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## Greenspan stirs a tempest



“Mr Greenspan sauntered up to the Hill and wasn’t bashful about putting the Fed smack in the middle of the most controversial issue of the day” complained Senator Byron L. Dorgan of North Dakota. Whatever the wisdom of Greenspan’s support for big federal tax cuts, the episode has certainly highlighted the peculiar relationship between the Federal Reserve and the US president. John Berry of the *Washington Post* reports.

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## Major economic issues facing central banks



Some of the major economic issues facing central bankers are discussed by three leading macro-economists with direct experience and involvement in monetary policy-making.

**Charles Goodhart** of the London School of Economics says that while monetary policymaking must use forecasts, these remain so uncertain that it is perfectly possible for any central bank to make quite large mistakes in setting interest rates. Forecasting is certainly the area where the Bank of England’s monetary policy committee is “least happy”. Goodhart also argues forcefully for central bank intervention in the foreign exchange market when it sees a “good investment opportunity”.

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**Sushil Wadhvani**, an “external” member of the monetary policy committee of the Bank of England, explains why he is a “productivity optimist”. Over the last decade, forecasters have systematically underestimated GDP growth in the UK and simultaneously overestimated inflation. He also suggests ways in which the Bank of England’s current published forecasts could be made “more informative”.

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**Otmar Issing**, a member of the ECB’s six-member executive board and its chief economist, explains why the board regards the staff “projection” of inflation only as one among many inputs into the decision-making process. There are several other ways to analyse information. The ECB’s strategy emphasises a prominent role for money and conventional macroeconomic forecasts are “unable to incorporate such a prominent role” for money. Issing also argues that monetary union - EMU - “can function very well without far-reaching political union”.

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## Monetary policy frameworks



Bill Allen



Gabriel Sterne

Three articles look at different aspects of the changing design of the framework within which monetary policy is carried out.

Bill Allen and Gabriel Sterne from the Bank of England spell out some of the key changes in the “revolution” of the monetary policy frameworks during the 1990s and report results of a survey on global practices of central banks in explaining policy (only 18% publish minutes of policy meetings).

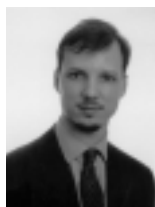
**34**



Matias Tapia

Matias Tapia from the Central Bank of Chile summarises the main conclusions of a recent conference on inflation targeting held at the central bank and shows why “inflation targeting is a creature with many faces”.

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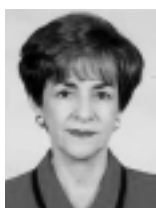


Michael King

Michael King of the London School of Economics, in the first of four articles, assesses the relative influence of interest group pressure versus the power of economic ideas as explanations for the timing of the decisions to grant central banks independence in different countries.

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## Women in central banks



Victoria Asfura

Is central banking still a male preserve? Or do women actually have more opportunities to get to the top in central banking than in other professions? We look at the growing role of women in central banking - and the problems they face - through the experiences of four governors: Bermuda’s Cheryl-Ann Lister, Botswana’s Linah Mohohlo, Honduras’ Victoria Asfura, and Sao Tome e Principe’s Maria do Carmo Trovoada Silveira.

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## Suing the BIS



William Hall

William Hall of the *Financial Times* reports on the difficulties the BIS has got into as it struggles to counter the accusation that the price it has offered to buy back its shares from the private sector is “absurdly low”.

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**What's wrong with  
central bank  
websites?**



*Steve Hanke*

For a start, there are not enough of them, say Professor Hanke and Michael Morgenstern of John Hopkins University.

**72**

They name the laggards who do not have websites at all - not all of them by any means among the poorest or least developed countries.

The authors also chide many of those that do have websites for failing elementary tests of transparency in the presentation of the information given.

**Central bank use  
of contingent  
liabilities**



*Mario Blejer*

Central bank intervention in currency forwards and options and foreign exchange swaps as well as liabilities that arise from formal or implicit commitments to support the soundness of the banking system create contingent liabilities (off balance sheet) for the central bank involved. What is the rationale for central banks to undertake such liabilities? The only way in which both on and off balance sheet liabilities can be measured is to adopt a portfolio approach to all central bank transactions, argue Mario Blejer and Liliana Schumacher of the IMF.

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**Bank  
restructuring**



*Martin Pontzen*

Martin Pontzen from the Deutsche Bundesbank suggests that the way in which Germany restructured its banking system after World War II could provide a possible alternative to government-financed asset management corporations used by many countries today.

**83**

Applying this approach elsewhere would raise difficulties, but for countries that do not have a developed secondary market it may offer a way of recapitalising a banking system while fostering the country's financial markets.