

Policymaker Panel : Central Bank Communications and Uncertainty

Moderator: Trevor Reeve, Federal Reserve Board

Panelists: Philip Lane, Member of the Executive Board, European Central Bank

Clare Lombardelli, Deputy Governor, Bank of England

Anna Seim, Deputy Governor, Sveriges Riksbank



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The Interest Rate Path of the Riksbank

2nd Thomas Laubach Research
Conference, Federal Reserve Board,
May 16 2025

Anna Seim
Deputy Governor

Managing expectations: the strategy of the Riksbank

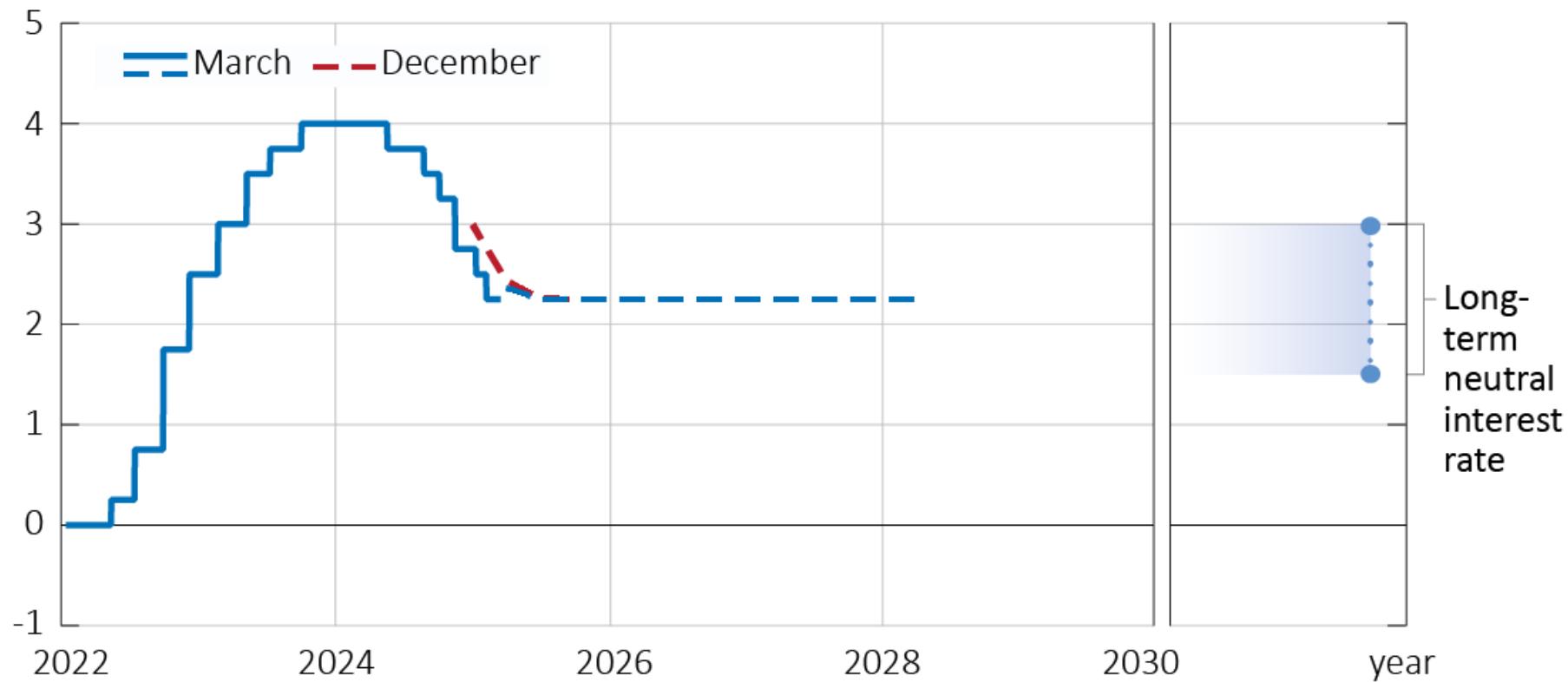
- Flexible inflation targeting regime since 1995
- Target: 2 per cent annual increase in CPI at fixed rates (CPIF)
- The interest rate path:
 - Policy rate forecast 3 years ahead
 - Introduced in 2007
 - Together with scenarios, the most important tool for conveying our reaction function

