority of the members consider it important that each member explains his or her opinions so that the economic agents will understand the Riksbank's policy. The statement that communication may be unclear if all of the members of the Executive Board comment publicly receives less support, although only a couple of members dismiss this entirely. A much larger number dismiss the statement that they have felt bound by other member's statements in public.

## Some concluding remarks

The conventional picture of a monetary policy decision-making process puts considerable focus on the monetary policy meeting. A monetary policy committee is gathered to one single meeting to discuss how the current policy rate should be set. Prior to this the members have deliberated separately. During the discussion the members put forward arguments which are mulled over. Gradually, the committee reaches a decision as to whether or not the current policy rate needs to be changed and if so, by how much. The interest rate decision is announced and only a relatively brief explanation given.

The monetary policy decision-making process at the Riksbank differs substantially from this picture. As we have described above, the process spans a number of weeks and involves a series of meetings, in which both the staff and the Executive Board participate and discuss together. The process concludes in a repo rate decision and detailed forecasts for a number of central variables, including the future development of the repo rate. The forecasts and the monetary policy stance are presented and explained in detail in the Monetary Policy Report (or Monetary Policy Update) that is published at the same time as the repo rate decision.

Several of the results in the survey appear to be linked in various ways to the monetary policy decision-making process at the Riksbank and to the way the repo rate decision is communicated. Much appears to have fallen into place already before the monetary policy meeting, although this is of course where the final repo rate decision is made. The members have almost always decided how they will vote before the meeting and it is only occasionally that new information or new arguments are put forward at the actual meeting. It also appears to be the case that during the process the members form a good idea of how most of their colleagues intend to vote. This should come as no surprise, since the report published



in connection with the repo rate decision is supposed to reflect the majority view.

The design of the decision-making process could also explain to some extent the relatively positive attitude to the attributed minutes. The members have had the opportunity during the series of preparatory meetings to test their arguments on their colleagues and the staff, to hone them and possibly to revise them. The arguments can therefore be put forward in a concise and well-reasoned manner at the monetary policy meeting. It is also possible that the apparent scepticism towards a system with external board members is partly due to the belief that it is important that all members take part in all stages of the monetary policy decision-making process.

It is probably not particularly unusual for central banks to work in a similar manner to the Riksbank – where forecasts and opinions on what should be done gradually emerge as the result of a series of meetings and are presented in relatively great detail in a written report published at the same time as the policy rate decision. The conventional picture of the monetary policy decision-making process, where the discussion at the monetary policy meeting starts more or less from scratch, and where the policy rate decision is justified relatively briefly, appears to better describe the situation in, for instance, central banks where the members are located in different parts of the country, have their own staff and only get together at the monetary policy meetings.

Another result that may be worth highlighting – and which would probably have been difficult to attain other than by means of a questionnaire – is that a majority of the members has at some time refrained from entering a reservation, despite the fact that they considered a different decision than the one made by the majority would have been better. Although the Executive Board is individualistic, there thus appears to be some element of collegiality when the decisions are made. The main justification given is that the decision made was nevertheless reasonably close to the member's own assessment and that there is some "bargaining margin" in the policy rate decisions.

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Lars Heikensten, member of the European Court of Auditors and former Governor of the Riksbank comments on the paper by Mikael Apel, Carl Andreas Claussen and Petra Lennartsdotter:

### **The Executive Board of the Riksbank and its work on monetary policy – experiences from the first ten years**

Let me begin by thanking you for the invitation. It is very nice to be back here at the Riksbank.

The article written by Mikael Apel, Carl Andreas Claussen and Petra Lennartsdotter is interesting both because the survey they have carried out appears to be the first of its kind, and because the article takes up a number of questions raised in the academic research concerning collective decision-making on monetary policy issues.

As I was very much involved in the work on producing a proposal for the system for preparing, making and communicating monetary policy decisions which was adopted by the Riksbank in 1999, when an Executive Board was established, it is natural for me to use the deliberations we had then as a starting point for my comments. On the whole I will discuss questions related to the way the new system, with the changes that have occurred later on, has functioned in practice.<sup>1</sup>

Four questions that have followed the Riksbank, at least since it has had an Executive Board, form the focal point of my comments. One factor that these questions have in common is that they are still worth discussing. Perhaps a 10-year jubilee like this is an appropriate time to play the devil's advocate, particularly as I believe there is a consensus that the system applied has worked well on the whole.

## **1. The decision-making process works well**

The first question we had to consider in autumn 1998 was how the new Executive Board would organise the preparation and decision-making processes. The article shows that we chose to give Riksbank employees a central role, including taking part in various preparatory meetings with the

<sup>1</sup> See Heikensten L., (1999), "Monetary policy and the new Executive Board", (speech held at the Autumn Conference of the Centre for Business and Policy Studies), Sveriges Riksbank, for a simple description of the system introduced in 1999.

