CENTRAL BANKER REPORT CARDS

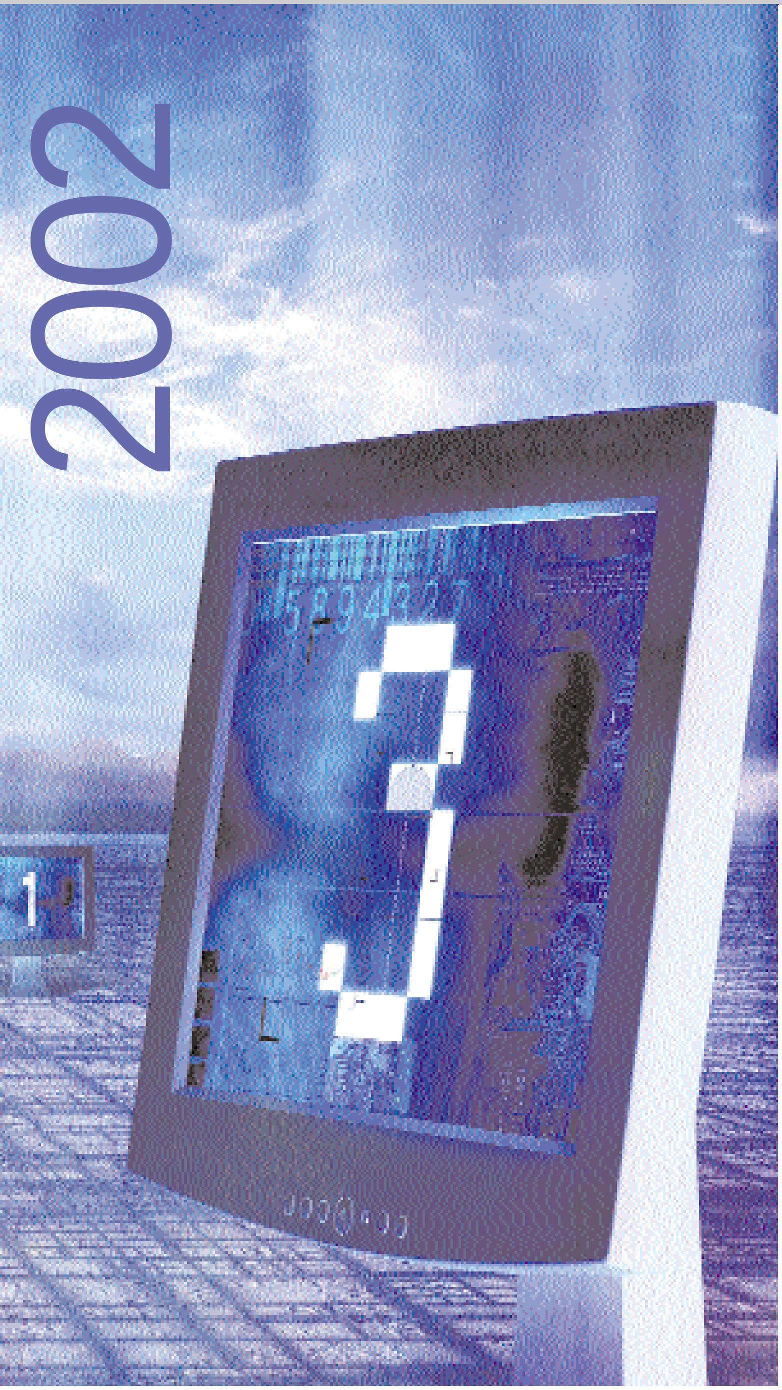
Photoillustration by Colin Anderson/Brand X

AS ALWAYS, THIS YEAR'S CLASS HAS BEEN JUDGED OBJECTIVELY ON THE BASIS OF SIX KEY CRITERIA:

- Distinction in monetary policy
- Autonomy
- Transparency
- Commitment to subduing inflation
- Setting appropriate interest rates
- Effectiveness in foreign currency intervention

IF 2001 WAS A BAD YEAR TO BE a central banker, 2002 could only be described as terrible. Last year's big fear was that the promised global upturn would be slow in coming and weaker than hoped. That fear has been more than realized, and many central bankers who were hoping a strengthening global economy would drag their own country with it have been sorely disappointed.

