

**Second Thomas Laubach Research Conference
Transcript of Policymaker Panel: Central Bank Communications and Uncertainty
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TREVOR REEVE: All right. Thank you very much. A few more people filtering in, but let's go ahead and get started.

We are very fortunate today to have with us three deputy governors from major central banks who are here to speak about the successes, challenges, and opportunities for monetary policy communications. Very much continuing the theme of the entire day, frankly, with a particular focus on forecasts, uncertainties, and risks. Each of these distinguished individuals brings a unique combination of deep academic expertise and practical policymaking experience across a very wide range of issues. And so I'm very much looking forward to the discussion.

Quick introductions in alphabetical order by last name. We have Philip Lane, member of the Executive Board of the European Central Bank. As chief economist, Philip is responsible for the Economics and Monetary Policy Directorates General at the ECB. And as everyone knows, he was previously the Governor of the Central Bank of Ireland. Clare Lombardelli is Deputy Governor for Monetary Policy at the Bank of England. She is leading the response to Ben Bernanke's review of the Bank of England's forecasting processes. And prior to her current role, Clare was the chief economist at the OECD. And Anna Seim is Deputy Governor of the Riksbank, a central bank that is in many ways the epitome of central bank communications. Anna is also a professor of macroeconomics at Stockholm University and has held a variety of appointments in Sweden related to economic and financial policy.

We'll begin with each panelist offering about 10 minutes of remarks, and then after that, we'll open it up to discussion. So let's start with Anna, then Clare, and then Philip.

ANNA SEIM: Great. Thank you, Trevor, and thank you for this amazing conference. I've truly enjoyed the discussions. Let me start by apologizing for my voice. This is not ideal, but I think the silver lining is that I will have to be very concise. Okay.

So I will spend my next 10 minutes talking about the communication strategy chosen by the Riksbank, with a focus on our decision to publish a policy rate path, a forecast for the policy rate.

So, as you know, we have been targeting inflation for about 30 years at the Riksbank—this year, actually. So we are pursuing a flexible inflation-targeting strategy. We are, of course, targeting the Consumer Price Index at fixed rates, but we are also keeping an eye on the evolution of the real economy. So, we don't have the dual mandate of the Fed, but we are very much aware of the fact that there is a tradeoff.

We are also a highly independent central bank, and with that independence comes, of course, the need for accountability and transparency. So we are publishing a policy rate path, which is our forecast for the policy rate three years ahead. It was introduced in 2007, and it's safe to say that it's become a central feature, not only of our communication, but also of the policy debate in Sweden. I am personally a great advocate of the interest rate path, as I think that together with alternative scenarios, it's really an ideal way to convey our reaction function. [0:03:40]

So to understand how this works and why it works so well in Sweden, it's useful to get a bit of background on the institutional setting. We are a small executive board consisting only of five members, and there are no external members on that board. We have gone from five to eight monetary policy meetings a year to comply more with the international community, notably the ECB and the Fed. At four of these meetings, we publish monetary policy reports with a full

set of forecasts, so very much in line with what was proposed by Ben Bernanke. At every other meeting, we publish monetary policy updates that do not contain forecasts.

Now, what's important is that the executive board owns the forecast and that we take decisions on the current policy rate and the interest rate path, but also the contents of the monetary policy report. We can, of course, as individuals, descend from the majority view. We also published transcripts of monetary policy meetings quite instantaneously, with only a five-day lag.

So, to fix ideas a bit, let me show you what the interest rate path looked like in the March monetary policy report. So the solid line here is the actual policy rate, and the dashed line is the forecast. There are a few things to note about the forecast. One is that we focus more on the short term in the policy meetings. So we say that for the next three quarters we can be more certain of the forecast than at longer horizons, so the focus is on that. The second thing to note is that it's very much consistent with our estimate of the long-term neutral interest rate. So if you look to the far right of this diagram, you see that it's absorbed by what we think is a real reasonable interval for that interest rate.

It should also be pointed out that this is the interest rate path or the policy rate that would obtain in the absence of shocks. So clearly, when the economy is hit by shocks, we update the path. So if you look at it over time, it looks very much like a hedgehog or a porcupine because of these revisions. But we do that to make sure that inflation is always at the target level.

I should also say that, in relation to what Silvano was talking about yesterday, and in terms of forward guidance, it's very much Delphic in the sense that this is not a promise. So we are constantly pushing the message that this is a forecast, not a promise. And I think that has been well received over the years.

So a key question is, obviously, what properties should the policy rate forecast have? And obviously, it should bring inflation to target while taking the real economy into account, so that's sort of a given. And it should also be consistent with the estimate of the long-run neutral rate that I pointed out. But in addition, we're working with a checklist of sorts to make sure that we have a battery of tests that subject the policy rate path to sufficient scrutiny. One is clearly that it should be efficient. There should be no alternative path that brings us to target at a lower cost, for instance. It should also be robust in the sense that it should give rise to acceptable outcomes, even if what we see as the main scenario does not materialize, and it should ideally be predictable. So it should be in line with what we have communicated in the past.

Now, I would say that the interest rate part has been very successful in managing expectations, at least in the short run. But there have been a couple of episodes where we've seen fairly substantial discrepancies between market expectations and the policy rate forecast. So one interesting episode was in 2011 when core inflation was low. And you can see that the red line here, the market expectation of the interest rates—they predicted that the interest rate would remain low, but the board communicated a concern for household indebtedness and did a bit of leaning against the wind, and this is where you see some clear divergence. Another example was in 2022, when inflation started taking off, and the board communicated that the interest rate would go up and that the interest rate path would be higher and steeper, but the market believed that it was simply not enough. But in the short term, we have managed to manage expectations by means of this communication.

This is the difference between the policy rate path and the market expectations. And if you look at the medium blue line, which conveys the very short-term—a six-month horizon—

you see that it hovers around zero, and we have clearly been successful in that sense. Over the longer term—the light blue line is three years' horizon—we see greater discrepancies.

