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Monetary Policy Governance: Bank of Canada Practices to Support Policy Effectiveness

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Abstract

Monetary policy governance—how monetary policy objectives are determined, how decisions are made and who makes them—determines the quality and effectiveness of monetary policy decisions. In this paper, we examine some desirable and some adverse outcomes associated with different governance structures. We discuss the roles of legislation, institutional features, and processes and practices in establishing various aspects of governance. We highlight the importance of the domestic context in determining what governance structure works best for a given central bank. Finally, we provide an update on monetary policy governance at the Bank of Canada and how it has evolved over time.

Topics: Credibility; Monetary policy communications; Monetary policy framework

JEL codes: E02, E5, E58

1. Introduction

Monetary policy receives a lot of attention in the press and the academic literature. Most of this attention is on the decisions that are made—whether and how the policy interest rate and other monetary policy tools are adjusted in response to economic and financial developments. A fair amount of attention is also given to the objectives of monetary policy. Less common, especially in economic research, is discussion related to monetary policy governance—how objectives are determined, how decisions are made and who makes them. However, these aspects of monetary policy are critical because they determine the quality and effectiveness of both the policies and decisions made (Alesina 1988; Cukierman, Webb and Neyapti 1992; Romer and Romer 1997). This is particularly true during a crisis when the public tends to look to its leaders for answers and solutions (Macklem 2020).

In this paper, monetary policy governance refers to the legislation, institutional features, and processes and practices that:

- set the objectives of monetary policy—a central bank's **mandate**
- establish the legitimacy of the central bank to make decisions to achieve those objectives—its **independence**
- define transparency mechanisms that describe who makes decisions and how decisions and outcomes are reported—**accountability**

More specifically, in addition to defining a central bank's mandate, governance covers a wide range of practices, from committee structure to meeting formats, how decisions are made within the committee and how those decisions are communicated. These practices are important because they:

- contribute to effective monetary policy and optimal outcomes by ensuring decisions aren't influenced by political desires to achieve short-term goals
- support well-informed discussions and inclusive deliberations
- enhance public understanding of decisions
- reduce uncertainty about how policy reacts to information, thereby reducing economic uncertainty
- increase credibility.

One goal of this paper is to increase understanding of how practices and processes outside of legislation can at times substitute for legislation. This substitution can provide flexibility to adjust governance as context evolves. These practices could have desirable or adverse outcomes, so significant care must be taken to ensure they are implemented in a way that leads to positive outcomes and supports the autonomy of the central bank. In addition, because they may be seen as non-transparent mechanisms to exercise authority with broad impacts, providing public clarity on these processes and practices is critical.

A second goal of this paper is to provide an update on monetary policy governance at the Bank of Canada and how it has evolved over time without related amendments or provisions to the *Bank of Canada Act*.[1] In 1991, an inflation-targeting framework was introduced in Canada. The Bank and the federal government jointly set a target for the rate of inflation and review their agreement and the monetary policy framework every five years. Around the same time that the framework was introduced, the Government of Canada and the Bank conducted a thorough and more broad-based review of monetary policy governance.[2]

Internationally, the standard approach is to have a monetary policy committee (MPC) that makes policy decisions. In 1994, Canada saw a major change in this direction when Governing Council was established and began making policy decisions by consensus.[3] Since then, a series of smaller changes have also taken place. As well, at the time of writing, the Bank has accumulated about three decades of experience with an inflation-targeting framework and decision-making by committee consensus. Thus, it seems a good time to do some stock-taking.

In recent years, debate has increased over whether the *Bank of Canada Act* should be updated to codify into law some of the Bank's current practices or to make changes to the Bank's governance. This debate tends to intensify in the lead up to the renewal of the Bank's monetary policy framework every five years (Government of Canada and Bank of Canada 2021). For example, roughly one year before the last renewal, Martin Eichenbaum, a prominent academic, argued in an opinion piece in *The Globe and Mail* that monetary policy governance should shift to a statutory committee (Eichenbaum 2019). As noted above, looking beyond legislation is important for a complete understanding of monetary policy governance. Governance frameworks vary considerably across central banks, suggesting that there is no consensus on a governance structure that leads to the best performance in all countries and regions (**Table 1**). In practice, governance frameworks can be described along a spectrum, with one end of the spectrum having details of structures and processes being fully legislated and the other end having more process-based governance. Here, *process-based* refers to governance structures that are less legislated but with the institution's board of directors or other ultimate governance body involved to some degree in setting, approving or endorsing well-established practices and processes.

[1] The content of this paper reflects the Bank's governance structure as of February 2024.

[2] In September 1991, the federal government put forward a set of proposals that had a bearing on the Bank. The proposals were spelled out in *Canadian Federalism and Economic Union: Partnership for Prosperity* (Government of Canada 1991). The House of Commons Standing Committee on Finance had previously planned a study of the Bank, but with the release of the government's proposals, decided to establish a subcommittee, chaired by MP John Manley, to review the Bank's mandate and governance. John W. Crow, then Governor of the Bank of Canada, appeared before the subcommittee on November 19, 1991, to comment on the proposals. Ahead of the meeting, a detailed memorandum was provided to the Standing Committee titled, "Memorandum on Bank of Canada Functions and Responsibilities Submitted to the House of Commons Standing Committee on Finance." In February 1992, the subcommittee submitted its report, also referred to as the Manley Report in this document. For more, see Parliament of Canada (1992).

[3] For more, see various memos to staff from 1994, available from the Bank of Canada Archives.

This paper also recognizes that domestic context plays a crucial role in determining what governance structure works best for a given central bank.[4] In addition, any changes over time in the domestic landscape may require updating aspects of governance. Process-based governance structures are generally more flexible and agile than heavily legislated structures. This has proven true at the Bank of Canada, where processes are regularly adjusted based on feedback from stakeholders and reflection on evolving good practices at other central banks.

This paper starts, in **section 2**, with a review of the legislative framework for monetary policy governance in Canada and the agreement with the federal government that together establish the Bank's mandate. **Section 3** describes why having an MPC set monetary policy is favoured internationally. The section also reviews the evolution of monetary policy governance in Canada, including the establishment of Governing Council as the Bank's MPC. **Section 4** summarizes how the institutional design of an MPC—in terms of size, composition and decision-making procedure—matters for monetary policy effectiveness and reviews some desirable and adverse outcomes associated with different governance structures. Material in this section is organized by the three main stages of policy: information gathering and analysis, deliberation and decision-making, and communication. The interplay of governance processes at the Bank of Canada are described for each stage. The **final section** offers a few concluding remarks.

[4] Analyses done at the International Monetary Fund and Bank for International Settlements acknowledge the role of domestic context in establishing governance (Lybek and Morris 2004; Central Bank Governance Group 2009).

Table 1: Monetary policy governance across central banks

	Reserve Bank of Australia	Bank of Canada	Bank of England	European Central Bank	Bank of Japan	Reserve Bank of New Zealand	Norges Bank	Sveriges Riksbank	United States Federal Reserve
Total MPC* members	9	6	9	26†	9	7	5	6	19‡
External members	6	1	4	0	0	3	2	0	0
Length of term, in years§	G and DG: 7 External members: 5	G and SDG: 7‖ External members: 2	G: 8 DG: 10 External members: 3	Executive Board: 8	7	5	G and DG: 6 External members: 4	5 or 6	Board of Governors: 14
Appointed by	Cabinet (recommendation from Treasurer)	Board of Directors (with approval of Cabinet for G and SDG)	The Crown (for G and DGs), Governor (for Chief Economist) and Chancellor of the Exchequer (for external members)	European Council (for Executive Board)	Cabinet#	Governor-General (upon recommendation of the Minister of Finance)	King in the Council of State	General Council	President and Senate (for Board of Governors)
Decision-making process	Vote	Consensus	Vote	Vote	Vote	Consensus	Consensus	Vote	Vote
Meetings per year	8 (from 2024; 11 prior to 2024)	8	8	8	8	7	8	8 (from 2024; 5 prior to 2024)	8
Outlooks published per year	4	4	4	4	4	4	4	5	4
Publish a projected policy path	No	No	No	No	No	Yes	Yes	Yes	Yes
Meeting summaries (number of days after announcement)	Minutes (14)	Summary of Governing Council deliberations (14)	Monetary Policy Summary and Minutes (0)	Account of the monetary policy meeting (28)	Summary of Opinions (10), Minutes (45–70)	Summary record of meeting (0)	Monetary Policy Assessment (0)	Minutes (5)**	Minutes (21)
Press conferences after decisions	8 (from 2024; 11 prior to 2024)	8 (from 2024; 4 prior to 2024)	4	8	8	4	8	8 (from 2024; 5 prior to 2024)	8

Note: Information is as of February 2024.