As always, the price for failure is high, and heads have rolled—notably in Argentina and in Russia. But this year a few bankers have shown remarkable skill in guiding their economies through the turbulence. Australia's Ian



2002 CENTRAL BANKER REPORT CARDS

AMERICAS		
Argentina	Aldo Pignanelli	–
Brazil	Armenio Fraga	C
Canada	David Dodge	B
Chile	Carlos Massad	B
Mexico	Guillermo Ortiz	B
United States	Alan Greenspan	C
EUROPE		
Czech Republic	Zdenek Tuma	B
European Union	Wim Duisenberg	C
Greece	Nicholas Garganas	–
Hungary	Zsigmond Jarai	C
Norway	Svein Gjedrem	B
Poland	Leszek Balcerowicz	B
Russia	Sergey Ignatyev	C
Sweden	Urban Bäckström	A
Switzerland	Jean-Pierre Roth	B
Turkey	Sureyya Serdengecti	B
United Kingdom	Sir Edward George	A
ASIA		
Australia	Ian Macfarlane	A
China	Dai Xianglong	C
India	Bimal Jalan	C
Indonesia	Syahril Sabirin	B
Japan	Masaru Hayami	D
Malaysia	Zeti Akhtar Aziz	B
New Zealand	Alan Bollard	–
Philippines	Rafael Buenaventura	A
Singapore	Lee Hsien Loong	C
South Korea	Park Seung	B
Taiwan	Perng Fai-Nan	C
Thailand	Pridiyathorn Devakula	B
MIDDLE EAST & AFRICA		
Israel	David Klein	C
South Africa	Tito Mboweni	B

Macfarlane has continued his extraordinary run, while the Philippines' Rafael Buenaventura has joined the top stream with a great performance in all the key areas of the central banker's role.

The overwhelming impression is that central bankers are getting better at their jobs. It may be the impact of technology: Improved communications help bankers manage their economies and banking systems. And, as with any college class, one or two startlingly good performers can bring up the general level of the whole class.

Increasingly, central banks and their governments are adopting inflation targeting as a core monetary policy, with interest rates serving as the primary weapon. This, too, is leading to a general improvement of economic management as it imposes discipline on countries that otherwise might have a more haphazard approach to the management of their economies.

Overall, transparency has improved dramatically, partly as a result of the development of the Internet. Every central bank in this report has a Web site, and almost all offer up-to-date, comprehensive information on the state of their economy, the actions of the central bank and the prospects for the future. All offer at least some information in English.

Despite the apparently woeful state of many of the world's economies, the record of their central bankers suggests the future may yet be bright.

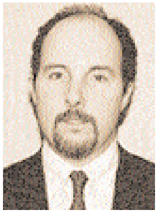
AMERICAS

ARGENTINA

ALDO PIGNANELLI

Grade: None

It's tough to grade a central banker who has been in the job only a few months. It is even harder when the banker in question is the third man to hold the job in less than a year. Fortunately, the man in question is the head of Argentina's central bank, so his need for a long-term vision and clear policies is negligible. As Aldo Pignanelli's predecessors found out the hard way, taking a stand over monetary policy is not considered a central part of the central banker's job in Argentina. Grades are meaningless in this case because Pignanelli has been set up for failure. If he devises and executes an effective monetary policy, he will almost certainly be out of a job in short order. If not, he will have failed as a central banker whose primary responsibility is to act independently to create a stable and prosperous economy.