So let me just briefly conclude by saying that I think overall we've had very positive experiences publishing these policy rate forecasts since 2007. And together with scenarios, this has been a very powerful tool for communicating our reaction function.

I should also say that I think that part of the reason this has worked so well is the institutional setting. We are not a board striving for consensus, but I can see how it would be much more difficult in the FOMC, which is larger. It's spread out geographically. And we do have this interactive process where the board interacts extensively with the staff. They produce the forecast, but we discuss it and then we decide whether we want to stand behind it.

But also, more generally, I think that the monetary policy reports that we publish and the forecasts, which are published the same day as the decision on the interest rate—they are really an invaluable tool in communicating the narrative that we believe in.

So I do think this has been a very successful strategy, and I do think that the proposals by Ben Bernanke make a lot of sense in that regard.

So let me stop there and save you all from listening to this voice for one minute more.
Thank you.

[Applause.]

CLARE LOMBARDELLI: Right. Hi, everyone. Thanks for inviting me to speak today.

So, it's unusual that the Bank of England's a bit of a trendsetter, but it obviously is in having Ben Bernanke evaluate our monetary policy arrangements. And of course, we're really grateful to Ben for the time and the thought he put into his advice to us. And it's proving invaluable, actually, to enable us to change our processes for the better.

The emphasis of Dr. Bernanke's review of the Bank of England was on the Monetary Policy Committee's processes for policymaking, our tools, and our communication, particularly during times of high uncertainty and structural change. So it wasn't a framework review in the way that the Federal Reserve is now undertaking one, and there's an important reason for that, which is that the institutional setup and the institutional framework for monetary policy in the UK sits with the government. They make those decisions, not the Bank of England, not the committee that decides monetary policy.

So there's a lot of similarities in the themes from these two reviews, the review of the Bank of England and the paper that we've just had presented. Particularly, in both reports, they note the sort of unhelpful emphasis on a single central forecast and explain that that basically makes it quite difficult to adequately convey sufficient information about policy strategy, particularly under conditions of uncertainty. And in the paper that we've just heard about, he goes further in detail to set out some practical proposals for key areas that we are also reflecting on in taking on board his review and in changing that process.

So particularly, these questions are: what is an input to policymaking, and what is an output? The respective roles of staff and policymakers in the forecast and in scenarios and in other judgments, which Anna just talked about. And also this question of what policy paths should be published in the analytical material.

So these are all really important issues. Different central banks handle them differently, reflecting differences in both the institutional setups and the pros and cons of different approaches you can take to those. There's no sort of correct answer on the specifics, but as the two reviews he's done show, there are some common themes that point towards good practice, and that's what we're looking to sort of move closer towards.

So we approach the conclusions that you want to have both a baseline forecast and scenarios from a different place to the Federal Reserve, because we currently heavily anchor our communications of the policy decision and the analytical processes that we run around a central forecast. So we start from that different place of being very based in our comms around a central forecast. So it's quite a philosophical change for us, in a sense, around our communication as we explicitly move to focus less on that central forecast and instead consider this wider range of scenarios and uncertainties in both our policymaking and, in particular, in our communication.

So the forecast-based approach that we take to communication, it does risk the impression that policymakers put more weight on a single view of the outlook or that we have more certainty than we do. In reality, actually, our policy discussion is much more comprehensive than that. It's very lively, it exposes a very wide range of views across the committee, and our sort of published "one member, one vote strategy" makes that transparent. You can see that from the votes we publish. Those votes are attributed each time around. And members of the committee make lots of speeches explaining their votes, and the minutes explain the votes.

I mean, of course, we've always discussed uncertainty and risks and data dependence in our communications products, and we've long used, in particular, fan charts to show uncertainty around inflation and output. These charts have their advocates. They are a very powerful visual representation of uncertainty, but they do also have their limitations, including they don't really enable people to understand how and why the economy may be different from that central baseline forecast that we have.

So for us, we see scenarios as playing a really valuable role in policymaking and in communication. I'll start first by talking about policymaking. There, of course, scenarios can

shed light on the economic forces that might be shaping the macroeconomic outlook and therefore, monetary policy. While they are quantitative exercises, they're inevitably quite highly stylized. The quantification helps us understand the extent to which certain economic shocks and mechanisms may or may not have material effects on inflation, on output, and the potential tradeoffs there that we face around stabilizing inflation, mitigating output volatility, and also, you know, possible policy responses to those.

The process of producing scenarios also helps staff learn a lot more about the reliability and the robustness of the scenarios that we're talking about. So, for example, does the quantification hinge crucially on assumptions about parameters or mechanisms that we have relatively little information about or relatively little evidence of? That is useful information in putting together forecasts and putting together scenarios. It's also useful information for policymakers. So overall, you know, while scenarios will provide quantitative results, the main lessons for monetary policymakers will quite often be directional and qualitative.

One of the most useful elements of the policy process that we focus at the Bank of England is the internal discussion that colleagues have on the MPC and with the staff of the bank. And, you know, that exposes what each of us is thinking is the most important question shaping our policy view and how we can learn from each other. That does shape the policy view, it shapes our votes, you know, it influences—people might change their sort of view as they come through the process. It's really interesting, actually, how late in the process sometimes people make up their mind as they're reflecting on all of this material, they're reflecting on that discussion, and they're reflecting on the views of each other. In that context, forecasts and scenarios are kind of most useful when they bring the issues to life that we are

actually talking about, facilitating that conversation, allowing each of us to talk about why we hold the views we do, what's different about that.

And I think the discussion yesterday—we've heard it already referenced around policy, strategy, and tools—really also demonstrated another way in which scenarios could help us think about policy robustness. Silvana talked about the value of considering different scenarios when you're considering guidance, including conditional guidance on balance sheet tools. You know, scenarios enable policymakers to think very practically about, well, how does that guidance stand up if the world is different, if the economy evolves differently, different circumstances?