Institutional setting

- 5 members of the executive board
- Monetary policy meetings 8 times a year:
 - 4 of these meetings: Monetary Policy Report (forecasts)
 - Every other meeting: Monetary Policy Update (no forecasts)
- The executive board takes decision on the current policy rate and the contents of the MPR (including the path) but may dissent
- Transcripts of monetary policy meetings published with a 5-day lag

The interest rate path

Per cent

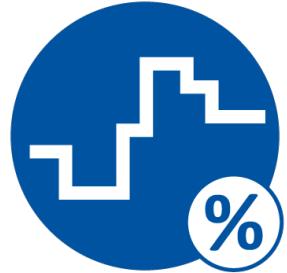


Note. Solid line refers to outcome and dashed line refers to the Riksbank's forecast.

The shaded area shows the uncertainty surrounding the forecast for the policy rate in the longer run. Outcomes are daily rates and the forecasts refer to quarterly averages.

Source: The Riksbank.

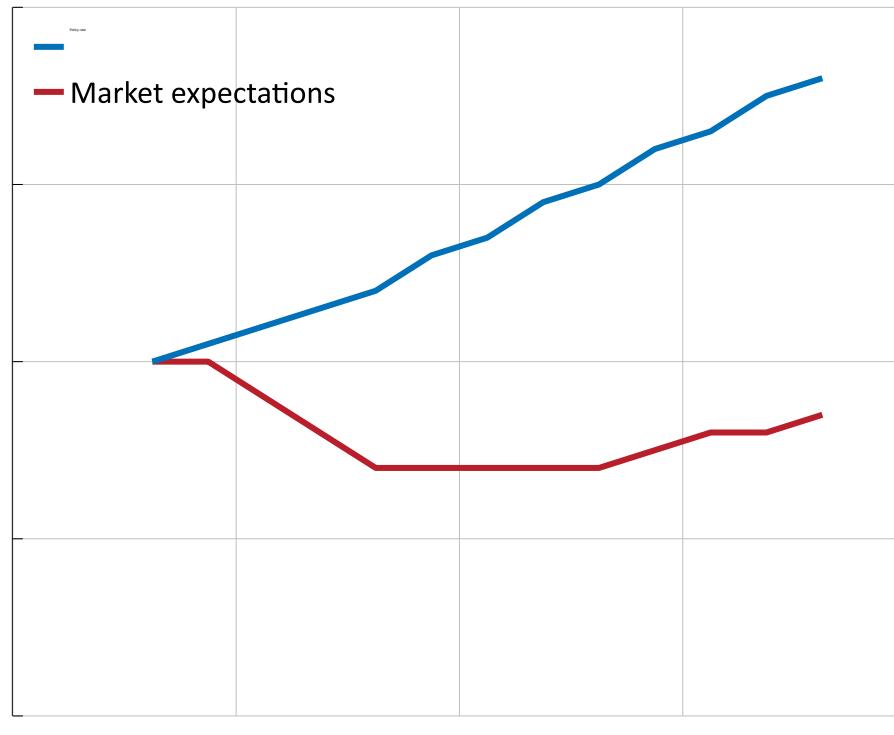
Key properties of the policy rate forecast