Executive Board and some of them also being present at the final meeting where the decision was made.

This system, with a strong presence by the bank employees concerned, may now appear self-evident, but this was certainly not the case in autumn 1998. In many of the central banks we looked at, such as the Bundesbank in Germany, the employees were kept outside of the discussions where the decisions were made, and this is still the case at, for instance, the European Central Bank (ECB).

There were many good reasons for choosing the model we have; if the staff were more involved they would better understand what information needed to be provided and they would probably be more motivated. Another reason why we chose to have employees present was that it would ensure that all of the Board members had access to the same information and that the Governor and the Deputy Governor responsible for drafting monetary policy issues (which was part of the system then) would not have an information advantage.

The article appears to support the stance we took. The members of the Executive Board have evidently often been influenced by employees' reasoning, even more so than by one another's reasoning. The presence of the employees – and the close contacts they have had with the Executive Board – have probably contributed to this. Hopefully this has also meant that monetary policy has become better, although there are of course no guarantees for this. It would also appear – from this article – that the members have not perceived the Governor to have an information advantage.

The number of preparatory meetings has increased over time, and so has the interaction with the staff. I believe that this has been a fairly natural consequence of the system chosen, which encourages dialogue and contacts with the staff. Another contributing factor has been that model tools have been created, which have made it possible to simulate the way the economy as a whole would develop in the event of different exogenous assumptions and different monetary policy strategies. When the Riksbank began to publish its own path for future monetary policy a couple of years ago, it became inevitable to conduct the monetary policy discussion at an early stage in the forecasting process. All in all, this development has as far as I can understand contributed to the preparation of the monetary policy decisions gradually becoming more and more professional.<sup>2</sup>

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<sup>2</sup> Personally, I only have one concern with regard to the development of the preparation work. If too much focus is placed on future paths for monetary policy, there is a risk that the discussion aimed at the future will crowd out the arduous – but very important – work on interpreting the new data received and determining what phase the economy is in at the time of the decision. It might be important to take measures to avoid this.

## 2. Minutes of meetings are good, but do they still fulfil their original role?

Another of the questions we had to consider in 1998-1999 was how we would develop the forms for accountability, when the Bank became formally independent. The Riksbank had earlier taken several initiatives to conduct an open dialogue with our principals – the general public and the Riksdag. The principles for the Riksbank's policy had been made clearer, Inflation Reports – which had presented an overall view of developments in the economy and inflation since 1996 or so – had begun to be published and so on. The direct contacts with the Riksdag had also been strengthened, for instance the Governor and other members of the Board regularly appeared before the Riksdag Committee on Finance. The question now was whether these forms should be further developed, or whether one should examine other means of opening up the Bank and making monetary policy clearer.

After some discussion the new Executive Board decided to work with minutes, which would show - albeit in a revised version - what had been said at the meetings where the decisions on monetary policy were made. When we made this decision we were largely inspired by the Bank of England, which we visited in autumn 1998 to be able to air views on the advantages and disadvantages of the system they had introduced on site.

I believe that this is the single most important decision regarding the Riksbank's methods of working taken since the new Sveriges Riksbank Act was launched. This has been decisive for the way the Riksbank has come to work and to be perceived. The individual responsibility for the decisions was clearly highlighted with the aid of the minutes, in a way that went far beyond our expectations. There may also be reason to point out that at this point in time, many people both inside and outside of the Riksbank were sceptical about the new system, would it perhaps mean that the monetary policy meetings became merely grandstanding and perhaps that the conditions for a good discussion deteriorated?<sup>3</sup>

The arguments in favour of the new system concerned the fact that it would strengthen individual responsibility; it would not be possible for members of the Executive Board to have a free ride. Ultimately, this – six individual, well-prepared members forced to argue their cases – should lead to better policies. Moreover, there were several more reasons in favour of minutes than those we chose to highlight when the decision was made. Not least I myself believed that minutes of this kind – in a small country like Sweden – would help stimulate both a livelier debate

<sup>3</sup> See, for instance, Dennis, B, Riksbankens nya kläder (The Riksbank's new clothes), Special Report, SEB Merchant Banking, 1999.

and the building-up of knowledge about monetary policy. Finally, I was convinced that the clear individual responsibility would ensure that the political system appointed members with a higher competence in this field than might otherwise have been the case. I still believe that this may very well have been one of the most important aspects of the choice we made, although I have never seen this argument mentioned in any research.