BRAZIL

ARMENIO FRAGA

Grade: C

Just over a year ago the question on many observers' lips was whether Brazil's economy was growing too fast. Armenio Fraga, the head of the country's central bank, was considered to be the talented architect of the resurgence of a country that just two years earlier had been on the brink of financial disaster. How things change! Investors' fears over the outcome of the October presidential election have triggered a confidence crisis that has sent Brazil right back to the brink of economic disaster. The country's annual GDP growth had slumped to around zero by mid-year, its inflation has leapfrogged the central bank's targets, and its currency has plunged by a quarter against the dollar. Fraga himself has done little to help except to beseech the IMF to hurry up and make things better. But then Fraga may not be too concerned: He's made it clear that he wants out of the job just as soon as the election is over.

CANADA

DAVID DODGE

Grade: B

When David Dodge joined the class of 2001, he inherited a beautifully formed economy from his predecessor, Gordon Thiessen. Dodge's only real challenge seemed to be to not mess it up. Then came September 11, and suddenly Dodge was facing a potential crisis. Anxious that growth would dry up, he turned on the liquidity spigots. Within months it seemed he'd gone too far; by the bank's own figures GDP growth had surged to 6% in the first quarter of 2002. Alarmed that growth might get out of control, threatening the bank's cherished 2% target inflation rate, Dodge upped interest rates again and left the door open to further rises. He's confident inflation will be back at 2% by mid-next year after a brief period flirting with 3% later this year. Observers are even more confident: Consensus estimates put the year-end figure at 1.7%.

CHILE

CARLOS MASSAD

Grade B

Carlos Massad began 2002 with rosy prospects. Chile's economy had been dented by the global economic downturn, but only slightly. GDP growth last year came in at a respectable 3%, and the country's perceived stability amid a turbulent region was pulling in investment dollars. Unfortunately, that turbulence has rubbed off on Chile. In an attempt to shield his economy from the worst of the fallout from Argentina and Brazil, Massad slashed interest rates several times this year. That Massad was able to do this without fear of triggering a collapse in Chile's currency is a testament to the confidence the markets have in his economic management. Other evidence of this is a stable inflation rate of around 2.5% and predicted GDP growth for 2002 of something over 3%.

MEXICO

GUILLERMO ORTIZ

Grade: B

Mexico has had a tough year, with its economy under pressure from both the marked slowdown in the United States and from the fallout from crises in Argentina and Brazil. As most observers expected he would, Guillermo Ortiz kept his cool, easing monetary policy earlier in the year to boost liquidity. A consequent slide in the value of the peso against the dollar was generally greeted with relief, particularly by the manufacturing sector where employment had fallen 6% by the summer. By mid-summer it looked like his efforts had succeeded, although GDP growth remained stubbornly at or below zero. At the same time, inflation spiked. In response, Ortiz merely warned he would tighten monetary policy again if inflation looked set to exceed his 4.5% target rate. For the time being his words seem to be enough. Whether he will have to actually do something remains to be seen.

UNITED STATES

ALAN GREENSPAN

Grade: C

After a year in which it seemed he could do nothing right, Alan Greenspan shouldn't have had to work too hard to put on a better show. Sadly, he seems to have lost his golden touch. A spate of interest rate cuts failed to inject new life into the struggling US economy so Greenspan reverted to rhetoric. But his words no longer move markets the way they used to. Despite his remarkable track record, Greenspan is in severe danger of being perceived as just another crony of an administration that neither knows nor cares about how to fix the mess the US economy is in.

Grade: A

UNITED KINGDOM

SIR EDWARD GEORGE

Although he has almost a year left on his term as governor of the Bank of England, Eddie George may already be thinking about celebrating a job well done. For example, while many of his counterparts spent the past year fiddling with interest rates in an attempt to control inflation or exchange rates, George was doing precisely nothing. Very effectively. Inflation is stable and slightly below the bank's 2.5% target; GDP growth, after slowing last year, has picked up and should remain around 3% over the next two years; the currency is performing a delicate balancing act, declining slightly against the euro and appreciating against the dollar. George–and most observers–predict there will be little change in the near future, which can only be good news.