*MPC is monetary policy committee.

†The European Central Bank's Governing Council consists of 6 Executive Board members and the 20 national central bank Governors of euro-area countries. The 6 Executive Board members have permanent voting rights; 5 national central bank Governors (Germany, France, Italy, Spain and the Netherlands) share 4 voting rights with a rotation every month; the 15 other national central banks Governors share 11 voting rights and rotate every month.

‡The Federal Open Market Committee consists of 12 voting members: the 7 members of the Board of Governors, the president of the Federal Reserve Bank of New York and 4 of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis. The 7 other Reserve Bank presidents attend the Committee meetings and participate in discussions but cannot vote on policy decisions.

§G refers to Governor, SDG to Senior Deputy Governor, DG to Deputy Governor.

||There are currently no term limits for internal DGs.

#Appointment subject to the consent of both houses of the Diet, the House of Representatives and the House of Councillors (in accordance with Article 23, paragraph 1 of the *Bank of Japan Act*).

**Starting in 2024, the minutes are published approximately 5 working days after the meeting instead of approximately 10 days.

2. The legislative framework for monetary policy governance in Canada

Many factors interact to define monetary policy governance, including legislation, institutional features, and processes and practices. Differences in the relative importance of these factors across central banks—including the role of legislation in establishing various aspects of governance—suggest that the national context is particularly important in determining best practices.[5] In Canada, the legislation contains fewer details than in some other countries, the Board of Directors approves some aspects of governance, and details of all processes are published. This contrasts with, for example, the Bank of England, where legislation dictates many aspects of governance, including communications. However, legislation in Canada does establish important features of the framework that influence current decision-making arrangements.

The *Bank of Canada Act*, which received royal assent in 1934, establishes the objectives and responsibility for monetary policy. The Act empowers the Governor of the Bank of Canada to make monetary policy decisions with the broad aim to promote the economic and financial welfare of Canada. **Box 1** provides additional details on key aspects of the Act.

While the Act is the foundation of the Bank's governance framework, it does not include measurable objectives for monetary policy. Instead, a joint, non-legislative agreement between the Bank of Canada and the Government of Canada establishes objectives in support of the Act's broad aims. In 1991, an explicit inflation-control range, with an inflation target at the middle of the range, was adopted as the central pillar of the monetary policy framework. Keeping inflation low, stable and predictable has been seen as the best way for the Bank to fulfill its broad mandate under the Act.[6]

The joint agreement enhances governance established in the Act. In particular, part of the agreement requires the parties to review and renew it every five years. The review is structured, with related analysis and discussions between staff from the Bank and the Department of Finance Canada. At the end of the review, the federal government and the Bank issue a joint statement that provides the details of the renewed framework.

Several features of this renewal process contribute to the credibility, political legitimacy and accountability of monetary policy. The process is deliberate and has become increasingly transparent. As part of each review, the Bank focuses its research on a set of key questions. The

[5] One factor that may be relevant in understanding differences in monetary policy governance is the extent to which those on the MPC are also members of the central bank's board of directors and have other oversight responsibilities. However, discussion of broader governance issues like this one is beyond the scope of this paper.

[6] The agreement identifies a specific target for the rate of inflation. Since 1995, the target level for the inflation rate has been 2% (within a control range of 1% to 3%), measured by the 12-month rate of change in the consumer price index.

questions have changed through time. Some examples include whether to lower or raise the inflation target and if the framework should target a price level instead of an inflation rate or use another approach to establish a nominal anchor. At times, the questions have been influenced by major challenges being faced by Canada. For instance, following the 2008–09 global financial crisis, the Bank added a question to its renewal research agenda that asked to what extent monetary policy should include financial stability considerations. The questions are announced early in the review process. Documenting and publishing the research and results also enhances transparency.

While much of the work surrounding the reviews has traditionally been led by the Bank, external stakeholders have become increasingly interested in the Bank's monetary policy objectives in recent years. As a result, the Bank organized an event shortly after the 2016 renewal with academics and key stakeholders to solicit input and help define the key questions to be addressed in the 2021 review. The Bank also conducted a broad outreach with relevant stakeholders—including civil society, academics, private sector economists, market participants and the federal government—ahead of the 2021 renewal.

Together, the Act and the joint agreement define the Bank's mandate for monetary policy and provide the Bank with the independence and legitimacy to take actions to achieve those objectives. This provides an anchor to support decision-making. The joint agreement and processes and practices that are not legislated set out other aspects of governance. They define the:

- timeline for the monetary policy process
- information presented and discussed at the series of meetings that are part of the process
- approach to decision-making and related communications
- reporting of performance relative to objectives

Being transparent about processes and communicating externally about decisions and performance contribute to accountability. Details on the processes and practices have been summarized in Governing Council speeches and are described on the Bank's website.

In the autumn of 1991, the Government of Canada proposed changes to the *Bank of Canada Act* as part of a package of legislative proposals that included major constitutional amendments. The federal government proposed making price stability the Bank's sole objective and increasing regional representation on the Bank's Board of Directors.[7] The legislative proposals sought to improve the accountability and transparency of monetary policy by clarifying the Bank's mandate in the legislation and increasing the Bank's sensitivity to regional concerns.

Shortly thereafter, the House of Commons Standing Committee on Finance established a subcommittee to conduct a comprehensive study of the Bank's mandate and governance. The

[7] See Government of Canada (1991).

subcommittee was chaired by an Opposition MP, Liberal John Manley, and included two Progressive Conservatives and one New Democrat. The resulting report, *The Mandate and Governance of the Bank of Canada* (also known as the Manley Report, after the chair of the subcommittee), was published in 1992. It included five main recommendations, of which the first three largely supported maintaining current practices:[8]

1. Keep the mandate as-is in the preamble to the *Bank of Canada Act*.
2. Continue to have the Bank make policy decisions but maintain the government's ability to issue a directive (**Box 1**).
3. Maintain a regional balance on the Bank's Board of Directors and amend the Act to be explicit on this—and choose some directors for their expertise in monetary policy.
4. Amend the Act to require the Governor of the Bank of Canada to testify before Parliament on current and anticipated economic conditions and on the intended course of monetary policy over the short and medium term.
5. Require the Board to hold some meetings outside of the National Capital Region to foster better understanding of the workings of monetary policy across the country.

The recommendations to have regional representation and monetary policy expertise on the Board of Directors reflected an evaluation of the Directors' role in monetary policy. Partly because monetary policy decisions could be made at any time, such responsibilities could not rest with part-time individuals. In considering revised governance with explicit roles for full-time Regional Directors in setting policy, some witnesses expressed concern about links to provincial governments and potential inflationary bias to Bank policies. However, other witnesses stressed the importance of both the Board's role in overseeing the management of the Bank—particularly given the central bank's use of public funds—and the need for a Board comprised mainly of independent and outside directors. The Manley Report summarizes these discussions, but members of the subcommittee were not convinced that concentrating decision-making power with the Governor or lacking regional input in decision-making were very significant problems.[9] The outcome was recommendations 3–5.