Let me move on to talk a bit about communication and using scenarios in that sense. So in his opening remarks at this conference, Chair Powell talked about the need for clear communications and also the need to convey the uncertainty that surrounds our understanding of the outlook and the economy. In this context, I think the potential benefits of scenarios are pretty obvious, right? They provide clear structural narratives on the stories that they bring to life, not only how the economy may evolve differently, but also what the economics is that could be driving those differences. They highlight the features policymakers are most focused on, how they would react if the economy behaved differently, and how policymakers would react to that. They can also speak to a wider audience than fan charts or similar tools, right? They can be—you know, the audience for fan charts and those sorts of tools can be quite specialist, can be quite technical. Scenarios really bring to life just what the differences are, how the economy might change.

Ben's paper also draws out how they can help with one of the constant challenges we face in policymaker communication. They really underscore how the future path of policy is conditional, right? The publication of selected alternative scenarios makes explicit how policy

will depend on the evolution of the economy by giving a concrete example: “If this happens, then this.” That brings that point to life in a way that talking about it and saying our statements are conditional doesn’t always come across.

So in communicating monetary policy to observers, what we’re aiming to do is give clear and simple messages. But of course, to be credible, we have to be clear that actually we have to acknowledge the uncertainty that policymakers need to confront. It doesn’t inspire confidence; it doesn’t support credibility to ignore that uncertainty, and we need to get that balance right. Scenarios can obviously help us communicate that the policies—that the factors that we are thinking about and how we will handle those.

I mean, this direction of travel is consistent with the idea that inflation targeting is not intended to suggest that monetary policy can fine-tune the trajectories of activity and inflation. Instead, it gives you the sense of a broad framework that guides policy, that guides what people should expect from policy, and thereby anchors inflation expectations, as Carl Walsh emphasized yesterday.

If the Federal Reserve were to move towards the sort of economic review-type product suggested, it would need to answer this question. We heard a lot about it before, of “whose report is this, or who’s the owner of the various components of it?” In the UK, our historical approach has been to publish a forecast that represents what we call the best collective judgment of the committee. Ben talked about what that means in practice before. In part, that is because in our framework, the Monetary Policy Committee is required to set out its view of the outlook. That is one of the requirements placed on us in our mandate. And you know, rightly so, given the importance of transparency, the importance of accountability.

We've heard a bit about it before. One of the practical differences with the FOMC is we have a smaller committee. It's nine people, they're all geographically located together, we sit together, we work together. That makes it, obviously, easy to support a more interactive process, and that's, you know, important part of the policymaking. But we have found that our historical approach to producing what we call a best collective judgment forecast has—it sort of potentially created pressures to compress the committee's view and judgments through the single funnel of the forecast. So what we're moving towards now is moving away from that to a proposal where you have a sort of initial staff forecast proposal and that the majority of the committee can kind of agree it's a reasonable basis of discussion. So this kind of iterative proposal—iterative approach that we've heard about shares some similarities with the Riksbank, with the Norges Bank. Not unsurprising, given we have quite a similar institutional setup in terms of the way the committee operates.

So in moving away from this best collective judgment, we would be recognizing that there's not a single view of the central outlook, creates more space for policymakers to deliberate different views before finalizing their policy judgments, allows us to better harness the sort of expertise we have across policymakers. I mean, it's built into our system. We have five internal members, four external members. They come with a broad diversity of views and experience. Actually, people have very different backgrounds in terms of what they've done prior to joining the committee. At the same time, I think it will also liberate the committee a bit from getting into the fine details of the forecast. We spend quite a lot of time at the moment as committee members talking about some of these very specific parameters around the forecast. The aim here is to sort of liberate that. As Ben said, you know, do we have a forecast that broadly the committee can live with, can agree to support—doesn't mean you have to support every

component of it, but is this a broad description of the economy we can stand behind? You know, yes.

Look, I'll just end by saying we're kind of excited. We're going through this process of making these changes. We're quite excited about the benefits that this can bring in terms of deemphasizing the central forecasting communications, using scenarios to set out more about our reaction function. I mean, events like this are obviously really important for us in terms of learning from others. So, I appreciate you've put this conference together to sort of benefit yourselves and think about the Fed's framework review. But I would just like to say, you know, it's been hugely—it's hugely valuable and hugely helpful for central banking more broadly. I'll stop there.

[Applause.]

PHILIP LANE: Let me thank the organizers for the invitation to participate. And let me also note that whoever designed the conference logo and the program, I found very appropriate that the world map was the backdrop for Thomas's profile. Obviously, beyond the message that research is global and universal in nature, obviously Thomas, in addition to his contributions here, spent time as a professor in Frankfurt. And more generally, he was a friend to the ECB in terms of enthusiasm for research, really taking a strong interest. And also maybe going back to why we're here, is there's so much to learn from each other through these types of events.

So in line with the spirit of today and indeed the whole event, I'm going to try and explain the nuances of how the ECB makes decisions. And let me also say, of course, we're doing our own review exercise this year. And I think in common—you know, it's the obvious most important missing element from the reviews five years ago is, how do you articulate how you respond to uncertainty? I mean, it's always been there for decades that monetary policy

decisions are taken under conditions of uncertainty, but how do you strike the balance in communicating that fact?

So if you can read that graph, it tries to give the timeline for how we communicate, and this came up already in the morning session. So let me say, on the day itself, at 2:15, the monetary policy decision is communicated. Historically, that was just simply, “Here’s our new set of rates,” or whatever. But actually, now we’ve added in a bit more of an explanation. So a very high-level explanation, but it includes also reference to the main elements of the staff forecast at the quarterly meetings. So maybe it’s not too far away from the FOMC statement as being relatively short, not too much by way of elaboration, but the most important elements are out there.

Then at 2:45, at the start of the press conference, President Lagarde reads the monetary policy statement. This is about—last time was about 1,500 words. So 1,500 words provides a discipline. It’s short enough that you really have to distill the main messages. This is the main messages of the Governing Council. So the Governing Council signs off on that statement.

And then, of course, the Q&A provides an opportunity for the president to elaborate on how the meeting went and so on. And then right after the press conference, the staff article on the staff projections is published at the quarterly meeting. So by the way, this means when we publish after the press conference, the press conference can focus on the high-level sentiment of the Governing Council, not, you know, why exactly was this elasticity chosen or that element. So the analyst community take great interest in the forecast, but they have to wait until the end of press conference to see the details.