EUROPE

CZECH REPUBLIC

ZDENEK TUMA

Grade: B

Early in the year the bank formally switched its primary focus to containment of headline inflation and began to monitor and report on inflation on a more frequent basis. While inflation has been well behaved, staying comfortably within the bank's 2% to 4% target band, the country's currency has been steadily appreciating against the euro and the dollar. Its strength is partly due to huge inflows of investment and partly due to currency speculators anticipating further appreciation. Concerned that a stronger currency is harming the economy, Tuma has been slashing interest rates to try to contain the koruna, largely to no avail.

EUROPEAN UNION

WIM DUISENBERG

Grade: C

Since day one as head of Europe's central bank, Wim Duisenberg has been hounded by questions of how long he would remain in the job. Earlier this year, in a bid to quell speculation, he announced that he would quit in 2003, well before the end of his eight-year term. He explained his impending retirement by saying, "Enough is enough." Many critics echoed his comment, observing that under Duisenberg's care the euro had declined by 30% against the dollar, and the European Central Bank had failed to provide the impetus the euro area needed to avoid a dramatic slowdown. Since he made his announcement in February, the euro has surged in value and prospects for the euro area have brightened considerably. Perhaps poor Duisenberg was just in the wrong place at the wrong time.

GREECE

NICHOLAS GARGANAS

Grade: Too early to say

When former governor Lucas Papademos announced he would be quitting to become a European Central Bank vice president, he made it clear his preferred successor was then-deputy governor Nicholas Garganas. Sure enough, Garganas took over the job in June this year. While it is too early to grade his performance, observers tend to agree that he will adopt Papademos's largely successful pragmatic approach to economic management. He inherits a stable economy: Inflation last year was around 3.4% and is expected to remain at the same level this year. GDP growth stands at around 4%. Garganas has already made his mark, though, warning that he may introduce tough measures to control ballooning consumer credit.

HUNGARY

ZSIGMOND JARAI

Grade: C

It was never going to be easy cramming Hungary's unruly economy into the strait-jacket required for it to join the euro. And, more than a year into the job, Zsigmond Jarai seems to be struggling. He committed himself to reining in inflation, even at the cost of reduced GDP growth, so he aggressively pushed up interest rates in response to inflationary pressure. It's worked, in a way: GDP growth is slowing—it is expected to come in at 3.5% this year, down from 3.8% in 2001—but inflation is humming along somewhere in excess of 6%. Jarai does deserve credit, however, for taking time out from his busy schedule to head off attempts by the government to encroach on the independence of the central bank.

NORWAY

SVEIN GJEDREM

Grade: B

Svein Gjedrem is a man with a problem. According to his research, sometime in the next two years Norway's inflation rate will poke its nose above its allotted 2.5% target. As a result, Gjedrem is stamping it out right now, by raising interest rates by a modest 0.5%. Having performed this dramatic task, Gjedrem can now concentrate on his favorite pastime: sniping at the government over its use of oil revenues to prop up the economy. Gjedrem has long argued that Norway should address the issue of wage growth, which he attributes to government policies. The government, however, seems quite happy to let him grumble, providing he keeps up his success at the central bank. It seems likely this will be the case.

POLAND

LESZEK BALCEROWICZ

Grade: B

This time last year, the then-newly installed Polish central governor was facing a nightmare scenario of declining growth coupled with surging prices. Helped, perhaps, by events outside his control, Leszek Balcerowicz has managed to beat inflation down to a respectable 1.3% while easing monetary policy enough to keep the flagging economy growing at least a little. He has done this in the face of extreme pressure from a government anxious to promote rapid GDP growth in an attempt to bolster its own flagging popularity. The central bank's determination to chart its own course has been patchy, however. Earlier this year, at the urging of the administration, it was slashing rates to stimulate economic growth despite its own concern that the action would stoke inflation.