Whether they should be interpreted as being motivated by the government proposals, the recommendations in the Manley Report or both, the processes that help define monetary policy governance at the Bank have evolved over time in ways that address issues flagged in 1991–92.

[8] For more, see Parliament of Canada (1992).

[9] Clark (1996) revisited the issue of a full-time board of expertise, representative of the regions, to establish monetary policy.

Box 1

Key elements of the legislative framework

Several aspects of the *Bank of Canada Act* are particularly important for monetary policy governance. Together, they define the Bank of Canada's accountability, establish responsibilities and provide independence to the Bank in conducting monetary policy while allowing the federal government to give a directive under exceptional circumstances.

The roles of the various players are specified in the Act.

- The Bank is ultimately accountable to Canadians and must work on their behalf. The Act's preamble states that the Bank must work "in the best interests of the economic life of the nation." Moreover, the preamble mentions that the Bank has authority to make monetary policy decisions "to promote the economic and financial welfare of Canada," providing a broad objective for monetary policy decisions.
- The Act requires that the Minister of Finance and the Governor of the Bank of Canada "consult regularly on monetary policy and on its relation to general economic policy."
- The Board of Directors provides general oversight of the management and administration of the Bank.[10] One of its most important responsibilities is to appoint the Bank's Governor and Deputy Governors. The Governor in Council must approve the choices for Governor and Senior Deputy Governor.[11]
- The Governor and Senior Deputy Governor serve seven-year terms that may be renewed.[12]
- The Governor serves as the Chief Executive Officer and Chair of the Board of Directors. The Governor is given the authority for the direction and control of the business of the Bank on behalf of the Board.
- The Governor presides over Governing Council.
- In practice, Governing Council is responsible for decisions about monetary policy and financial system policy. However, the Act confers the sole responsibility of monetary policy decisions to the Governor. As a result, members of Governing Council do not vote on decisions and instead reach and communicate decisions by consensus. The Board of Directors is not involved in the process or decisions related to monetary policy.

[10] The Board of Directors includes the Governor, the Senior Deputy Governor, 12 external Directors and the Deputy Minister of Finance. The Minister of Finance appoints each external Director. External Directors are appointed for renewable three-year terms. Board members have one vote each, except the Deputy Minister of Finance, who cannot vote.

[11] Governor-in-Council decisions are made by the Governor General on the advice of the federal Cabinet.

[12] The independent members of the Board of Directors appoint the Governor and Senior Deputy Governor, with the approval of the Governor in Council.

The Act provides the Bank with qualified independence in implementing monetary policy.[13] The Act reinforces the Bank's independence by establishing that the Governor holds office during "good behaviour." [14] This ensures that the Governor and Senior Deputy Governor can conduct monetary policy without fear of unjust dismissal, even if the federal government disagrees with their decisions. However, the *Bank of Canada Act* specifies that the Minister of Finance can, under some conditions, "give to the Governor a written directive concerning monetary policy, in specific terms and applicable for a specified period, and the Bank shall comply with that directive." This directive must be made public, and the government must present it to Parliament soon after issuing it. This directive power has never been exercised.

3. Monetary policy by committee and the Canadian context

This section starts with a short review of why conducting monetary policy by committee has become the norm in central banking. Then it describes how the Canadian context has influenced the design of the Bank's MPC. The literature on governance focuses predominantly on the characteristics of the committee itself and on how the interactions of committee members impact **independence**, **accountability**, **legitimacy**, **credibility** and **transparency**. This section focuses on these issues. In the case of the Bank of Canada, Governing Council was established to be the decision-making body even though legislation places that power with the Governor. However, the importance of the characteristics of MPCs may differ across different stages in the monetary policy process. This topic will be addressed in the next section.

Monetary policy-making by committee has become the standard in central banks. The complexity of the real world, including inherent uncertainties associated with economic data and models, means that policy-makers must be well-informed, draw on high-quality analysis and be exposed and open to diverse perspectives.

Monetary policy by committee is also seen as a mechanism to reinforce central bank independence in decision-making. As Blinder (2007) remarks, "[i]n a number of countries, the movement toward committees went hand-in-glove with the spread of central bank

[13] The importance of independence has long been recognized. The *Report of the Royal Commission on Banking and Currency in Canada* in 1933 noted that: "It has in practice been found that a central bank can give most effective service to the community if it is free from the fear of interference for political ends in operating the delicate mechanism of the national monetary and financial machine. … there are pre-eminent advantages to the state in entrusting the special and highly technical functions of a central bank to a body not subject to the vicissitudes of political life." This was a well-accepted international view. The same report noted that "at Genoa in 1922, the International Economic Conference resolved that: 'Banks, and especially banks of issue, should be free from political pressure, and should be conducted solely on lines of prudent finance'" (Royal Commission on Banking and Currency in Canada 1933).

[14] See, for example, Bank of Canada (2013).

independence. When the central bank was just following orders communicated by the government, there was not much reason to have a committee on the other end of the phone." Furthermore, large committees may be less easily swayed by government influence (Goodhart 2000). Having the responsibility for monetary policy rest with a committee also can depersonalize decisions by refocusing attention away from a single individual and toward the institution and its mandate. This was one motivating factor for establishing Governing Council at the Bank of Canada in 1994.[15]

Diversity on a committee allows for fuller representation of varying interests [and strengths?] and thereby reinforces political legitimacy, credibility and longer-run independence of monetary policy. Diverse teams are also better able to adapt to changes and are more resilient. As well, a committee structure with regional diversity may introduce diversity in terms of language, culture or industry, although regional diversity on the MPC may not be necessary to achieve this.

The context in which monetary policy is conducted plays a crucial role in the design of the governance framework. Approaches that may work in some jurisdictions may be less appropriate in others. The context for the Canadian economy has some important features. Canada covers a large geographic area. The economy consists of a very diverse industrial structure, with compositional differences across regions. There is also a rich diversity of cultures, with some regional differences.

While the *Bank of Canada Act* establishes the legal authority of the governance framework and the joint agreement establishes measurable objectives, non-legislated, well-established *processes and practices* are instrumental in delivering on the principles of good monetary policy governance in Canada.

The process-oriented governance structure in Canada, which is less legislated than in other countries, provides greater flexibility and agility than a largely legislated governance structure. This flexibility provides a mechanism for governance to evolve over time as the context changes. As **Box 2** summarizes, practices at the Bank of Canada have changed to address governance concerns without requiring changes to the *Bank of Canada Act*. Notably, adjustments were made after 1992 that address some of the concerns and recommendations in the Manley Report on the Bank's mandate and governance. For instance, regional interactions and transparency have increased with the creation of regional economic offices and changes to communications—neither of which were implemented through legislative amendments. These changes also improve accountability and public understanding of the mandate and policies of the Bank of Canada.

In Canada, there is no legislative requirement regarding the structure of the MPC, such as the size of the committee or whether different types of representation are required. The Bank's MPC usually has six members and is smaller than the median size of committees at some other

[15] See various memos to staff from 1994, available through the Bank of Canada Archives.

central banks (**Table 1**) (Central Bank Governance Group 2009).[16] While there are no explicit requirements regarding regional, external, gender or other types of representation, Governing Council is committed to communicating with Canadians in both official languages and in recent decades has included at least one female member. As well, hiring Deputy Governors with experience outside the Bank can and has contributed to several forms of diversity, including gender, language and regional perspectives.

Leveraging the non-legislated and flexible nature of appointments of Deputy Governors, the Bank changed the structure of the committee in 2023 by replacing one internal member with a non-executive external member. The person in this role is not an employee of the Bank and is focused on contributing to the Bank's monetary policy and financial system policy mandates. The individual brings an outsider perspective, which is reinforced by the person not reporting to senior Bank management nor managing Bank staff. Such a change would not have been possible without the establishment in 2000 of fixed dates for policy announcements. Prior to this, policy decisions could be made at any time, so it was seen as necessary that those making monetary policy decisions be full-time members.