Let me emphasize, we take about two weeks before we publish the bulletin. This is the conjunctural material that we basically received for the meeting. There is commitment—and it’s

kind of enshrined in European law—for transparency. The public needs to know the basis for your decisions. So having the conjunctural information published, plus the special features, is important, but—in line with what some of us—maybe not essentially has to come out on the same day. So I think waiting for that, you know, it provides a kind of teaser, if you like, to keep people interested. And then the monetary policy accounts are published a couple of weeks after that, and I'll come back to that in a minute.

And again, in terms of the monetary policy statement, you know, it's—someone mentioned, I think, the Bank of Canada this morning, how do you maintain a continuous narrative? How do you go from one meeting to the next? So we do have a stable format, but in having that stable format, then when you do want to change the narrative—and Ricardo had a bit of this this morning—when you do want to say, “Well, actually, there's no change there. You know, we haven't changed our policy path, but here's our thinking about inflation. Here's our thinking about monetary or financing conditions,” that does update.

And again, and maybe importantly, we do have a risk assessment. This is the risk assessment of the Governing Council. It's a list of risks. It's not saying—It's not providing the full reaction function—and I'll come back to that in a minute—but it's an invitation for the market and analysts to say, “Okay, why are they highlighting these risks on this occasion?” And people pay attention to changes in that list, changes in the ordering of that list, and so on. And I think, in terms of guiding the market, I think that's important.

So maybe again—and this goes back to the nuances of how different central banks are organized—of course, people know that the account—one reason to read the account is to get a sense of how the debate went. And that's important, especially because we essentially, by and

large, like to make decisions by consensus. So you don't have some kind of distribution of votes published, but it's useful in the discussion to have that.

But let me emphasize—and again, maybe there's a bridge between the role of the staff forecast is that at the Governing Council, the staff forecast is not presented. There is an informal seminar where the Governing Council gets to interact with the staff, but it's important that the Governing Council takes responsibility for the decision and for the analysis.

So the way that works is that the Executive Board has a particular role. Isabel Schnabel presents the financial market developments, and then I present the economic and monetary conditions, and so on. So that's Wednesday afternoon, and then there's a Governing Council discussion. And then Thursday morning, I present the monetary policy proposal and I try and explain why it's a good idea. [Laughter.] And so in the monetary policy accounts—you can read that—it's kind of a summary of what I said, including trying to explain why this is a robust decision. So, you know, there's a lot of material there. If you're trying to understand what is the reaction function, you know, we do provide a lot.

Now, maybe very briefly, because again, I'm going to remind you, we have 26 members on the Governing Council, so what can make perfect sense for the Riksbank might be a bit more difficult for us. So we do not publish the kind of our future rate path. We don't have a dot plot. But let me say, of course we look at the future. So we look at, you know, a whole family of plausible future rate paths in terms of the internal analysis for the meeting. But one reason why we're reluctant to kind of publish either a kind of central tendency or even the family is, number one, it's sensitive to the baseline. Number two, it's sensitive to all sorts of model assumptions and including, of course, how much weight you put on output versus inflation in the loss function.

So we're comfortable with the idea that the focus of the decision is, why did you make decision today? And then we say, you know, next decision will be meeting-by-meeting data dependent. But what we do want to do is provide as much of a data set or information set that people can work out the reaction function. And let me mention that the way this has evolved in the last couple of years is—what we're heavily flagging is, in these years, that it's important to look beyond the outlook, if in terms of the forecast and the risk assessment, and look for risk proxies.

And what we said is we're really looking at two risk proxies in these years: underlying inflation and then the incoming information, the strength of monetary transmission. This is very relevant for these years because, of course, with really high inflation, the speed of disinflation is really uncertain. And underlying inflation, in a very broad way, is really important to understand that, and yesterday's labor market seminar was, you know, very relevant for that.

But also, we hadn't done too many hiking cycles. So understanding how hiking works is very important for calibration. I mean, this is not saying these are always the right things to look at, but what's happened is the analyst community really started—and if you read all the bank watchers and so on, they really went to town and it really helped us.

By the way, this is the kind of, if you co-opt the market to look at these factors, it really is important. And I think on top of that, in the risk assessment in the NPS, we don't say, "Here's how we're going to respond to these risks." But it's an invitation to everyone to say, "Okay, if I were in their shoes, what would I do?" And also, through the publication of working papers from the staff and so on, there's a lot of kind of guidance provided.

So let me come to the issue of the day, and I'm sure this is also true here. Of course, internally, many sensitivity analyses are done. Many scenarios are looked at, and also maybe

this issue about having the discipline of looking at kind of what I—you know, individual possibilities versus the full distribution. And this is why Tobias's work and others on growth at risk, inflation risk is really helpful to think about the full distribution.

So let me differentiate between two types of scenario analysis, because we do type A. Type A is sometimes you have a concrete risk constellation. So the pandemic, the Ukraine war—Russia's invasion of Ukraine, and now tariffs. You could say, "Well, we don't really know what's going to happen, so we're going to do two projections or three projections. Here's the projection, but here's some alternatives." And that really helps to give a quantitative sense of the range of possibilities.

But that's not every time. You know, sometimes you don't really have that concrete situation. So the other type of situation is—you know, I use the phrase "curation" here. You say, "Okay, to illustrate uncertainty, I'm going to illustrate the uncertainty around the baseline by having a couple of scenarios." I mean, the Bank of England last week was very careful to say, "These are examples. There's many types of uncertainty, and this is just to illustrate." But there's possibly communication risks with that, because if it turns out the risk that crystallizes is not in your reported scenarios; it's some other risk—you may have seen it in the internal analysis, but you didn't focus on it—then you might say, "Well, why are we talking about this other example?" If you say, "It's just an example," maybe that works, maybe not.