Grade: A

SWEDEN

URBAN BÄCKSTRÖM

Sweden's central bank has been criticized by the European Commission for a lack of independence and for not maintaining currency stability. At the same time, central banker Urban Bäckström has been criticized by his opponents for fostering unemployment rather than prosperity. He's been criticizing himself for allowing inflation to get above 2% in the first place. Undaunted, though, Bäckström has resisted increasing pressure to raise the bank's inflation target from its current 2%. He is backing up this determination with steadily rising interest rates–and the expectation that they will rise again before the year is out. He's also announced that he has had enough of the job and will be stepping down at the end of the year. That's a full two years before the end of his six-year term.

RUSSIA

SERGEY IGNATYEV

Grade: C

New to the class this year, Sergey Ignatyev took the job after his predecessor, Viktor Gerashchenko, resigned in March over the issue of central banking reforms. After reassuring markets that he would not be making any dramatic policy shifts, Ignatyev admitted he is happy to cooperate on reforming the central bank's role. Critics and skeptics alike fear this will lead to an erosion of the Russian central bank's renowned independence. Even Ignatyev's critics, however, acknowledge that he is likely to do a better job than Gerashchenko of promoting desperately needed banking sector reform. So far, the economy's performance under Ignatyev's guidance has been mixed. Inflation for the first eight months of this year hit 10%, but GDP is growing at a more modest 4%.

SWITZERLAND

JEAN-PIERRE ROTH

Grade: B

A year into the job, Jean-Pierre Roth seems to be on top of most of the challenges he faces. Roth makes much of the importance of price stability, and it shows. Inflation, which was rising slightly this time last year, is back around the 1% mark. It is showing no signs of rising, despite the recent easing of monetary policy. Growth this year of the country's GDP, however, is also expected to come in around the same level—quite a drop from the 3% average of the previous couple of years. Roth attributes this decline to Switzerland's sensitivity to the state of the world's major markets. Observers seem to agree that growth will rise to more than 2% next year.

TURKEY

SUREYYA SERDENGECTI

Grade: B

Having landed one of the world's least desirable central banking jobs, Sureyya Serdengecti is making the best of a bad job. Looking on the bright side, inflation is coming down, the IMF has shown renewed commitment to helping Turkey, GDP is growing, and the currency has pulled out of its suicide dive. Admittedly, inflation still tops 40%, GDP growth is marginal, and the currency did shed another 18% in the past year. But in Turkey that counts as a solid performance. Serdengecti has now trained his sights on instituting a much-needed workable inflation-targeting policy.

Grade: A

AUSTRALIA

IAN MACFARLANE

When a central banker delivers a lecture entitled "What does good monetary policy look like?" and then proceeds to identify his own policies as the epitome of effective economic management, it would be easy to accuse him of being smug. But when the central banker in question is Australia's Ian Macfarlane, the smugness is, well, justified. Macfarlane's performance over the past few years has been remarkable. With his help, Australia has sidestepped the worldwide slowdown, maintaining steady GDP growth of around 4% per year. This year, while many countries have been fretting about economic stagnation, Macfarlane has been more concerned about keeping the lid on inflation threatened by roaring domestic demand. Deft tweaking of Australia's interest rates has done the trick, and yet again Macfarlane finds himself at the top of the class.

ASIA

CHINA

DAI XIANGLONG

Grade: C

One of the key criteria for gauging the success of a central banker is transparency. It seems entirely possible that this word is being interpreted in the Chinese central bank as meaning the same as "invisibility." According to official figures, China seems to be churning out 8% annual GDP growth with the same predictability that IBM used to beat Wall Street's earnings estimates by a penny. And, as always, inflation appears to be firmly under control. How reliable the figures are is anyone's guess but, since no others are available, we'll take them on face value and assume central banker Dai Xianglong is doing a marvelous job. However, the lack of, ahem, transparency brings his grade down to average.