Various characteristics of committee structure and responsibilities can impact the quality of the three stages of the monetary policy process (information gathering and analysis, deliberation and decision-making, and communication). These will be described in the next section.

Box 2

The evolution of monetary policy governance at the Bank of Canada

1934: The ***Bank of Canada Act*** receives royal assent, establishing the Bank of Canada, which begins operations in 1935. Accountability and reporting requirements are limited to publishing weekly financial statements and an annual report. The Act requires the Minister of Finance and the Governor to consult regularly on monetary policy and its relation to general economic policy.

1967: The ***Bank of Canada Act* is amended** to allow the Minister of Finance, acting on behalf of the government, to issue a directive to the Governor in the event of a serious disagreement over the conduct of monetary policy.

1991: Canada becomes the second country to adopt an **inflation-targeting framework for monetary policy**, after New Zealand in 1990. The inflation-targeting regime is based on a non-legislative agreement, which will be regularly reviewed, between the Bank and the Government of Canada. [17] The explicit target is a precise yardstick for measuring the Bank's performance and thus provides the foundation of the Bank's accountability to Canadians.

[16] Over recent history, the committee has included the Governor, a Senior Deputy Governor and four Deputy Governors.

[17] See Amano, Carter and Schembri (2020) for a review of the processes for renewing inflation-targeting frameworks in Canada and in other countries.

1994: Governing Council is established. The Council takes collective responsibility for managing the Bank, including making monetary policy decisions.

1995: A semi-annual ***Monetary Policy Report*** (MPR) is introduced to increase transparency around policy and operations, providing details on the conduct of monetary policy and an outlook for inflation. In 2000, the Bank starts publishing a *Monetary Policy Report Update* between successive MPRs to ensure a continuous quarterly analysis of economic developments in Canada.

1996–97: The Bank **enhances its regional presence** to ensure it stays informed about regional economic developments across Canada, to reinforce contacts with businesses, governments, associations and economic analysts, and to improve communication with Canadians. New representative offices open in Calgary and Halifax, and the number of regional economic staff is expanded in Montréal, Toronto and Vancouver. The Bank starts publishing a **press release** after each rate announcement, giving the reasons behind the policy decision. These initiatives are part of ongoing efforts to enhance transparency and accountability.

2000: The Bank establishes **a system of eight fixed dates per year for making announcements about monetary policy decisions** to reduce uncertainty on the timing of routine policy decisions.

2017: A new **Bank of Canada Museum** opens to engage with a broader group of Canadians and help them understand the work of the Bank.

2018: To increase clarity and reach a broader audience, the Bank begins to **monitor its publications for readability**, works to make them easier to understand and **increases its use of social media**. A new digital publication, ***The Economy, Plain and Simple*****, is introduced** to explain relevant economic concepts in a simple and engaging way. Communications on policy decisions is enhanced by having a Governing Council member deliver a **speech the day after policy decision announcements that are not accompanied by the release of a *Monetary Policy Report***.

2023: To improve transparency, the Bank starts to publish **summaries of its monetary policy meetings** about two weeks after each interest rate decision. The Bank also introduces a new role for an **external, non-executive Deputy Governor**, appointed for a term of two years.

2024: The Bank starts holding **press conferences after every monetary policy meeting**. This increases the number of these press conferences from four to eight per year.

4. Governance and the monetary policy decision-making process

This section shifts focus from a review of broad characteristics of governance related to the structure of MPCs to considering the impact of governance on different stages of the monetary policy decision-making process. The interplay of governance processes at the Bank of Canada are described for each stage. The three important and distinct stages are (**Figure 1**):

- information gathering, analysis and presentation of alternative views

- deliberation and decision-making
- communication

Details on the three stages of the decision-making process at the Bank of Canada are summarized in **Box 3**. Ultimately, the governance challenge is achieving the desirable outcomes (**Figure 1**, green boxes) without triggering adverse ones (**Figure 1**, red boxes).

The literature on governance predominantly focuses on the characteristics of the decision-making committee itself. However, the supporting role of central bank staff in the monetary-policy process can alter the likelihood of desirable and adverse outcomes associated with MPC characteristics. This is particularly the case at the initial stage, involving information gathering, analysis and presentation of alternative views. By structuring the discussion according to the three stages of the monetary-policy process, it becomes clearer where MPC characteristics themselves are more important to achieving the best outcomes.

Figure 1: Desirable and adverse outcomes of governance and domestic context

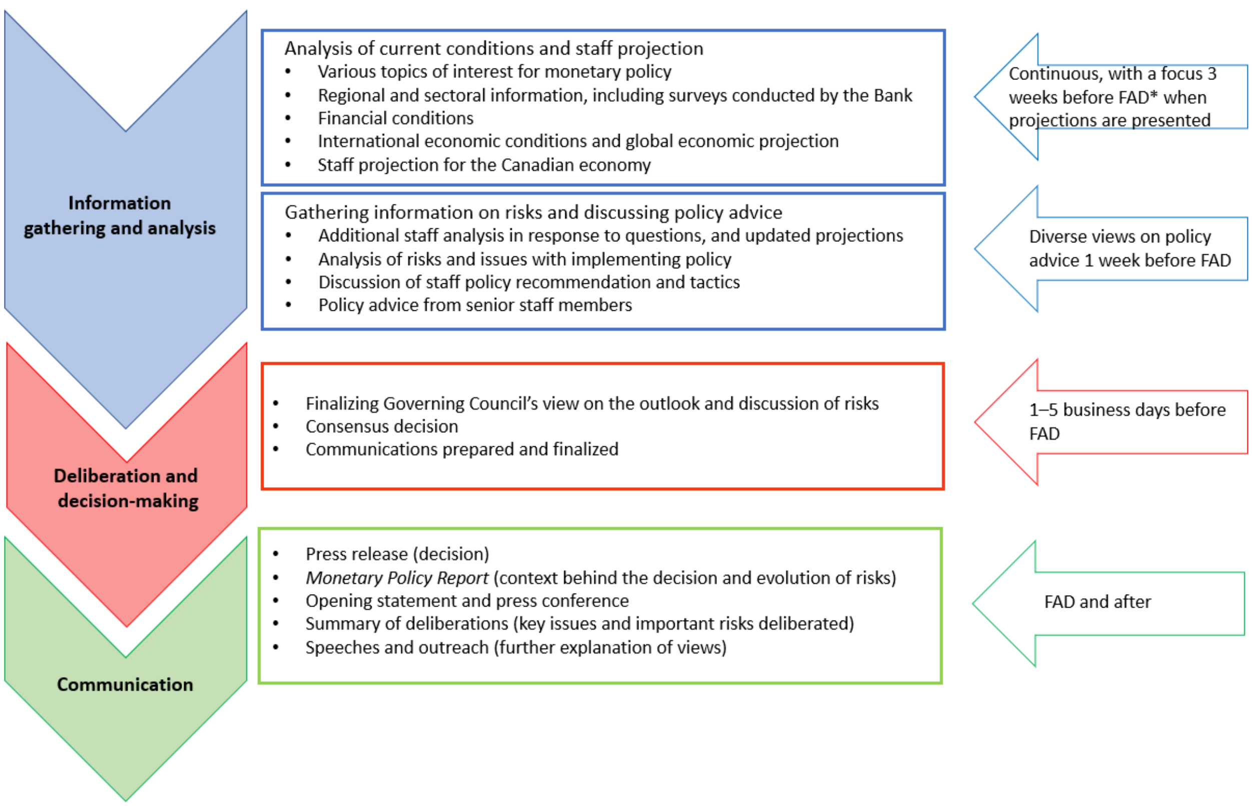
Process	Desirable outcomes	Adverse outcomes	Domestic context
Information gathering and analysis	• Different processing of information • Information pooling and sharing • Well-informed decisions • Legitimacy, credibility and independence	• Free-riding • Information exchange problems	• No legislative requirement on the composition or structure of the committee • Culture of promoting a diversity of views and information • Regional offices bring varied types of information
Deliberation and decision-making	• Accountability • Open and inclusive deliberation with challenging perspectives	• Groupthink, extreme views • Information cascades and distortion • Strategic voting • Inertia • Conflicts of interest	• Consensus decision-making aligned with Indigenous practices • Governing Council follows a systematic approach to the discussions • Culture of raising alternative views • Transparency in the process
Communication	• Transparency • Build public trust • Reach diverse audiences	• Lack of coherence • Communicative and strategic cacophony • Leaks of confidential information	• Bank maintains independence from political sphere • Committee speaks publicly with one voice • Use of both English and French in communications • Processes and practices are in place to ensure transparency