But again, in the world of AI machine learning, if you're trying to think about all the possibilities for uncertainty, there's a balance between the simplicity of having, "Here's a couple of sample scenarios" versus "We're looking at everything. We're looking at every possible distribution," it is maybe relevant.

And then, I think, the uses of scenarios. One—and again last week, the bank had been communicating, “Partly it’s today’s decision. Today’s decision is not just based on the baseline; we also considered the rate path under alternative scenarios, and we’re comfortable this is a robust decision.” That’s important. But you might say for that, you know, looking at the full distribution of scenarios is probably as important as looking at two alternatives.

And then the other example is saying, “Look, if these other risks materialize, we’re going to change our policy.” Then the question is, do you have to convey the exact reaction? Or if you’ve provided the information set, “Here’s how we’ve made our decisions in the past. We invite you, by looking at the models we use, by looking at all the information we give you, you can work it out.” There’s still room for the market to employ people. So yesterday, the kind of—there’s kind of hints that the professional forecasting world had a, you know, limited role. We’re trying to create a role here by saying, “Look, you need to hire macro forecasters in your individual shops because we’re not going to fill in the full rate path. You need to work it out for yourself.”

And so, what I would also say, maybe, is—this, I think, is at one level been around for decades. At another level, especially in communication, this is a kind of evolving science and an evolving art form. And so rather than say, “We’re going to come up with some magic, perfect solution,” just saying, “Look, you know, this is something we need to evolve over time. We need to move with the times.” I would agree very much with what Ben said is—I mean, I think if we had communicated differently at different key issues, because we did have alternative scenarios. So the balance between communicating is, I think, really something we do have to solve.

But let me come back to—I think an important point is, in the end, though, the baseline is so important. People really want you to say, you know, you’ve looked at everything. You’ve made—there’s many possibilities; you’ve identified your baseline. And identifying the baseline is so important. So, I don’t think I would agree with the idea that it’s downweighting the baseline. To me, it’s additional. It’s enriching the debate to say on top of the baseline you bring in alternatives. It’s not the case to say the baseline is less important.

So let me stop there.

[Applause.]

TREVOR REEVE: Great. Many thanks to all three of you. That was a terrific start. Let’s open it up for Q& A. And again, we’ll gather two or three questions and then keep going.

Why don’t we go right to left? We’ll go Bill, Markus, and Krishna.

BILL ENGLISH: Okay, thanks very much. That was really interesting.

I wanted to go back and think a little bit about ownership of the alternative scenarios. So if I understood correctly—but I may not have—at the Riksbank, they really do belong to the policy committee, and including the rate path in the alternative scenarios. I think, if I understood, that the ECB belongs to the staff and they’re a staff product. I’m not sure, Clare, what it is at the Bank of England. There’s a sentence in the MPR that says something like, “These are scenarios developed by the staff and reported to the MPC,” which makes it sound like they’re a staff product. But on the other hand, there’s a lot of interaction with the committee.

So maybe the policy path in the alternative scenarios really has input from the policymakers. But I guess that’s my question—is kind of, how much should I think of these as staff and how much should I think of these as really having input from the policymakers?

MARKUS BRUNNERMEIER: Yeah, I wanted to go a little bit in a different direction. So if you think about—you do the review every five years. That's a very long period. And all the communication is focusing on communicating to humans. But in the future, in the next five years, we will communicate much more to artificial intelligence and LLMs.

Are there any thoughts how to best communicate to LLMs, which then, you know, others will just plug in their trading strategies? And now there's, you know, something going on in the background. I think that's, you know—five years, a very long time for artificial intelligence.

BILL ENGLISH: Then Krishna.

KRISHNA GUHA: Thank you. Krishna Guha, Evercore partners.

I wanted to just invite Clare to just elaborate a little bit more on some of the judgments the Bank of England is making as it moves to implement this. So not a comprehensive list, but four areas of interest to me. First is around the selection of the scenarios, which of course is a form of communication itself. And the choice here is not simply what I choose, but what I choose not to choose, at least in terms of the public presentation.

Secondly, the relation between the scenarios and the risk-management policy decision itself. Is there some kind of understanding that policy is doing some kind of robustness or loss-minimization exercise across the scenarios, or is policy still understood to be really driven by the central case unless the committee explicitly, you know, draws attention to some risk management?

Thirdly, who's the primary audience that you have in mind when you're doing these scenarios? Because if you say, "If inflation is higher, we'll keep rates higher," well, that's zero information for the folks in this room but could arguably be of some public value.

And then when it comes to the reaction function that's implicit in this, I think for the folks, at least in this room, for financial markets, almost all the value is in the articulation of the reaction function that would be applied as opposed to simply inflation could be stickier or less stickier. And how do you go through the judgment as to what reaction function is embedded in this scenario analysis?

Thank you.

TREVOR REEVE: Great. So who would like to begin? Great set of questions.

CLARE LOMBARDELLI: Should I start, since some of those were directed at me?

Let's—so look, on scenarios—so we had a go at publishing some for the first time a couple of weeks ago, right? So this is a sort of evolving game. They were staff scenarios in the sense there were two scenarios produced by the staff. There were scenarios that, you know, we—they reflected on the conversations that the committee had been having and thought about, well, what are the factors that these policymakers are thinking about that in producing some scenarios we can tap into some of the things that they've said are important to them and that they're uncertain about?

So for example, one of the things we talk about a lot is what is happening to productivity in the UK. We have an assumption that productivity is going to—in our baseline forecast, assumes productivity's going to return to the level it was before the pandemic. It's actually quite, you know, difficult given the data that we have, the reliability of that data, and what we've seen since. There's quite an open question about—is that going to happen or not? We think, you know, it's a sensible central assumption, but it might not happen. And if it doesn't happen, what will that do?

So that was part of the scenarios that were developed on the basis that that would be useful for policymakers because it directly addresses the sort of thing that we're thinking about. So that was the sort of logic to it. Where this will land in terms of precisely who will own the scenarios or not, I think we're going to learn a bit about how we use them.

