



EUROPEAN CENTRAL BANK

EUROSYSTEM

Polymaker panel: central bank communications and uncertainty

Second Thomas Laubach Research
Conference

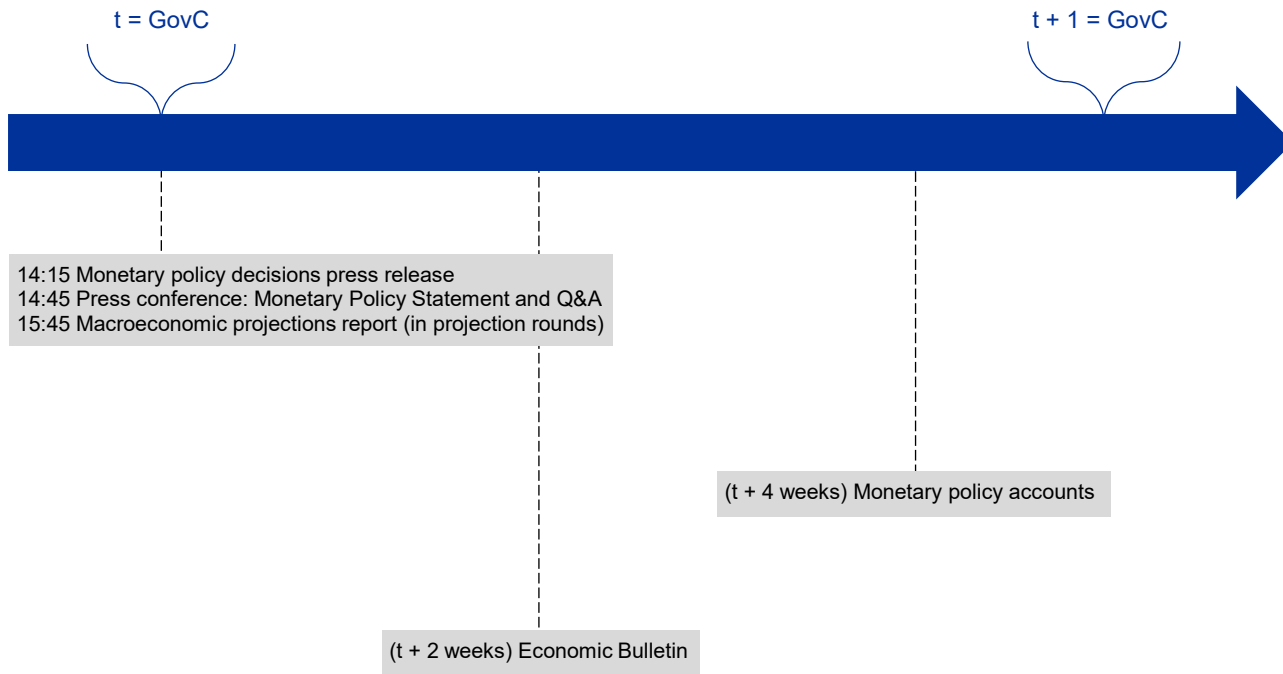
Washington DC

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Member of the Executive Board

Timeline of monetary policy communication



Source: ECB.

Notes: The figure shows official monetary policy releases between two Governing Council (GovC) monetary policy meetings (at t and $t+1$). It shows a typical cycle, from which small deviations may occur.

Structure of Monetary Policy Statement (MPS)

- Introduction: High-level explanation for monetary policy decision; guidebook to monetary policy decision framework
- Economic activity assessment
- Inflation assessment
- Risk assessment
- Monetary and financial conditions
- Conclusion

Meeting accounts

- Summary of presentations on financial market developments and economic, monetary and financial developments
- “Monetary policy considerations and policy options”
- Governing Council discussion

Communication on future rate path

- Staff projections based on market curve;
- Conditional guidance on future rate path: logistics (26 members of GovC); risk of excessive reliance on conditional statements
- For each meeting, family of plausible future rate paths analysed by staff – valuable input into decision making
- But high sensitivity to projections; set of model assumptions, including vis-a-vis policymaker preferences
- Focus on meeting-by-meeting decisions in public communications

Guidance on reaction function

- “Reaction function” guidance
- Since March 2023: inflation outlook; underlying inflation; strength of monetary transmission
- Context: uncertainty about disinflation process; uncertainty about strength and speed of transmission of rapid stance tightening
- More generally: the list of risk proxies not fixed; will evolve over time
- Risk assessment in MPS

Sensitivity analysis; scenario analysis

- Staff projections article: standard sensitivity analyses vis-à-vis energy prices and the exchange rate
- Many sensitivity analyses included in staff briefing for each meeting
- Growth-at-risk; inflation-at-risk
- Type A scenario analysis: concrete risk events (pandemic; Russia's unjustified invasion of Ukraine; tariffs) – alternative projections
- Type B scenario analysis: curated combination of non-baseline shocks and/or model assumptions (three-scenario approach; alternative: AI/ML “many scenarios” approach?)

Sensitivity and scenario analyses: Policy formation

- Current decision: robustness (minimise regret) exercises
- Signal relation between risk factors and future decisions: explicit alternative rate paths; model-based optimal rate paths; sufficient to rely on market understanding of “reaction function” guidance?

Final remarks

- The integration of risk and uncertainty into monetary policy is a primary focus of the ECB's 2025 strategy assessment exercise
- Outcome to be announced in H2 2025