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# Central banks should aim higher to reach gender equality

Gender equality is a topic central bankers should pay greater attention to. In the long term, equality will improve monetary policy through a greater diversity of views and a healthier organizational culture. In general, the central banking world is moving in the right direction but still at a slow pace. Action is needed *now* to pick up the pace.

In her discussion of this year's OMFIF Gender Balance Index, OMFIF Chief Economist Danae Kyriakopoulou mentions that while they knew gender equality was lacking in the central banking world, after they saw the index results, they were surprised to see how little progress had been made. Reading the report makes it clear how much of a man's world central banks still are.

## **A progressive hiring policy is essential**

Even though central banking is in many ways a man's world, we know that institutions benefit from giving a diverse group the opportunity to affect the decision-making process. For this to happen, however, a much more progressive and forward-thinking equal rights policy is needed.

In this context, we clearly need to examine the policies in place in connection with hiring and opportunities for advancement. We must ensure that hiring and advancement are not governed by informal communication channels, which men have generally used to greater effect than women. Coaching or mentorship programs are needed to put young women on a path towards influence in the field. We must also ensure that women have access to the recruiting process and are brought in for interviews. There are paths open for improvement, and we must implement policies to ensure that more women can follow those paths.

## **Gender equality and the Central Bank of Iceland – Progress has been made, but a proactive approach would speed things up**

In terms of gender equality, I often say that the Central Bank of Iceland has been more of a follower than a leader. However, Iceland as a country has generally been a leader in equal rights matters. For twelve years, Iceland has ranked at the top of the World Economic Forum's Global Gender Gap Report, and gender equality has become one of the cornerstones of the national consciousness. Leaps forward in gender equality tend to take place in politics, and the Central Bank then follows by implementing according measures.

The Central Bank of Iceland performs well in the field of gender equality. I became the first female Deputy Governor in the Bank's history, and now, two of the Bank's three deputy governors are women. By the same token, the gender ratio among departmental directors and other executives is more or less equal, and the Bank has made a concerted effort to be a family-friendly as well as equality-friendly workplace. Employees have flexible working hours, and the COVID-19 pandemic has enabled us to experiment with remote working to a greater degree.

Gender equality issues are very much affected by conditions in society at large. For example, if arrangements for pre-school had not changed in the mid-90s and if childbirth leave had not been shared by both parents from 2000 onwards, the progress made in women's labor participation and elevation to positions of authority in Iceland would not have been so rapid. The role of the Central Bank – or any other employer, for that matter – is to work within its own walls to make the most of the possibilities

created by these developments. I would like to address in this talk two questions asked in the program for this conference.

### **The Equal Pay Standard is a tool for progress, but we still need to remain vigilant**

The most recent progress was made when the Central Bank of Iceland implemented an Equal Pay Standard, which is one of the latest milestones in legislation on equality in Iceland. Now, all organizations with 25 or more employees are required to implement the Equal Pay Standard and undergo an audit to demonstrate that they offer equal pay for work of equal value.

The purpose of the Equal Pay Standard is to better enforce legislation prohibiting gender-based discrimination. This standard was developed jointly by Icelandic trade unions, employers' confederations and the Government in order to help employers prevent pay discrimination, as adopting a more transparent pay system and re-evaluating jobs should uncover differences in pay offered to men and women for work of equal value.

The Central Bank of Iceland received a formal equal pay certification in 2019. The analysis showed that the gender-based pay gap was just under 2% in favor of men in 2019, down from 3.2% two years earlier. On the other hand, the results of the 2020 pay analysis show that women are paid 1½% more than men. This difference is too small to be statistically significant, and the results therefore indicate that there is no unexplained gender-based pay gap at the Bank.

I believe the Equal Pay Standard is a positive tool – one that will hopefully help us correct the gender bias – but we must remain vigilant to ensure that it is truly an effective tool against gender-based pay gaps and not just a meaningless stamp or a cheaply bought remission of sins.

### **Central banks should be leaders**

We have made good progress at the Bank: the share of women in most key positions during the past decade was between 40% and 55%, and among specialists at the Bank, the gender ratio was close to 50-50 (46% are women).

Central banks are recipients of culture or legislation – as I have demonstrated regarding the Central Bank of Iceland. But the Central Bank of Iceland and other central banks must not confine themselves to being passive recipients. They should act – no later than today – and implement progressive policies with measurable outcomes so that diversity can thrive.

### **Diversity as a driver of quality, credibility and improved governance**

It is generally considered more favorable that policy decisions be made by “committees”. Therefore, we have company boards, government cabinets and policy-making bodies such as monetary policy committees (MPCs). For instance, it is usually not desirable that a central bank governor takes monetary policy decisions alone, as these decisions have substantial economic impact. It is also considered wise to increase diversity in such forums – by including external members – to broaden the pool of experience.

### **Credibility and legitimacy of policy committees**

If we agree that multi-member committees are better equipped to take major policy decisions, we must also agree that it is more beneficial if these committees are not too homogeneous in terms of their members' background and experience.

Gender is one of the main dimensions of diversity. Women constitute roughly 50% of the population – even though they still account for a minority of economists. Because we want to mirror society, we need to boost diversity

by including women in decision-making and policymaking.

For policy committees, which have been entrusted to take decisions “for others” or “on behalf of others”, it is vital that the public be convinced that the committee was appointed appropriately. This is important for the credibility of the committee and its decisions, which in turn is essential if monetary policy is to have the credibility it needs to be successful. The legitimacy of any committee and its decisions lies in gathering knowledge, exchanging opinions and going through the process of deliberating and arriving at decisions.

### **Do women tend to be doves or hawks? Or both?**

But does the inclusion of women affect committees’ decisions or policy orientation? That question has been debated.

My take on this is that in terms of voting behavior, research results are inconsistent across literature. Some studies show that women are more likely to be doves, some show that they are more likely to be policy hawks, and still others show no quantifiable impact on a committee’s policy orientation.

Interestingly, however, the latest research finds that having more women on the Federal Open Market Committee (FOMC) has positive effects other than the easily measurable outcome, as there seems to be a direct link between gender diversity and the quality of the committee’s work. Greater gender diversity is associated with a larger number of topics addressed in the discourse and in the length of discussion. In other words, bringing a diverse group of people into the decision-making process is important for the committee’s quality of work, its legitimacy and its credibility.

These findings are also in line with what is shown in studies on gender balance and corporate leadership. They

indicate that the association between board gender diversity and firms’ financial performance is inconclusive, with studies yielding conflicting findings. On the other hand, studies indicate that gender diversity brings a broader mix of knowledge and background, which enriches the conversation in the board room, and improves governance and strategy on social and environmental issues.

This tells us that when assessing the impact of a better gender balance, we should not confine ourselves to measuring quantifiable outcomes such as voting patterns in MPCs or the financial performance of corporations, as the effects of more balanced committees may lie beneath the surface – in the depth and breadth of the thinking, underlying policy decisions.

### **My findings within the Icelandic MPC**

These findings fit well with my own informal study of the Monetary Policy Committee of the Central Bank of Iceland.

Iceland’s MPC has been in operation for twelve years and has five members. Of the nine members that have served to date, three have been women – most often, only one woman at a time. It is obvious that Iceland’s MPC provides too few observations to enable a scientific estimate, but I cannot see that the women who sit on the committee or have done so in the past have diverged from their male colleagues in their decisions.

### **Conclusion**

Women need to be represented on MPCs. But they do not need to have different opinions from men to justify their presence there. We need women to be there as role models, we need diversity to enrich the conversation and improve the decision-making process, and we need greater diversity to ensure committees’ credibility.