At the same time, there was a risk, which I do not believe one should ignore, that this type of minutes and this kind of openness could have a negative influence on the discussion and in the worst case ultimately on the decisions, too. To some extent I think that the discussion was affected; it was not always as open and searching as I had perceived the internal discussions to be prior to this. However, these problems were not sufficiently large to change my mind about publication of the minutes being a good idea. On the other hand I do think that they are one reason why we should not be too confident in the superiority of our own model. It is important to constantly seek methods that contribute to the freest possible discussion within the chosen framework.<sup>4</sup>

There is another issue here, which there may be reason to consider in this context. The chosen model, with a specified future development for the repo rate, means in practice that the decisions are taken before the meeting which is minuted (although it is possible to make revisions at this meeting). This was not the case before in the same self-evident manner, as the forecasts reported then were based either on an unchanged repo rate or on the rate expected by the market. The change appears to be confirmed by the survey results. These show that members prior to 2007 – under the system prevailing then – generally knew how they would vote and also how the others intended to vote before they went into the monetary policy meeting. But perhaps the average values from this period are only natural given that they all worked in the same building, knew one another, etc. Since the current system was introduced, however, *all* members appear to have *always* made their minds up prior to the meeting.

The question is then whether the minutes fulfil the role most people expect, of giving the general public a picture of how the discussion went and how the decision emerged? A closely-related issue is whether the General Council as principal can now follow how the decisions have been reached in the way that was intended? Regardless of exactly how one answers these questions, it is essential that the Riksbank clarifies the role of the minutes in the current system. The decisions have in practice been

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<sup>4</sup> In the survey on which the article is based, we Executive Board members were asked whether we believed that the fact that the minutes were now written in a way so that each comment is attributed to a member had an effect on the meeting. I myself find it unlikely that this would play any major role in the way the meetings function, as there was already before such great openness.



made earlier. What the minutes mediate is normally a picture of how the different members put forward their arguments after the real discussion has been concluded and the future path for the repo rate has been established.

### 3. Communication with the market can be improved

The value of openness does not merely lie in its leading to better decisions and anchoring monetary policy in society. Open and clear communication can also pave the way for monetary policy in ensuring that the political intentions are understood by the markets, which will act accordingly. In the best of worlds the financial markets can make their own assessments and work out what the decisions will be. It is therefore unsurprising that central banks' communications with the general public and the markets are an important and sometimes much-discussed issue.

In recent years the Riksbank has made several changes in this field, for instance, as already mentioned it now publishes paths for the future repo rate. This ought to contribute to better grounds for understanding where monetary policy is heading. But there have also been changes made in the principles for communication to which I am more sceptical. Let me therefore say a few words about this.

The system that prevailed earlier regarding communication by Executive Board members could be described in fairly simple terms. Each member of the Board had the possibility to speak whenever he or she wished about whatever he or she wished. We could discuss the principles of our policy, how our picture of economic activity had changed or what considerations we might have concerning the future. However, we had agreed that we would regularly show our draft speeches to one another in advance to gather views and to avoid unnecessary contradictions or conflicts. We had also agreed to try to avoid holding speeches too close to a monetary policy meeting, where we risked sending signals that could be interpreted as set positions on the repo rate.

The freedom we each had, to speak freely as part of our individual responsibility, was of course freedom with responsibility. Each of us expressed our own personal views and had to take the consequences of what we said. What was said by one or more members could not be used to commit the others. The survey seems to support the theory that this

actually worked as it was intended. It would appear that members rarely felt committed by what other members said.<sup>5</sup>

Some years ago the Riksbank abandoned this system. The idea was now that one would avoid giving guidance on what the policy rate might become by not communicating forward-looking messages. One argument in favour of this was that the members would not commit themselves, the decision would be taken at the final meeting, and until then the members should remain open. This is an argument with which I can sympathise, perhaps one becomes less open and sensitive to other views if one has already publicly expressed a particular view. But we have already seen that this was not in practice a major problem, there was some openness with regard to the meetings. Paradoxically - as we saw earlier - this openness has not now increased, but instead decreased.

The problem with an approach like this is that, in my opinion, it is not possible in practice to draw a practicable line between communicating what has happened and signalling what will happen. To repeat a few weeks after a monetary policy meeting what one said there can be perceived as a new message. And commenting on new figures most certainly is. (If one wants to talk about history without sending any signals, one should do as Alan Greenspan did when he was in Sweden some years ago in a sensitive monetary policy situation: talk about the expansion of the railway network in the previous century).

In practice, by commenting on what has happened one can send just as many clear signals about what one thinks of the coming interest rate as when one discusses the question directly. It is therefore unwise, in my opinion, to try to draw a line; it is better to use the entire richness offered by the Swedish language when communicating.

Just over a year ago the Riksbank revised its communication policy once again, after some difficulties, so that it is now more like the previous policy. But I cannot entirely grasp what rules apply now, given the arguments put forward by some representatives of the Riksbank.<sup>6</sup> There is thus scope for the Riksbank to clarify its stance on this matter.