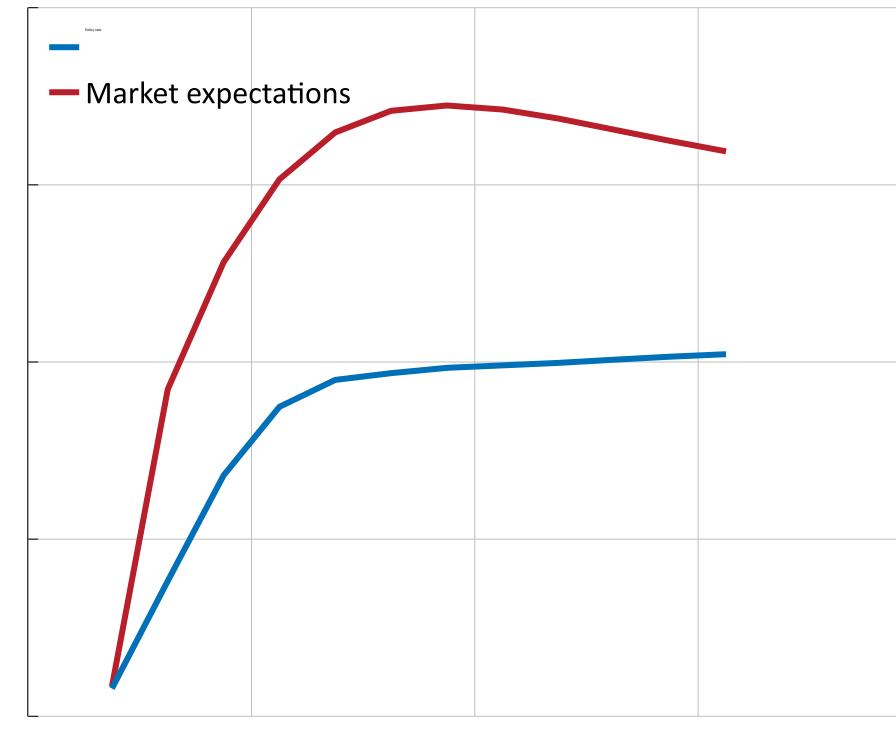
- Consistent with flexible inflation targeting and our estimate of the long-run neutral rate
- Efficient
- Robust
- Predictable