I mean, I would say on all these questions about who owns what, you have to be quite practical and pragmatic as well. So, you know, the fact that something is published by a central bank will obviously be interpreted as saying something, right? You can't get away from that. And, you know, there's a perfectly reasonable set of questions when we go before parliament, which is, you know, "Do you stand this or not?" So we have to be prepared, I think, to just be clear.

Actually, the Bank of England is not going to be publishing a load of stuff that particularly the executives of the bank, you know, wouldn't recognize, wouldn't see as useful, wouldn't see as helpful. And you just have to think about, actually—you know, for a lot of your audience—and we'll come to this question of who is your audience. You know, for a lot of the audience, that is the general public, right? They are the people that we set policy for. They are not going to distinguish between what is the Bank of England, what is the staff of the Bank of England, what is the executive of the banking, what are the independent members of the Bank of England appointed by the government. But, you know, you just—we have to be sort of pragmatic about some of this. And that's one of these questions around uncertainty, which is actually a communication, which is—you know, some audiences have more time and are more interested and spend more—you know, focus on this more than others.

And so, you know, I don't envisage a world in which the scenarios being produced are a million miles away from ones that the policymakers would say they find useful, you know, what the precise balances will see to.

And on the—you had four very specific and very good questions. Some of those I can answer now and some as part of the work and the reflection. And actually, it's why conversation is so useful.

So on the selection of the scenarios, I think, you know, there's this question about what's an internal scenario and what you want to use externally. And we've had some good suggestions on, actually, how do you do that. And of course, you know, the Federal Reserve—there's huge numbers of scenarios produced internally and then there's this question of what you would publish. So I think it depends on—how you select them would depend. The most important thing, I think, is that they are relevant to policymakers and they are relevant for the communication messages you are trying to send. And that probably does point to a relatively small number that actually directly affect this—come to this question: What are the things that you are uncertain about that might change your policy view, and how can understanding those uncertainties better help policymaking?

The risk management, loss-minimization thing, I think is a really, really interesting and important field of research. I would love it if there was a lot more going on in, sort of, academia that we can draw on for that. Actually, I think this is relatively—you know, we're beginning to think about it. Other central banks are using it in certain ways, but there's a lot more, I think, we can learn and think about in terms of how do you do that. And in particular—and that also relates to this question of what are your scenarios. You know, we've said we're looking at

things that are plausible. This isn't about coming up with tail risks. This is about things that are plausible to policymakers.

I've talked about who the audience is. There's multiple audiences you're talking to. This is the challenge of communications. You know, on the one hand you've got the general public the people we are sort of accountable to, people who are broad decisionmakers across the economy, households, businesses. You've also got financial markets, very sophisticated interpreters and followers of our work, and as we saw earlier in the first session, an absolutely critical part of the transmission mechanism. So you need to be effective and clearly communicating to both, but that requires actually quite, you know, nuanced approach to sort of what we call "layered comms," right? You're talking to different people. You've got a consistent message, but you're talking to different people with different layers of sophistication.

And on the reaction function, I mean, that's another area where, you know, of course, a big part of the advantage of scenarios is to be able to explain what your reaction function is. A big part of that is—okay, so precisely what are you going to say about the policy path in those? And I think you've got to be really thoughtful and careful about how you go about that. You know, you're trying to increase the understanding of the institution and what you're trying to do here. And there's a lot of risks around that, but a lot of opportunities, I think.

PHILIP LANE: So let me make a couple of comments. One, yes, we're very conscious now that, of course, the machines are reading more than people. Absolutely, we know this, and we do think about it when we write these communications. And, of course, that there's another hall of mirrors there.

But the—let me also say—I did mention, but we also publish simplified monetary policy statements. We use a lot of infographics. So for the world where a lot of people struggle with text, having an—I mean, that’s actually really effective, I think.

I mean, let me go back to the last point I made about—this is a fluid, evolving situation, including about who owns what. So, of course, the staff—as Clare said, the staff listen carefully to discussion at the last Governing Council meeting, and essentially they add to the library of sensitivity analyses and scenarios and say, you know—someone said that they have a question about how quickly wages catch up with prices. Let’s look at that. But once you have it in your library, you can keep updating it. So essentially, there’s a whole stack of sensitivity analyses that can be maintained.

Let me emphasize also the ECB—and again, it was raised by Bill English this morning. We have what’s called the Monetary Policy Committee, which is the euro system staff committee. So all the 20 central banks plus the ECB are essentially in a kind of big peer review with each other about the forecast, about scenarios, and so on, and that creates a collective staff ownership. So if you like the—when we meet at the Governing Council, the national governors know that their staff have been very involved in preparing the forecast, preparing sensitivity analyses. I think that’s quite important to have that kind of baseline for the analysis.

Maybe I’ll stop there.

ANNA SEIM: Okay. So let me just say a few things about scenarios as well, or let’s see how this goes. Okay.

I think it’s easy to conceive of a situation where you communicate a scenario, but then at the end of the day, you’re in that situation and you still don’t do exactly what you set out to do, right? You say, “If inflation becomes higher, we’re going to act this way,” but then conditions

change. And I think this is another case where monetary policy reports can be super useful in that you can address that scenario, and that's something that can promote credibility, if you can go back and say, "This differs from that scenario in that report for reasons A, B and C." And I think that's super useful.

Thank you.

TREVOR REEVE: All right, next round of questions. Let's go to President Kashkari, Andreas Leonard, Benoit.

PRESIDENT KASHKARI: Philip, I think you touched on this, and maybe anybody could comment. How do you think about—I'm struggling with more of a mechanical exercise where every meeting or every quarter, we produce a set of scenarios versus—one thing I like that Ben said, I liked a lot—he showed the language up there, which instead of just saying, "Inflation is transitory," you say, "Inflation is transitory, but if it's not, here's what we're going to do." I think the latter scenario—that latter case is more episodic, which is like, there are key moments in time when it makes sense, when we want to communicate a range of different outcomes and how we're going to react.