INDIA

BIMAL JALAN

Grade: C

Last year Bimal Jalan was banking on the farming sector, fattened by a good monsoon season, to help India's economy compensate for a decline in industrial activity. That paid off. Unfortunately, this year's agricultural production has been hit by a drought that is likely to trim the country's GDP growth from 6.5% to nearer 5%. Jalan maintains that his decisions on monetary policy are not related to the weather, but as the drought has persisted he has kept interest rates at a steady 6.5% and intimated repeatedly that he intends to further soften monetary policy. So far he's been able to get away with this without triggering excessive inflation. It is creeping up, though, and may end the year close to 5%.

INDONESIA

SYAHRIL SABIRIN

Grade: B

Inflation remains a constant bugbear for Indonesia's central banker. It muscled its way over 10% early last year and has stayed stubbornly up there ever since. After peaking in February 2002 at over 15%, though, it now appears to be heading steadily downward again. Indonesia's monetary policies won an enthusiastic thumbs-up recently from the IMF, despite the central bank's notorious inability to effectively tackle banking reform. The fund is also predicting that inflation will come down to mid-single digits in the medium term. Growth in GDP for the year is expected to reach a healthy 5%.

JAPAN

MASARU HAYAMI

Grade: D

After weathering more dismal times than he might care to recall, Japan's central bank governor appeared to become more upbeat this summer when he said, "Recently, Japan's economy has almost stabilized." Lest anyone think of cracking open the Champagne, though, he quickly pointed out that things aren't that good, adding that "uncertainty regarding external conditions which supported the recent economic recovery is rising somewhat." It seems no matter how hard he tries, Hayami cannot fix Japan. After near-zero interest rates failed to stimulate the economy, the central bank tried boosting money supply. It achieved considerable success in this respect: Money supply grew by 30% over the past year. But its impact has been minimal: Consumer prices continue to fall, and unemployment is still rising.

Grade: A

PHILIPPINES

RAFAEL BUENAVENTURA

An unexpected member of the top stream this year, Rafael Buenaventura has worked hard to protect his country's economy from some pretty fierce shocks. Showing a high degree of self confidence and independence, Buenaventura skillfully manipulated interest rates and money supply to support the currency and promote growth in an extremely difficult market. The result? An economy that had appeared to be heading into recession last year turned in a respectable 3% GDP growth for 2001 and looks to exceed that this year. Inflation now sits at a comfortable 2.6%. Even the notoriously hard-to-please IMF had to admit the central bank was doing a great job and applauded the bank's "carefully balanced monetary policy." High praise indeed.

MALAYSIA

ZETI AKHTAR AZIZ

Grade: B

It's hard to fault the Malaysian central banker's performance. Last year her country was facing the potential of a recession; this year it's growth all the way. Increasing exports as a result of the decline in the US dollar, to which the ringgit is pegged, have triggered some of that growth. At the same time, inflation has remained both stable and low. The central bank has developed an impressively transparent attitude, and it appears to be tackling the longstanding problem of non-performing loans. Zeti also seems to have responded to criticisms that she was not visible enough. In the past year she has been a cheerleader both for her country and for the Islamic finance industry as a whole.

NEW ZEALAND

ALAN BOLLARD

Ungraded: Too new in the job

At first glance New Zealand's economy seems in pretty good shape. Both annual GDP growth and inflation are steady at around 3%. But a quick comparison with its neighbor Australia shows all is not so rosy. Taking just one measure, GDP per capita shows Australia to be 30% ahead of New Zealand. This fact has not gone unnoticed by the

country's government, which has decided it is the primary responsibility of the new central banker to close the gap. Former treasury secretary Alan Bollard is the man in the hot seat, and a very hot seat it is, too. His predecessor, Don Brash, put more than a few noses out of joint with his outspoken remarks, his fierce independence and his determination to decide his own policies. Given the circumstances of his appointment, it seems unlikely that Bollard will maintain such independence. Whether he will be able to appease his masters and get "monetary policy outcomes to move closer to those of Australia" remains to be seen.

