

Session 6: Enhancing Monetary Policy Communications

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The background of the slide is a blue-tinted photograph of the Brookings Institution building, a large, multi-story neoclassical structure with many windows and a prominent portico. The text is overlaid on this image.

BROOKINGS

Improving Fed Communications: A Proposal

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The FOMC's communications toolbox

The Fed has tended to lag best practice but today its communications toolbox is broadly similar to those used by other advanced economy central banks

- Post-meeting statement (1994), press conference (2011), minutes
 - Inflation target (2012), use of forward guidance, public outreach
 - Speeches and testimony
 - Regular reports like the Beige Book and SLOOS
-
- A nonstandard Fed tool is the release of **FOMC participants' projections of macro variables and policy rates**. Will return to this.

The FOMC communications toolbox lacks a key element

- However, the Fed differs from virtually all peer central banks in offering limited context and explanation of the policy decision *at the time of the policy announcement*, when attention to monetary policy is greatest.
- In contrast, other central banks release quarterly **Monetary Policy Reports** or similar documents with or shortly after the policy decision
- **Monetary Policy Reports at other central banks typically include:**
 - Review and analysis of **recent economic and financial developments**
 - **Special topics and deep dives** on relevant issues
 - **A macro forecast**, including a transparent discussion and explicit assumptions

Advantages of a timely MPR

- **Transparency.** MPRs provide the public valuable insight into the rationale for the policy decision and the factors likely to determine future policy choices, building public understanding, credibility, and confidence
- **Insight into the outlook.** A comprehensive, internally consistent forecast can be used to identify the key factors driving the outlook (and changes in the outlook)
- **Better communication.** A fully articulated forecast allows for **more quantitative communication** while providing a baseline for creating *alternative scenarios*. **Alternative scenarios** facilitate communication that emphasizes the **inherent uncertainty about the outlook** and provides important information about the central bank's **policy reaction function**

How (with hindsight) the Fed might have communicated with alternative scenarios in periods of uncertainty

- Example 1. (2021) “...Based on current information, the most likely scenario is that the increase in inflation will be transitory. **But if inflation proves higher and more persistent than expected, we will do this (e.g., suspend QE, prepare to raise rates). If inflation is transitory but growth is weaker than expected, we will....**” Alternative scenarios to illustrate reaction function quantitatively or qualitatively. Helps prepare public and markets for changes in policy.
- Example 2: (2012) “...QE3 will continue until labor markets show substantial improvement, **meaning a decline in unemployment of xxx percentage points or more. If substantial improvement has not occurred in the next yyy months, or if financial stability concerns become severe, asset purchases will be phased out over a period of approximately.....**”
- Recently we’ve seen more use of the multiple scenario approach at the Fed (Powell, Waller). See also Bank of Canada, IMF World Economic Outlook

The Proposal: A Scaled-Down MPR with a Staff Forecast

- With the policy decision, release an (abbreviated) quarterly **Monetary Policy Report** led by Board staff with FRB contributions
- Besides a review of recent developments, deep dives, and various special features, the MPR would include **staff forecasts of key macro variables, with discussion of key driving factors and underlying economic assumptions. Selected alternative scenarios** would be presented, with FOMC input into the choice of scenarios to release
- **An FOMC consensus forecast would be preferable**, but 2012 experiment showed difficulty of achieving agreement in available time.

Why aren't the Summary of Economic Projections (SEP) and the dot plot alone good enough?

Participants' projections of macro variables and rates provide some insight and should be retained with modifications (see below). But they have significant drawbacks relative to a transparent, internally consistent forecast

- Projections made before the meeting **may not reflect post-meeting consensus**
- The dot plot forces **de facto forward guidance**, cannot accommodate state-contingent guidance (or no guidance)
- Projections are **not transparent** and offer no rationale or analysis
- Median projections **focus market and media attention on one central scenario**, de-emphasizing uncertainty and alternative scenarios

Possible objections to releasing a staff forecast

- **Demands on staff.** Not a serious concern. Much smaller central banks do MPRs with forecasts. The report would largely be based on FOMC briefing materials, with contributions from Reserve Banks. Distributed with Tealbook.
- **It would inhibit staff's ability to be frank with FOMC, e.g., about projected effects of nonmonetary policies.** Assumptions underlying public forecasts could stick closely to current and announced government policies. Unlikely but possible scenarios discussed internally only. Brexit example

Why a staff-led MPR and forecast would get attention

- **Observers know that briefing materials are influential.** At a minimum, releasing some of these materials increases transparency
- **It works for the ECB.** The staff forecast is influential because policymakers talk about it and reference it in the press conference and statement
- **The MPR, including the forecast, would be influenced by FOMC views through various channels.** The paper describes various opportunities for FOMC input, including in pre-meeting calls and in determining which alt sims to release
- **Releasing summaries of participants' SEP commentary (already collected!) on staff forecast and rate projections** would identify areas where FOMC participants might disagree with the staff

Mock MPR-style document (Appendix)



Table of Contents

1. Domestic Economic Developments and Outlook
 - Key Factors Underlying the Staff Projections
 - The Long-Term Outlook
2. The Outlook for the Labor Market
3. The Outlook for Inflation
4. Financial Developments and the Outlook for Monetary Policy
 - Monetary Policy
5. Risks, Uncertainty, and Alternative Scenarios
 - Alternative Scenario 1: Mild Recession
 - Alternative Scenario 2: A Decline in Inflation Expectations
6. The Accuracy of Economic Forecasts