Box 3

The monetary policy decision-making process at the Bank of Canada

The Bank of Canada's monetary policy decision-making process usually takes between one and three weeks—more than three weeks when the Bank also releases a *Monetary Policy Report* (MPR)—on fixed announcement dates.[18] However, the Monetary Policy Committee (MPC) can legally make decisions as and when necessary in response to a crisis. Some parts of the routine process are very structured, which ensures that the information gathered, and discussions held are thorough. Throughout the process, staff and MPC members are encouraged to provide and consider diverse views. **Figure 3-A** describes the three key stages of the process at the Bank.

Figure 3-A: Decision-making process at the Bank of Canada



*FAD is fixed announcement date. There are the eight FADs per year when the Bank announces its decision for the policy interest rate.

The first stage involves information gathering and analysis. The decision-making process is very information-intensive, drawing extensively on the expertise, judgment and analysis of Bank staff. Staff collect and assess information from different regions and industries as well as from different points of

[18] Of the eight policy announcements each year, a *Monetary Policy Report* accompanies those in January, April, July and October.

view, such as businesses and consumers. Both staff and Governing Council participate. During this stage, Bank staff analyze the economies of Canada and other major international regions and produce forecasts with varying levels of detail.[19] In particular, staff analyze and interpret newly published data and deviations from previous expectations. Qualitative data—such as those drawn from the Bank's regular business and consumer surveys, and the economic intelligence gathered from the regional offices and outreach activities of Governing Council members—are also analyzed. For decisions accompanied by an MPR, staff present their projections and alternative scenarios roughly three weeks before the decision is announced.[20] Alternative scenarios are important for weighing different points of view and competing interpretations of the same data (Gosselin and Kozicki 2023).

The final part of this stage takes place about a week before the policy decision. Bank staff present an updated economic outlook and review of main risks to Governing Council, and a general discussion follows. Senior Bank officials, including Managing Directors and Advisors, provide their recommendations for the policy decision along with supporting arguments and tactical considerations.

The second stage involves deliberations and the monetary policy decision. During this stage, Governing Council members review the information and recommendations received from staff and may bring new considerations to the table. In a series of thorough discussions on the economic outlook and on the monetary policy decision, they exchange views and explore any outstanding issues and differences in perspective. The deliberations and discussions start about five business days before the announcement of the decision. The decision is reached by consensus. After a decision is made, Governing Council drafts the press release, and the opening statement for the press conference is prepared. Running in parallel with these discussions is the finalization by Governing Council of the MPR. Each MPR summarizes Governing Council's view on the economic outlook and risks, providing the economic context that goes with the decision. The MPR is published alongside four of eight policy announcements each year.

The third and final stage of the process is publishing and communicating the decision. Communication is a critical part of being accountable to Canadians. It can also enhance the effectiveness of monetary policy by increasing the public's understanding of the Bank's actions. The Bank does this by explaining how its actions are related to its interpretation of economic developments, to its economic forecast and to the attainment of the inflation target. This stage of the process starts on the day of the announcement and is continuous, with several layers of communication explaining the reasons behind the policy decision and the Bank's views on various policy topics.

[19] Staff economic projections are available on the Bank's website with a five-year lag.

[20] The economic projection is updated with new information right up until a few days before the decision is announced. The final projection representing Governing Council's view is published in an MPR.

4.1 Information gathering and analysis

4.1.1 Desired and adverse outcomes associated with governance

The literature on governance puts considerable weight on the importance of diverse sources of information to stimulate creative thinking and to ensure that many perspectives are part of discussions. Members of diverse teams are more inclined to consider novel ideas and to challenge each other. Diversity in the methods of analysis and models used may also help policy-makers form views about the appropriate policy action to take in the presence of uncertainty about the state of the economy.

MPCs have explicit regional representation in some central banks, such as the US Federal Reserve and the European Central Bank. **Including internal and external members** in MPCs is legislatively required in other central banks, such as the Reserve Bank of Australia, the Bank of England and the Norges Bank. External members participate in policy discussions and decision-making but are not employees of the central bank. The goal of these approaches is to stimulate creative thinking, broaden information and ensure that diverse perspectives are part of discussions. Except for the Reserve Bank of Australia, it is standard that internal members make up the majority share of an MPC.

These characteristics are highly valuable at the decision-making stage, but their importance for information gathering and analysis depends on the extent to which others in the central bank are assigned related responsibilities. However, even when staff largely gather and analyze information before monetary policy decisions are made, diversity on MPCs can help make this stage broader in scope by including:

- different and non-traditional information sources
- different approaches to analysis
- openness to more risk analyses that challenge baseline ways of thinking.

Relatedly, Bordo and Prescott (2023) argue that an important role of the Reserve Banks in the Federal Reserve's decentralized structure is to support and develop new ideas. Competition in formulating ideas may also reduce groupthink. [21]

One argument against large MPCs has been that they can lead to free-riding. The idea is that because producing and analyzing information is costly and shared among committee members, individuals may have incentives to cut back on their efforts and rely on others instead (Sibert 2006; Gerling et al. 2005). This concern is mitigated during the information-gathering stage by having central bank staff who are not part of the MPC take on much of this

[21] **Groupthink** refers to the theory that Janis (1972) described about how groups often make systematic errors when the goal of unanimity overrides group members' motivations to raise alternative perspectives. Insulation from outsiders, lack of diversity among group members, external pressures, leaders actively advocating solutions and tolerance of decisions that have not been methodically analyzed can also contribute to groupthink (Janis 1972; Sibert 2006).

responsibility. The role of the MPC then shifts to guiding the process, ensuring that the information-gathering process itself is thorough, uses different analytical methodologies and promotes the inclusion of a variety of views.

4.1.2 The Canadian context

Common practices at the Bank of Canada promote a diversity of views and information at the information-gathering stage. This stage is structured around a series of presentations by staff and discussions, providing staff and members of Governing Council opportunities to express their views and ask questions (**Box 3**). Different types of information inform the discussions, with each type drawing on a wide variety of sources. Issues are often evaluated from many angles, using different sources of information as well as a broad range of tools. Furthermore, a common practice is to consider model-based alternative scenarios by changing assumptions that go into the base-case projection or by generating scenarios with different models. This allows the Bank to evaluate the validity of key assumptions for the economic outlook. Expert analysis, survey data and other external data and insights also help Governing Council and Bank staff understand what is happening—and what could happen—in the economy. While the base-case projection is for national-level data, this is not the only type of information provided to Governing Council.

Another important practice is **gathering information through the Bank's regional offices**. Because Canada is such a large country with diverse economic regions, it is important that the Bank maintain contact with local communities. Economists in the Bank's five regional offices—Vancouver, Calgary, Toronto, Montréal and Halifax—are in frequent contact with various local associations, businesses, community groups, government officials and educational institutions to exchange information and views on the economy and monetary policy. They also conduct surveys of businesses and consumers across Canada. These activities bring disaggregated and varied types of information into the decision-making process to complement analysis of data published by Statistics Canada.