#### 4. Review the Executive Board model

Allow me in conclusion to take up a further issue, which is also mentioned in the survey, the question of the size and role of the Executive Board.

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<sup>5</sup> In practice, it of course means that we all had to be careful when we were giving messages that could affect the markets. The messages also had to be adapted to the individual situation. If one was sure what one thought the interest rate should be and secure in most of one's colleagues having the same idea, one could say so. On the other hand, if one was uncertain what one thought and uncertain what the others thought, this was the message one conveyed, etc.

<sup>6</sup> See, for instance, Svensson, L., Transparency under flexible inflation targeting: experiences and challenges, Sveriges Riksbank Economic Review, 1/2009.

The survey responses imply that the Board members largely agree that the current size is fairly reasonable, that having members employed full-time is a good system and that the Governor of the Riksbank's position is well-balanced. I do not find much to object to here, if one merely focuses on monetary policy, but there are other aspects of the composition of the Board and its methods of working.

Personally I consider, on the basis of my experiences at the Riksbank and elsewhere, that there are considerable problems with a system where the responsibility for running an organisation lies with a committee. I could talk about this at length, but I will not do so. Sufficient to say that few companies or other types of organisation have chosen this management model. What is good with regard to policy decisions – having an all-round picture, and so on, of course applies to more operational activities too. But in this case it is more important to have a clear leadership which gives the organisation direction and the power to make decisions.

The Executive Board of the Riksbank has struggled with these issues from 1999 onwards. During the early years, the management was more divided, in that the responsibility for various departments was divided between the different members of the Executive Board. Later in 2004-2005 there was a change, which in practice transferred most of the operational management to the Governor of the Riksbank. One reason for this was that the pace of the work on making the Riksbank more efficient had slowed down during the early years of an Executive Board and there were problems in phasing out cash management, where there were too many conflicting wills. After this, as I have understood it, management responsibility has been further centralised to the Governor and made clearer.

I believe that this has been good for the organisation. It is also reasonable, as it leads to a better balance than before, when the formal position of the Riksbank Governor was not at all on a par with the personal responsibility required by the general public, the Riksdag, and so on. But the Riksbank's management forms have changed significantly and this is not necessarily codified in the law. The system is dependent on personalities, can change quickly (become better or worse) and is governed – to put it plainly – by the internal distribution of power in the Executive Board. This is not good.

Another aspect concerns the competence profiles the members of the Executive Board should have. It is not at all self-evident that the persons chosen to manage monetary policy are those most suited to run an organisation, with a much broader field of activities, and vice versa. Recently we have certainly seen the need for high-level professional competence regarding the financial system. Nor is it certain that those chosen to manage monetary policy have the feeling for, and experience of, policy

that is required to effectively represent Sweden in international contexts. This is an important aspect for small countries like Sweden, particularly as the high-level officials at the Ministry of Finance, who represent Sweden together with the Riksbank in the central international discussions on economic policy, for various reasons tend to be quickly replaced.

The perfect solution to this is of course a matter for discussion. Personally, I prefer a model that in many ways is like that in the United Kingdom. The Riksbank should have – at least as long as Sweden remains outside the euro area – an operational management with three members, a head and two deputies. The head should have a strong position, which is in proportion to the responsibility which he or she will have in practice. The two deputies should have responsibility for monetary policy and financial stability respectively. They should have broad experience of economic policy and financial issues; have experience of leading organisations and the right profile to be potential successors to the Governor.

A monetary policy committee can be linked to the Bank. This should include persons with special qualities in this field, both in terms of academic competence and other relevant experience, including the ability to communicate. I think four external members would be appropriate on this committee, together with the three managers of the Riksbank. Of course, their position must be such that they have full insight into what is happening in the bank.

One important question, which has risen to the fore in recent years (and which could well have been illustrated in this survey), is how matters regarding financial stability should be handled. The links to monetary policy are very strong in various ways. At the same time, there is a need in this field for close relations with Finansinspektionen (the Swedish financial supervisory authority) and the Ministry of Finance. I do not have such strong opinions on this, more than to say I would like to warn against throwing the baby out with the bathwater. We have had reasonably good intellectual clarity in this field in Sweden, which could easily be lost. Nor is it easy to pursue the theory that the problems we have experienced are in some simple way linked to the organisation model chosen. If changes are made, it is also important to consider how they will affect monetary policy independence.

Let me conclude by wishing my successors continued success in their important work on developing the Riksbank within the current framework. At the same time, I propose that the Riksdag Committee on Finance should celebrate today's jubilee by initiating a review of the Riksbank's legislation, particularly with regard to its management forms.

Thank you.