I'm much more attracted to that as a communications approach rather than a mechanical exercise where—like, for example, in the SEP, most of the time I really regret having to fill out the SEP. Once in a while, I'm really glad we have the SEP, and I wish I could just use the SEP when I want to use the SEP. So I'm just curious, how do you think about doing it all the time versus doing it when you really want to do it?

ANDREAS LEONARD: Thanks. Great panel.

So each of the kind of three institutions here publish financial stability reports in addition to monetary policy reviews or reports. I mean, really excellent financial stability reports too, I

should say. So I have question about, especially in the context of scenario analysis, how you—kind of what lessons you've drawn from kind of financial stability work you guys do in developing scenarios and thinking about, you know, what's the role of some of these sort of deep in the tail or, you know, sort of these outcomes that are, you know, relatively rare in the data.

Thanks.

BENOIT MONJON: Yes, Benoit Mojon, BIS.

So I see that the scenarios and communicating around scenarios is—there's an aspiration there to communicate uncertainty to the markets, and this squares with something that we hear very frequently in Basel, which is that, you know, governors are unhappy with the market being priced for perfection.

But then if we go in this direction, how would you define ex ante what success will be? So what will be success? Is success that you have higher risk premium or term premium because you manage to convey that the uncertainty on future interest rates has to be higher because we know less what the future is like? And so, would you be happier with a term premium which is 50 basis points higher than has been the case? I mean, is this the type of metric that you want to use to define what will be the success of going in this direction?

PHILIP LANE: Okay. So clearly there's a distinct role for financial stability reports, and I know you're all waiting for next week when we publish our latest edition. But what we did do as a result of the last review, twice a year in the monetary policy statement in December and June, we do say we took the occasion to reflect about the intersection of monetary policy and financial stability. And in the last review, we did basically say we do think financial stability is an underpinning for price stability. And we end every monetary policy statement which

basically say, “Look, in any event, we stand ready to adjust all of our tools as appropriate.” So there’s a general alertness issue that we will respond appropriately to any scenario.

—The—Benoit’s last point about the term—that’s very interesting. I mean, is it the case the term premium would go up, or would it go down? If people are confident that you are basically not going to be obtuse, you’re going to react in a timely manner to the evolving risk distribution. I mean, I think you have to accept near-term volatility of the rate path probably goes up. But the term premium, you know, if anything I would say it goes down. If people are more confident, you’re going to have a more suitable monetary policy.

Our current practice, Neil, is, as I say, only when there’s a risk constellation, not all the time. But we’re in the middle of review so I don’t want to say that would—you know. But I would say every meeting and, personally—and you see it in the monetary policy account. I do try to take a moment in how I write up the monetary policy proposal to say, “Okay, is this robust to alternative scenarios?” I don’t spell out every single—but I say just in general terms, “I do think it’s a low-regret decision we’re making.” But the idea of the—indeed, as you say, there is a risk of becoming stale if it looks like it’s a formulaic exercise.

CLARE LOMBARDELLI: Yeah, I mean, similar approach. I think you’re absolutely right. I think the value would come from you flexing which scenarios you choose and how you use them—both communication and in policy—depending on the circumstances that you’re in, right? So actually, I’m less attracted to this idea that you have a kind of library of scenarios that you’re constantly updating because, you know, one of the attractions, as I see them, is actually to what extent can you use them to explore some of the uncertainties that are driving your policy thinking? And so that might mean in some situations, you know, actually, things are quite stable; they’re less uncertain.

We never say things are not uncertain, right? But sometimes they are less uncertain than others. In that situation, you might not want to be talking about lots of different scenarios, actually. But then you may have situations where you've got something very binary, like the Canadian situation, or we heard about Brexit, for where there's really only one scenario that you're thinking about and so you publish that. In other situations, maybe also, I think you would want to maintain a flexibility. And the issue, I think, is—what is—you know, how do you make sure they are relevant? And I mean, that will vary over time, depending on the economic circumstances that you're in. So I anticipate we will be sort of flexing this and changing it as we go.

I mean, interestingly, our fiscal authority in the UK always does a scenario—always does one scenario, and it just picks the topic that is the most relevant topic when it produces its forecast, which it does every—twice a year. So, you know, sometimes it will say, “Well what if migration is higher?” Or sometimes it'll say, “What if this happens on the labor market?” And so you—there's—and, you know, I can see some sort of attractions to that, but I think we'd want to be a bit more flexible, if I'm honest.

On the question of financial stability and monetary policy, I think here you—the role of scenarios is quite different, right, just by definition that you are—in financial stability, you're much more thinking about tail risks. And so, you know, we do stress testing, but they're quite extreme scenarios. We made a point in the scenarios that we put out a couple of weeks ago that they were what we consider plausible, right? They are in the distribution in a way that you would use them for monetary policymaking. The tail risk scenario, we take exactly the same approach. Of course, monetary policy would respond, but you don't want to be designing your

policy robust to extreme tail risks in the monetary policy space. You want to be responsive to those tail risks. So that's the way we would think about it differently.

I think it's a really interesting discussion and debate about what success looks like. You know, we can have a discussion about financial market metrics. I would also say there's an awful lot of other metrics we are thinking about in the sense of—this is about communication with a broader range of people than just financial markets. And actually, some of that is just about explaining our reaction function to a sort of broader public thinking about inflation.

ANNA SEIM: Yes. So just very quickly on the FSRs. I think it also relates to this issue about if we do see tail risks like a financial crisis, we don't want that to be self-fulfilling, right? So that's kind of a touchy issue. And I think what Markus Brunnermeier was suggesting that we should whisper to financial markets, much like I'm whispering to you now. [Laughter.]

TREVOR REEVE: Great. Okay. Let's go another round of questions. We've got one back here, and Brian.

LYDIA NEWMAN: Thank you. Very helpful panel. Lydia Newman with AIER.

I was wondering if you could address the fact that, going through all these forecasts and scenarios and reaction functions, two of the three central bankers up there, you all primarily focus on price stability. And could you say to what extent does that ease or complicate your ability to produce and communicate these forecast scenarios and reaction functions? And would it be more complicated if you did have a dual mandate, one that focused on employment the way that the Fed does? And I know there's another mandate up there on payment systems, so you can speak to if that complicates things at all as well. Thanks.