Overall, the processes and common practices at the Bank of Canada support the inclusion of diverse information sources, views, models and interpretations. These practices have achieved desired outcomes without the need to legislate details like representation on Governing Council or what processes to follow.

4.2 Deliberation and decision-making

Committee structure and practices are generally viewed as critical to the quality of decisions and their effectiveness in achieving desired results. Structural characteristics may include, for example, diversity—such as regional representation, members who are external or internal to the central bank, expertise and gender—and size. Practices may include the role of the chairperson and whether decisions are made by consensus or vote, as well as approaches to communications. This subsection reviews related issues, with communications largely reserved for the next subsection.

4.2.1 Desired and adverse outcomes associated with governance

Diverse committees of several members with different backgrounds and expertise are better at pooling, processing, analyzing and interpreting economic information—which ultimately leads to higher-quality outcomes—than one person relying mostly on their own information and judgment (Blinder and Morgan 2005; Blinder 2007; Gerlach-Kristen 2006). This may partly reflect that committees tend to be better at pooling noisy signals and reducing uncertainty when information is imperfect. Group interactions can affect members' judgements and trigger preference convergence, adaptation or change (Whyte 1993). While participating in a committee can make members more extreme or cause groupthink—both being types of group polarization (Sibert 2006)—the composition of the committee can play a critical role in mitigating this risk. Group decision-making can prevent decisions from swinging to extremes because majority decisions can smooth tail views (Waller 2000; Riboni and Ruge-Murcia 2016).

Introducing fixed-term outsiders onto a committee may bring fresh and diverse perspectives to deliberations (Blinder 2009). However, there is ongoing debate about how to best establish diversity on committees and the merits of looking outside of the central bank to build that diversity.

Recruiting outsiders either into MPC positions as central bank employees or as external members of the MPC can tap into a wider pool of talent, bring in additional expertise and help channel outside opinions into the heart of monetary policy deliberations. However, depending on established processes, non-employee external members may experience difficulties being heard. This could happen if, in contrast to internal members, they do not have access to all staff input and have fewer interactions with other committee members. As well, attracting part-time external members who are pursuing another occupation could prove difficult because they could more likely have conflicts of interests or be reluctant to adjust their financial holdings.

Whether members need explicit expertise in monetary policy is another important issue when considering who would be well placed to serve on an MPC. Hansen, McMahon and Rivera (2014) observe that external members tend to have less monetary policy expertise than internal members. This may be a concern depending on the value of other types of expertise, experience or dimensions of diversity they bring to the committee. The evidence is mixed. Gerlach-Kristen (2009) finds that external members tend to dissent more frequently and prefer lower interest rates than internal members, especially during downturns. Hansen, McMahon and Rivera (2014) also find that internal members are more hawkish than external members. However, Besley, Meads and Surico (2008) find that the voting heterogeneity of the Bank of England's MPC is unrelated to the status of its members being internal or external. In committees that incorporate diversity through regional representation, members may face a trade-off between sub-national and national interests (or, in the case of the euro area, national and euro zonewide interests), yielding decisions that do not necessarily maximize aggregate welfare (Meade and Sheets 2005). Another open question is how to weight each member's voice in deliberations.

Committee size can also have important effects on deliberations. While larger committees may make fewer extreme decisions, they tend to be more inertial than individuals, leading to fewer and smaller interest rate adjustments (Riboni and Ruge-Murcia 2008, 2017). Central banks have often been criticized for having reactions that are considered *too little, too late*, and Gerlach-Kristen (2005) notes that this is more likely to happen when committees make decisions by consensus rather than by a simple majority vote. The problem is exacerbated when the committee gets larger because it takes more time to build consensus. While some degree of policy inertia can be desirable to stabilize an economy, it could also be problematic. Status quo bias could become self-fulfilling because members have incentives to exert less effort in contributing to the group's performance, or free-ride, if they expect that reaching a decision will be complicated.

Incentives to free-ride have been linked to the costs of producing information, which is subsequently shared among committee members (Sibert 2006; Gerling et al. 2005). But the same incentives may exist for bringing forward analysis and interpretation of information during deliberations. Thus, free-riding may not only affect the quality of information production, but could also encourage groupthink or strengthen the relative influence of extreme views prevailing on the committee—either of which could lead to decisions that are less robust to risks. The costs of free-riding increase as the committee gets larger, while the gains of having additional members processing information decline quickly (Sibert 2006; Hansen et al. 2014). Free-riding can be discouraged by providing incentives to be well prepared, such as by publishing the meeting minutes or asking members to prepare notes prior to the meeting with their main arguments for the upcoming decision.

The role and powers of the committee chairperson are also crucial in determining whether the benefits of decision-making by committee are realized. The benefits could be lost if the chairperson is too influential (Chappell Jr., McGregor and Vermilyea 2014).

The meeting structure—notably the speaking order of participants—can have a critical impact on the quality of decision outcomes. Information cascades are situations when committee members may be increasingly reluctant to voice a contrary view and hide their private information when they observe an increasing number of speakers expressing identical opinions (Blinder 2009). The common anti-seniority rule, where junior expert members speak early, may decrease the incidence of information cascades since junior members can express their views without being influenced by more experienced experts. However, Ottaviani and Sorensen (2001) show that there is no first-best speaking order when committee members have comparable expertise. Furthermore, with an heterogeneous committee, an anti-seniority order may incentivize the most knowledgeable members to hide their own private information, yielding a worse outcome. Having no fixed speaking order and simultaneous voting instead of a sequential *tour de table* may also help reduce information cascades (Maier 2010). The consensus approach provides for a back-and-forth discussion where initial interventions could follow an anti-seniority rule but subsequent discussion could be less structured.

Information and decision cascades are information-exchange problems that are more likely to occur if the chairperson is first to offer their views during the meeting. These cascades could occur if committee members worry that expressing a different view than others could negatively affect their own reputations. Some members may be reluctant to voice ideas for fear of embarrassment (Nemeth 1997). Other types of information-exchange problems may arise when members have different backgrounds, skills or preferences. For instance, when committee members differ in abilities, incentives to manipulate policy outcomes or mimic behaviour may be stronger when uncertainty is high. These situations provide examples of information-exchange problems that can reduce the amount of valuable information shared and foster groupthink, leading to poor and biased decisions. More generally, there may be less discussion of different views that would provide an opportunity to flesh out uncertainty, risks and policies to manage them.

Consensus decisions, which result from back-and-forth discussions, and decisions based on a majority vote are the two standard approaches of MPCs. Both approaches ideally start with a diversity of views from the information-gathering and analysis stage that informs policy deliberations. However, during deliberations and decision-making, the two approaches have different motivations and the approach taken may affect the quality of the discussions.

Consensus decision-making, founded on the principle of group accountability, is a very open process that fosters the exchange of ideas and encourages broader discussion of key issues. Committee members are more likely to enter meetings with an open mind to their colleagues' views that may differ from their own.

The economic knowledge and moderating skills of the chairperson are especially important in building consensus and enhancing the credibility of the central bank (Gerlach-Kristen 2008). Blinder (2004, 2007) subdivides committees that take decisions by consensus into two types, where the weight of the chairperson's view in the final decision can change substantially according to how consensus is achieved: in autocratic committees, the chairperson dominates the meeting and may even dictate the group consensus, while in non-autocratic committees, members strive for a consensus that best reflects all the views expressed.

The type of the committee influences the dynamics of the interactions between members. Notably, Chappell Jr. and McGregor (2018) note that members of the Sveriges Riksbank's committee began to put more weight on the preferences of their peers than on the view of the chairperson in the 2000s. The authors say a possible shift from autocratic to more genuinely consensus-based decisions could have caused this change among members.

Vote-based decisions are founded on the principle of individual accountability. Voting can incentivize members to be better prepared for deliberations and reduce free-riding—even more so if votes are published with attribution. Voting compels committee members to reveal their policy preferences to each other and be ready to justify their decision, making individual contributions more identifiable to the public.