Possible improvements to the SEP, if retained

- Leave time in the meeting for participants to update projections.
- In communication, emphasize that the dot plot is not always forward guidance, not a plan, and not a promise
- **Release summaries of participants' written commentary** (already collected)
 - Why does the projection take the shape it does?
 - Why did the outlook change?
 - What are the most likely alternative scenarios and their implications?
 - What are participant views on the staff forecast and policy assumptions?
- **De-emphasize the median projections in favor of greater attention to uncertainty and alternative scenarios in communication.**

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Discussion of “Improving Fed Communication: A Proposal” by Ben Bernanke

Bill English
May 16, 2025

Outline

- Summary
- Reaction
 - Three concerns
 - Three questions
- Alternative B

Summary

- Current Fed communication of policy decisions includes relatively little explanation
 - The statement is brief
 - The SEP has no explanatory text
 - The press conference depends on the questions asked
- Ben proposes a new document, the *Economic Review*, which would be prepared by Board staff and would include:
 - Information on current economic and financial conditions
 - A forecast
 - Boxes on special topics
 - Alternative economic scenarios

Summary

- In addition, Ben proposes improvements to the SEP
- Taken together, these changes would strengthen the communication around policy decisions and bring the Fed into greater alignment with other major central banks
- It is always the case that significant changes to communication seem risky, but these changes seem very risky to me

Outline

- Summary
- Reaction
 - **Three concerns**
 - Three questions
- Alternative B

Three Concerns

- **First**, it seems like a bad idea to have two forecast documents (the SEP and the new *Review*) coming out at the same time
 - Focuses attention on the differences between the two, which is likely to be confusing
- And differences with the FOMC statement and any forward guidance provided there would add to the confusion
 - In such cases, it will be tempting for the Chair to say that the *Review* is “only the staff view.” But that would undermine the whole project.

Three Concerns

- **Second**, the alternative scenarios may not be very effective
- There are three possible benefits of providing alternative scenarios:
 - Clarify the uncertainties and risks
 - Help show the reasons for risk management policies
 - Provide information on the policy reaction function
- There is a fair amount of information on uncertainty and risks in the current SEP, and it is surprising how little attention it gets.

Three Concerns

- And staff-produced alternative scenarios seem unlikely to give much information on the Committee's reaction function
 - The scenarios would likely be based on some estimated reaction function – but that could be published
 - But that isn't the reaction function of the Committee
- Indeed, the Committee might not like publishing alternative scenarios because they could be misunderstood as showing the Committee's reaction function
 - But when it was tried in 2012, the Committee found it very hard to provide information on policy decisions in alternative scenarios

Three Concerns

- **Third**, providing specific, detailed assumptions for the staff forecast and the alternative scenarios can raise economic and political risks
- Providing a “financial crisis” scenario in a situation where a financial crisis seems a real possibility seems like it could trigger the outcome you would like to avoid
- And providing an alternative scenario in which forward guidance is abandoned quickly might be informative, but it could also undermine the effectiveness of the guidance

Three Concerns

- In some cases, the forecasts and scenarios will be seen by others as the Fed injecting itself into policy debates in areas outside its responsibility
 - And could invite requests for additional alternative scenarios that would put the Fed in the middle of such debates
 - Which could pose a risk to Fed independence
- To limit this risk, the alternative scenarios seem likely to be formulaic – but how useful would they be?

Outline

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Three Questions

- **First**, why the Board staff?
- Seems to raise a significant governance question
- Would the Reserve Bank presidents want to give this authority to the Board (and Chair)?
- How much oversight could the Committee provide and at what stage?
 - What about dissents? Could they be handled?

Three Questions

- **Second**, what is the right timing for the new material?
- Does the information need to be provided at the same time as the policy decision? Or could some of it be provided with the minutes?
- Does the material need to be up to date?
- If the *Review* needs to be in synch with the policy decision, would the process result in greater policy inertia?

Three Questions

- Finally, what is the role of the existing MPR?
- Currently, the MPR is the document that captures the Fed's views on economic and financial developments, provides a broad rationale for its policy decisions, and serves as an outlet for timely analysis (in the boxes)
- Now these things would be done in the *Review*
- The MPR might provide more detail, and boxes on less pressing issues, but it seems like it becomes obsolete
- Does that matter?

Outline

- Summary
- Reaction
 - Three concerns
 - Three questions
- **Alternative B**

Alternative B

- Focus first on improvements to the SEP
- Get more information from the participants about the assumptions underlying their forecasts and perhaps other issues
- Prepare a summary document that provides background and justification for the median SEP forecast
- The document would discuss the range of views and the reasons for that range – why some forecasts have higher paths for the funds rate, for example.
- Boxes on key analytical issues could be included as well

Alternative B

- As a second step, if desired, the staff could use alternative scenarios from the Tealbook to provide alternative scenarios around the median SEP forecast
 - Those would be explicitly staff work, based models and a staff policy rule (or rules?)
 - The selected alternative scenarios would aim to reflect the concerns of the participants
 - And they might well be formulaic

Alternative B

- Alternative scenarios might only be used in situations where they are seen as particularly helpful
 - Times of great uncertainty
 - Times when risk management is seen as particularly important
- The document should be approved by the participants
 - Which might not be easy
 - But it would be easier, since the baseline is the participant's forecasts and inputs

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Q&A

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Break

Coming Up Next:
Policymaker Panel: Central Bank Communications
and Uncertainty



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