TREVOR REEVE: Brian.

BRIAN SACK: Brian Sack. I had a question. It's a little similar to the one that was previously asked about success, but—.

So I think scenarios are a great idea for providing information. I would lean against the notion that the problem out there is everyone focuses too much on the modal scenario. I mean, at least speaking for markets, like, that's not the case at all, right? Markets are obsessed with the distribution of risks. They price way, way from the SEP, up, down, all over. So basically, I think the value of scenarios is just giving more information to help markets and the public sort of understand that risk of distributions and price it more efficiently. And I don't think it's to widen the distribution; I just think it's to get a more efficient shape.

But that brings me to my question: Is there any evidence to date that actually publishing the scenarios impacts the pricing of the distribution or the pricing of markets more generally?

Thanks.

TREVOR REEVE: And let's take Sylvain.

SYLVAIN LEDUC: Yeah. This is a question for Clare. I'm Sylvain Leduc, San Francisco Fed.

I want to go back to what Bill English mentioned this morning and the risk of venturing and putting scenarios out on politically charged topics. And of course, the Bank of England did that, in a sense, with Brexit. And I want to know if there is a sense by now of lessons learned, whether this was the right thing to do or whether you'd do this differently.

CLARE LOMBARDELLI: Why don't I start? I think—gosh, all really interesting questions.

So the dual-mandate question. I mean, we have a, you know, primary objective, which is inflation, but we then, subject to that, take regard to other things, including output. So do I think

that makes it simpler or more complicated? I don't think it makes that much difference. Again, I would come up to this point about—you know, we care about output. We care about employment. You know, it's not our primary objective, but of course we care about it, both because it has an impact on inflation, but also, you know, just more broadly in terms of it is part of our secondary objectives. And so I don't think it makes either the comms simpler or easier, or the way you would think about scenarios, the way you would model them simpler or easier, if I'm honest.

On the evidence, I mean, I don't know if there's evidence out there. There won't be—in the UK we had one sort of tentative dip our toe in the water, so it'd be too soon. You know, a couple of weeks—last week, so it's a bit soon to process that.

On this question of politically charged topics, I don't think this is a—politically charged topics are politically charged topics, right? So whether you do scenarios or not doesn't change the fact that as a policymaker, you have to be very, very careful and very sort of focused on your mandate at that point. And I think that's the way you sort of deal with them and handle them. So I don't actually think—you know, we are very, very clear, for example, that, you know, what happens on fiscal policy is a decision for the government. We take government policy and that feeds into our process. So I think you just stick to your mandate very carefully on those sorts of things.

On this question of, you know, reflecting on Brexit. I mean, Brexit was obviously a huge issue at the time. The bank was having to conduct monetary policy with uncertainty about the way the referendum would go. And a bit like the sort of Canada tariff situation, you know, there were two scenarios there, and so it was very sensible to basically say, “Well, here's the implication of both of them for our policymaking.” I can't envisage a world in which you

wouldn't acknowledge that, that you wouldn't take an analytically rigorous approach to it, and that you wouldn't talk about what you would do in the event that, you know, one of those outcomes came to pass. So I don't really think it would be viable to handle that in any other way, nor would it be sensible. You know, we had a responsibility—the bank had a responsibility to be clear how it saw that issue and what the consequences of it would be. But to do that in a—you know, again, this is where you stick to your mandate and you stick to a rigorous analytical framework.

PHILIP LANE: So if I go back to how we currently use scenarios to deal with kind of very specific risk configurations—I hope, Brian, when we publish the alternative projections—because, I mean, there's many choices to make about the pandemic, about the war, now about tariffs. And, you know, the market can run all sorts of different possibilities. But I think they're interested in how our staff also make decisions about how exactly to think about—because with tariffs, there's so many different mechanisms. So having a kind of, you know—knowing that it's a very serious substantive exercise in the euro system, you know, I hope it provides a lot of information.

Maybe there's a very different tradition, you know, in terms of political sensitivity, because, of course, the tradition in Europe and other parts of the world is the central bank is often seen as a general economic adviser. So you have independence on monetary policy, but we do have a section in every monetary policy statement where we say, "Look, we really want to see the European institutions to move forward on banking union. We really want to see a fiscal framework that balances long-term sustainability of fiscal policy with appropriate response to pandemic," and so on.

And then this issue about—it's interesting because of course with flexible inflation targeting, and throughout the whole history of the ECB, price stability has been defined as a medium-term concept, which allows to take into account other factors. But what is true—and also recalling yesterday's discussions—it probably makes communication easier because the accountability for us is first and foremost about price stability. So how exactly we take into account output fluctuations and so on is there, but because it's not the primary mandate, there's less of a kind of spotlight focus on how exactly—now, whether that's good or bad, you know, I have an open mind on, but it probably does make communication a bit simpler.

TREVOR REEVE: All right, very good. One or two more questions for our panelists? All right, not seeing any. Terrific. Let's give a round of applause. Thank you. [Applause.]

All right, thank you so much. That actually concludes our program. On behalf of the Federal Reserve, thank you all for participating in this event. I want to express our sincere gratitude, once again, to all of the speakers, the authors, discussants, moderators, and panelists, of course, for their invaluable contributions.

Finally, I want to acknowledge the tremendous effort that many people here at the Board have put into making this event happen. Special thanks go to David Lopez Salido and Annette Bising Jorgensen for their work on the conference program. Yep. [Applause.]

And I want to special call out all the organizational leadership and logistical support from our team back here. I won't mention everybody but a few: Nelly Ramdass, Doyin Ajifowo, Nicole Haroon, Robin Ross, Hillary Gibson, many other colleagues and partners around the Board. Thank you so much. We couldn't do this without you.

[Applause.]

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Second Thomas Laubach Research Conference

All right. It's been a pleasure to host this conference. Safe travels to everyone who is doing that later today, and we'll look forward to seeing you at the next Thomas Laubach Conference next time. Thank you.

[Applause.]