SINGAPORE

LEE HSIEN LOONG

Grade: C

You can't fault Lee Hsien Loong for frankness. At a recent conference Singapore's central banker 'fessed up that all was not well in Singapore, admitting that 2001 had been "a terrible year." He stopped short of taking any blame, though, and to a certain extent he was right. Having opted last year simply to wait out the storm in international markets, he has watched demand recover and GDP growth return to a healthier 3% to 4%. Inflation remains almost non-existent. Some changes are afoot, however. The central bank will be taking over management of the currency and, at the same time, Singapore will be adopting a more flexible exchange rate policy.

SOUTH KOREA
PARK SEUNG
Grade: B
South Korea's new central bank governor must be a happy man. When he took over from Chol-Hwan Chon in April 2002, he inherited an economy that was not only weathering the storm in international markets but actually thriving. Since then he has had the undoubted pleasure of revising the country's GDP growth estimate upward from around 5% to more than 6%. Meanwhile inflation remains dutifully under control, partly because the currency is appreciating gently, reducing the price of imports. The country's current account balance is also building up steadily. Seemingly the only cloud on the horizon is the disappointing US growth rate, which South Korea's finance ministry claims could dent the country's economic prospects.

TAIWAN
PERNG FAI-NAN
Grade: C
With its export-dependent economy Taiwan has had a rough time recently, a fact of which Perng Fai-Nan is only too aware. But while some were clamoring for short-term solutions, Perng made it clear he wouldn't use devaluation to stimulate economic growth. His decision paid off. The currency is slightly stronger against the US dollar than it was this time last year, and GDP is up 3% while inflation, at 0.4%, is barely noticeable. Still, there are clouds on the horizon. Problem loans are still, well, a problem, despite the central bank's assurances that they are under control. More bearish observers claim the value of non-performing loans is rising and could trigger a renewed financial crisis in Taiwan.

THAILAND
PRIDIYATHORN DEVAKULA
Grade: B
When Pridiyathorn Devakula took over the job as head of Thailand's central bank last year, he walked straight into a looming crisis. His response was to promote a policy of "stability ahead of growth" and to ease the intense focus on inflation targeting. The policy is clearly paying off. Confidence in the Thai economy has improved dramatically. GDP growth has more than doubled from last year's 1.8% to 3.9%. Unemployment has declined, and inflation has remained under control: It is expected to average 1% for 2002. The Thai central bank has also achieved great progress in clearing up the non-performing loans that have been dogging the country's banking system: The non-performing loan ratio is now down to 11.5%. At the same time the central bank is achieving greater independence and autonomy.

MIDDLE EAST & AFRICA

ISRAEL
DAVID KLEIN
Grade: C
If David Klein was troubled a year ago by political interference in his role, this year he must be distraught. Israel's economy is now akin to a car being driven by two people at once. David Klein has his feet on the pedals while arch-rival, finance minister Silvan Shalom, is holding the steering wheel. The result is chaotic—and extremely damaging. Instead of massaging interest rates, Klein has been thumping them up and down, baffling the markets and further sapping confidence in the country's financial management. Meanwhile the government continues to fail to deliver on its fiscal promises. At the same time, the central bank's independence is under severe threat. The gyrations in interest rates have been mirrored by wilder fluctuations in the currency. Inflation has jumped from 1.4% last year to more than 7%—and rising—this year. Unemployment is rising, and GDP is still shrinking slightly. There is little sign things will get better soon.

SOUTH AFRICA
TITO MBOWENI
Grade: B
Just as things were beginning to look quite rosy in South Africa late last year, a wave of negative sentiment triggered a dramatic slide in the value of the rand. Resisting pressure to throw his scant foreign currency reserves at the market to try to support the rand, Tito Mboweni sat on his hands and waited. Ultimately, it proved the right decision, and the rand is now recovering, if slowly. Hovering around 10%, inflation remains a problem, although the bank has adopted inflation targeting as the cornerstone of monetary policy. Few expect the 2002 figure to come down to anywhere near the new 3% to 6% target band. Mboweni remains as outspoken as ever. His latest target? Executives who pay themselves too highly.

—Dan Keeler