Occasional discrepancies between the forecast and market expectations

Monetary Policy Report July 2011



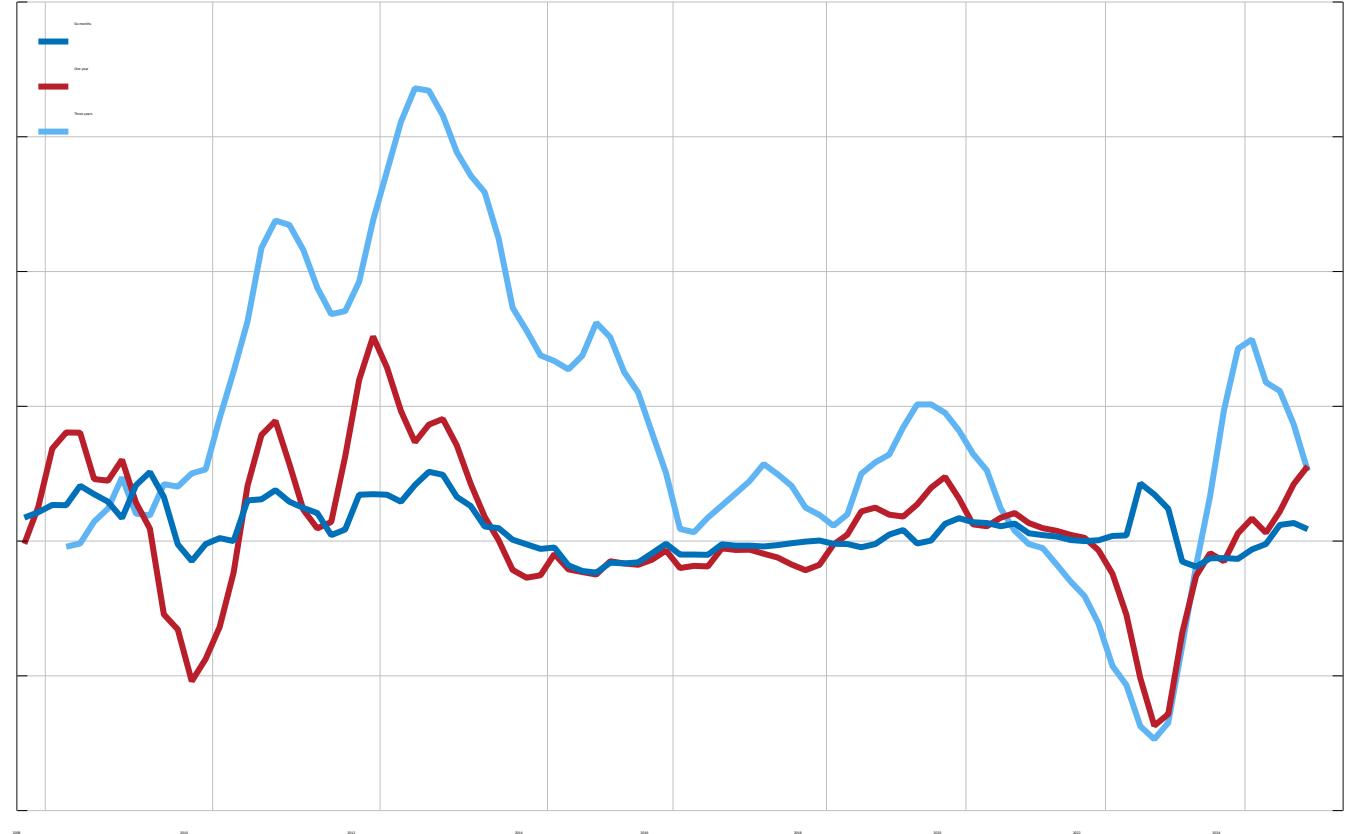
Monetary Policy Report June 2022



Note. The Riksbank policy rate forecast and market expectations on the policy rate.

Source: The Riksbank.

The policy rate path influences market rates in the short term



Note. Difference between the Riksbank's policy rate forecasts and market expectations. Series smoothed by moving averages.

Source: The Riksbank.

Concluding remarks

- Positive experiences publishing policy rate forecasts since 2007
- Together with scenarios our most powerful tool for communicating the reaction function of the Riksbank
- Not an executive board striving for consensus, but the institutional setting is part of the reason it has worked so well
- Monetary policy reports and forecasts invaluable communication tools

Opening Remarks

Clare Lombardelli
Deputy Governor, Bank of England



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EUROPEAN CENTRAL BANK
EUROSYSTEM

Policymaker panel: central bank communications and uncertainty

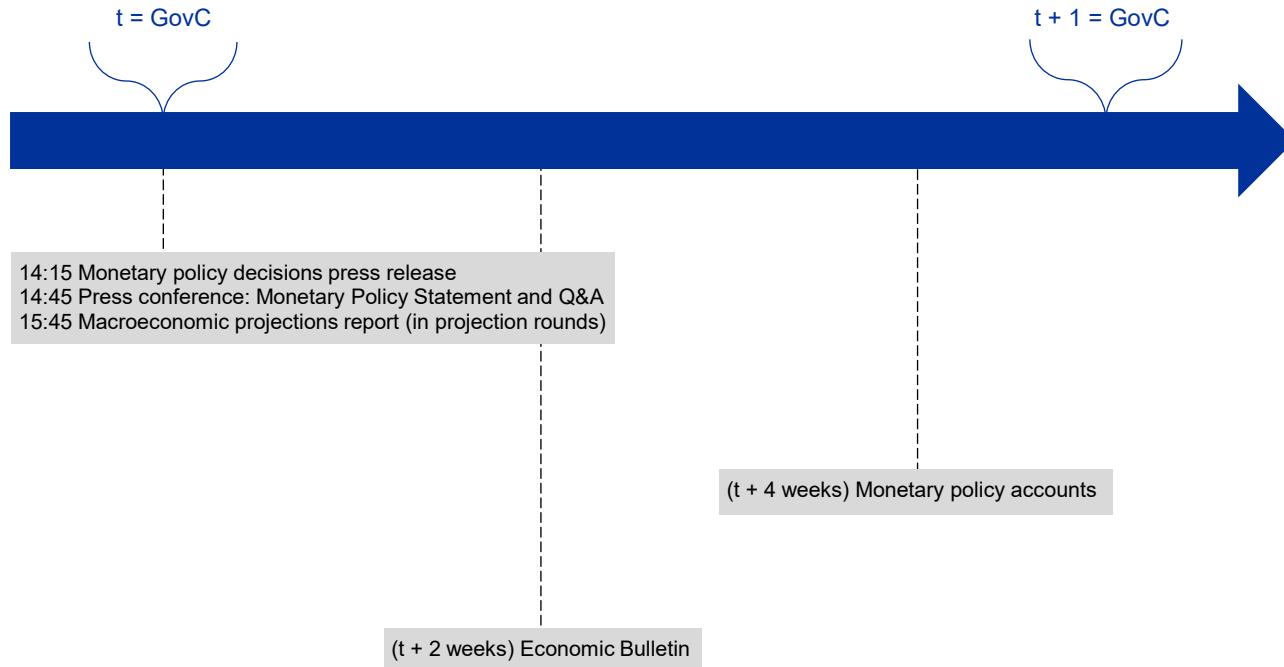
Second Thomas Laubach Research
Conference
Washington DC

16 May 2025



Philip R. Lane
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

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