However, when decisions are made by a vote, members' interventions run the risk of being closer to advocacy. Advocacy is a type of information-exchange problem that occurs when committee members have incentives to manipulate their evidence, emphasizing information that supports their preferred outcome and concealing data that work against it (Li, Rosen and Suen 2001; Sibert 2006).

Another risk that may affect the quality of decision outcomes is when some members engage in strategic voting. This is when they prefer to neglect their own private information and either vote like their colleagues or abstain (Feddersen and Pesendorfer 1998; Gerling et al. 2005). Strategic voting is more likely to occur when the committee strives for a unanimous agreement because each member becomes more pivotal when all other members already agree on a specific option.

For large committees with vote-based decisions, rotational schemes can help speed up the decision-making process. The practice involves rotating the right to vote among members following a pre-determined sequence, as is done in the United States. Such a process can also maintain the quality of deliberations and limit the risks associated with large committees like free-riding and information-exchange problems. Bosman et al. (2013) find that committees using a rotation scheme decide faster and block decisions less often, reducing frustration among committee members. However, non-voting members may have no influence over decisions (Chappell Jr., McGregor and Vermilyea 2004).

Decision-making practices can interact with transparency practices. More transparency—achieved, for instance, by publishing records of deliberations or individual votes—has clear, positive disciplining effects by making members more accountable, but can also lead to negative conformity and exaggeration effects. Fehrler and Hughes (2008) show that committee members with career concerns share their private information less and make more mistakes when decisions are made transparently rather than secretly. Committee members may also be more reluctant to dissent when deliberations are revealed to the public (Meade and Stasavage 2008). According to Scharfstein and Stein (1990), herd behaviour is when rational agents are concerned about their reputations and believe they would be evaluated more favorably if they follow the votes of others than if they dissent. This is because they can share the blame even if the decision is a mistake. Conformism is amplified as transparency increases since disagreement might suggest a lack of competence for agents unsure of their expertise. In contrast, for agents who are confident in their expertise, career concerns can lead to anti-herding and exaggeration behaviours as they try to signal to others that they have superior private information and a high level of ability (Levy 2004). Hansen, McMahon and Prat (2018) find evidence that greater transparency around decisions lead to both discipline and information-distortion effects. Their results also suggest that the discipline effect dominates as inexperienced members of the US Federal Open Market Committee become more influential in the deliberations and their statements contain richer information after the release of transcripts.

4.2.2 The Canadian context

In Canada, **decisions are made in a collaborative manner. MPC members deliberate until they reach a consensus**, even though the *Bank of Canada Act* empowers the Governor to make decisions. One of the objectives of establishing Governing Council in 1994 was to de-personalize policy decisions from the Governor. In particular, the concern was that the Bank could become too closely identified with the Governor in the eyes of the public. That view would make policy seem almost a personal or arbitrary choice made by one individual rather than the carefully analyzed, medium-term process followed by the Bank (Thiessen 1994). Consensus-based decision-making also has deep roots in Indigenous cultures where communities often offer individuals equal access to voicing their concerns and ideas to help identify the best solution for the group.

By the early 1990s, there had been a good deal of discussion in Canada about **how to ensure regional input into decisions about monetary policy**. The Bank's view on this issue has been that monetary policy operates in an efficient financial market with a single currency, so it must be set on a national basis. Up-to-date regional and industrial information is important for interpreting ongoing economic developments. However, even as demand and supply conditions may differ across regions and industries, the single monetary policy must be based on the overall economic picture.[22] The Bank's enhanced regional presence starting in 1996–97 reinforced relationships with businesses, governments and other contacts while ensuring that it stayed informed about developments at a sub-national level across Canada.

Members of Governing Council are expected to arrive at the start of deliberations with their **own assessments of the state of the economy and the economic outlook, but with an openness to others' views**. This discourages free-riding by providing incentives to be well prepared for the conversations. Members usually discuss their views of the economic outlook and risks in one meeting and deliberate on the policy decision in a separate meeting. This separation fosters deliberations that are open to multiple perspectives and encourages a broad discussion of key issues and the exchange of ideas.

The structure of the deliberations supports the quality of decision outcomes. The two-stage process makes it less likely that Governing Council members have entrenched positions about the policy decision at the start of deliberations. Because the Act gives the Governor sole responsibility for decisions, this person is a very influential member of Governing Council. Following an anti-seniority speaking order for initial interventions during discussions on the

[22] This information draws on Governor John W. Crow's opening statement in November 1991 to a meeting of parliamentarians studying the mandate and governance of the Bank of Canada, and an accompanying memo provided before the meeting. For more, see Parliament of Canada (1991).

economy and on the decision reduces the risk of decision cascades and having the Governor's views dictate the group consensus. Allowing for a back-and-forth discussion after the initial interventions:

- reduces the likelihood of information and decision cascades
- encourages the consideration of diverse views and full information
- implies that advocacy-type arguments that filter information would be less effective

Diversity can also reduce the likelihood of groupthink and bias. In 2023, the Bank introduced a fixed-term, external member of Governing Council as an initiative to bring different perspectives into discussions. Furthermore, while no explicit requirement exists for representation of specific groups on the committee, the culture of raising alternative views during discussions also helps reduce groupthink.

4.3 Communication

Communication has become a key component of monetary policy. Communications policies are about more than accountability. They seek an approach to transparency that builds trust and credibility, reduces uncertainty, influences expectations and ultimately improves monetary policy effectiveness. For central bank communication to be effective, clarity is critical.

4.3.1 Desired and adverse outcomes associated with governance

Clear and simple communication improves public understanding of the messages and the perception of the institution, and it helps individuals understand how the central bank interprets economic developments. The latter may contribute to aligning expectations with the central bank's forecasts, thereby increasing policy effectiveness (Haldane and McMahon 2018). Haldane, Macauly and McMahon (2020) emphasize the importance for central banks to invest in engagement and education to increase both trust and knowledge.

In recent years, central banks have been working to enhance their communications by putting additional emphasis on making them clear and easy to understand, with minimal technical jargon. In some cases, this is done by tiering communications, with main messages expressed using different language and providing varying degrees of detail depending on the target audience. Some expert publications have been replaced with more accessible material to explain relevant and timely economic issues to non-expert audiences. Central banks also seek to engage more directly with the public through museums, social media and podcasts, among other channels. The purpose of these efforts is to reach a broader audience than just experts and to relay policy discussions and decisions in a way that is relatable to people's everyday lives (Macklem 2020). Relating the content of monetary policy messages to people's daily lives increases public comprehension and institutional trust (Bholat et al. 2019).

The composition of the MPC and the design of the decision-making process impact communication effectiveness. According to D'Acunto, Fuster and Weber (2021), a diverse committee is better able to:

- relate to and be trusted by more communities
- increase communities' interest in acquiring information about monetary policy
- influence communities' expectations to be more in line with the policy objectives

In addition, Baerg and Krainin (2022) provide evidence that committees with diverse preferences have more precise and transparent communications than committees with aligned preferences.

Ehrmann and Fratzscher (2007) argue that the effectiveness of central bank communications depends not only on how central banks communicate but also on how the committee makes monetary policy decisions. In particular, the authors find that an approach used by the Bank of England—where communication stresses the consensus or majority view, yet voting is highly dispersed—runs the risk of making MPC decisions less predictable. The predictability of policy decisions is highest for the US Federal Reserve, where communications are dispersed but most decisions are made unanimously, and for the European Central Bank, which has chosen an approach that reduces dispersion in both its communications and its decision-making. This suggests that there may not be a single, best approach to designing a strategy for central bank communications and decision-making.

One potential challenge to clarity comes from vote-based decisions where voting committee members are individually accountable for explaining their votes. A monetary policy committee that speaks with too many voices "may, in effect, have no voice at all" (Blinder 2007). For example, if committee members have different opinions on the appropriate monetary policy decisions, there is a risk that clear communication could be compromised by the publication of a variety of views. This so-called cacophony may be even more confusing for the public if individual views are not provided in context, with information on how these views weighed into the overall decision. One approach that could improve coherence of messaging and provide important context is to weave different or dissenting views into overall committee messages as part of a discussion on uncertainty and risk management.

A lack of coherence in communications can increase public uncertainty about the policy stance and possibly result in volatile behaviour and larger errors and dispersion in macroeconomic forecasts (Lustenberger and Rossi 2020). Thus, it can be more challenging for an individualistically voting committee to effectively communicate its policy stance than a committee that makes consensus-based decisions. Tutino (2016) and Hwang, Lustenberger and Rossi (2021) argue that to achieve clear communication, central banks should limit the number of speeches and ensure that each speech provides a focused, cohesive and concise message.

Another type of cacophony can occur when committee members strategically use communications tools to foster their own career or reputation, or to influence market expectations toward desired policy directions. This can lead to multiple statements that differ in tone or content. In particular, a potential threat to clear, consistent communications comes from leaks of confidential information. Leaks can have a sizable impact on public views, weaken the effect of institutional communications, reduce policy flexibility and harm the credibility and reputation of the central bank (Vissing-Jorgensen 2019; Ehrmann, Gnan and Rieder 2023). Ehrmann, Gnan and Rieder (2023) find that leaks originate mostly from insiders with minority opinions and occur more frequently when there is significant disagreement among committee members. In addition, the risk of accidental leaks may increase if the committee includes part-time external members who have more limited exposure to the institution.

4.3.2 The Canadian context

The literature suggests that no single best approach exists for designing a central bank communications strategy. In Canada, communication is influenced by some aspects of the legal framework, while processes are also in place to ensure transparency. The key role played by non-legislated processes reinforces the importance of the communications strategy at the centre of the Bank's accountability to Canadians.

Important aspects of the legal framework and governance interact with communications. Making decisions by consensus is closer to the legal structure where the Governor has sole authority to make decisions about monetary policy. With consensus decisions, the committee speaks publicly with one voice and communications are clear. The cacophony is reduced, and a clear and cohesive message can more easily lead to effective communications with market participants and the public.

Several aspects of the communications strategy at the Bank of Canada serve to enhance transparency (**Figure 2**). First, the *Bank of Canada Act* requires certain information to be published, such as an annual report and an audit of the financial statements. Second, because process-based governance structures are generally flexible and agile, the Bank has introduced significant voluntary practices to increase transparency through time.

For example, since 2000, the Bank releases its interest rate decisions on eight fixed, pre-announced dates throughout the year.[23] To help Canadians understand the rationale behind the decisions, a press release accompanies each decision. In addition, press conferences with the Governor and Senior Deputy Governor reinforce the message. Starting in 2024, a press conference has been held the day of each policy announcement. Previously, these press conferences took place four times a year for decisions that were accompanied by the release of an MPR, and a member of Governing Council delivered a speech after decisions that did not

[23] In exceptional circumstances, the Bank can change the policy rate on dates that fall outside this schedule, as it did in March 2020 in response to the onset of the COVID-19 pandemic.

have an accompanying MPR or press conference. These speeches provided a summary of policy deliberations and discussed the progress toward achieving the Bank's monetary policy objectives.

In 2023, the Bank began to publish a **summary of deliberations** roughly two weeks after policy rate announcements. By providing detail on policy options that were discussed and issues which received more attention, the summary provides a sense of whether committee members held different views about aspects of the outlook. Making this information publicly available enhances transparency, accountability and credibility, and reinforces the Bank's independence (Jain et al. 2023).

Beyond the focal point of the interest rate announcement days, **additional appearances and speeches** help increase the Bank's accountability. For example, the Governor and the Senior Deputy Governor appear before committees of the House of Commons and the Senate, providing parliamentarians the opportunity to ask questions about the Bank's policy decisions. Speeches by members of Governing Council on various important topics are also frequent. Efforts are made to ensure consistency across speeches in describing economic and financial developments that may be relevant for monetary policy.

The Bank of Canada applies a **tiering system** to its communications, using different methods depending on the target audience. The Bank's *The Economy, Plain and Simple* series and the Bank of Canada Museum's education programs are examples of efforts to reach a broader audience and increase the country's financial and economic literacy. The Bank has also been providing more plain language summaries and short video clips on social media to explain Governing Council decisions and the outlook for the economy. For other audiences wanting to understand the details behind the policy decisions, a wide range of data and analysis are also available. For example, staff analyses are published on the Bank's website and detailed staff forecasts that served as input into Governing Council's decisions are published with a five-year lag. These actions are important for the public to understand the context in which policy decisions are made.

Figure 2: Monetary policy communications and accountability at the Bank of Canada

Legislated

- The Bank must post information weekly about its assets and liabilities and monthly about its balance sheet
- The Bank must send its audited financial statements to the Minister of Finance every year
- An annual report is presented to Parliament and is published in the Canada Gazette
- Canadians can request the Bank's records under the *Access to Information Act*

Implicit accountability driven by processes in place

Communications related to monetary policy decisions:

- *Monetary Policy Report*, press releases, press conferences
- Summary of Deliberations
- Presenting the *Monetary Policy Report* to business and financial market audiences across Canada

Appearances before Parliament:

- Governor and Senior Deputy Governor appear before Parliament twice per year
- Other appearances can be arranged, ensuring accountability of the Governor

Other communications:

- Speeches on a regular basis
- Outreach and consultations with a large range of stakeholders
- The Bank of Canada Museum is free and open to the public
- Several other publications on various topics (*Financial System Review;* surveys; *The Economy, Plain and Simple;* staff research; social media; etc.)*

*All publications are available on the Bank's website.

5. Concluding remarks

Monetary policy governance contributes to the quality and effectiveness of monetary policy decisions. Monetary policy governance sets the mandate, the independence of the central bank to make decisions and the practices that support accountability. Governance is also relevant in achieving desirable outcomes at each stage of the monetary policy process: information gathering, decision-making and communication.

Considerable variation exists across central banks around governance frameworks, especially related to how objectives are determined, how decisions are made and who makes them. This suggests there is no consensus on a single structure that leads to the best performance in all countries and regions. A contribution of this paper is to discuss how the governance structure in Canada works well in the Canadian context. More generally, context should matter when determining what governance structure works best for a given central bank.

The Bank of Canada's use of practices and processes has permitted beneficial refinements to monetary policy governance over a shorter time frame than would be needed to amend legislation. The *Bank of Canada Act* and the joint agreement together define the objectives of monetary policy and solidify the Bank's independence and legitimacy. In addition, processes and practices that are not enshrined in legislation support other important aspects of the monetary policy decision-making process. As a result of this flexible and agile structure, the Bank of Canada has been able to make important adjustments without requiring amendments to the Act. For example, the Bank has gradually increased its opportunities to interact with businesses and households across Canada. This ensures that diverse viewpoints are part of the information-gathering and analysis stage of the decision-making process and enhance public understanding of the Bank's mandate and policies. Flexibility in the governance structure also improves transparency around policy decisions. In 2023, the Bank replaced an internal Deputy Governor position with an external, non-executive one and began publishing summaries of its monetary policy meetings about two weeks after each interest rate decision. More recently, the number of press conferences after monetary policy meetings increased from four per year to eight.

This paper has discussed how governance frameworks can be described along a spectrum, distinguished by the extent to which details of structures and processes are legislated or more process-based. Legislation may increase legitimacy and credibility; however, process-based governance structures are generally more flexible and agile. This matters because the domestic landscape can change over time and, as a result, there may be reasons to update aspects of governance. In considering changes to monetary policy governance, countries can consider adjusting both processes and legislation. Involving the central bank's Board of Directors or other ultimate governance body is one approach to ensure that changes to processes continue to support accountability and do not put a central bank's independence, legitimacy or credibility at risk.

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