

Monetary policy communication at a crossroads



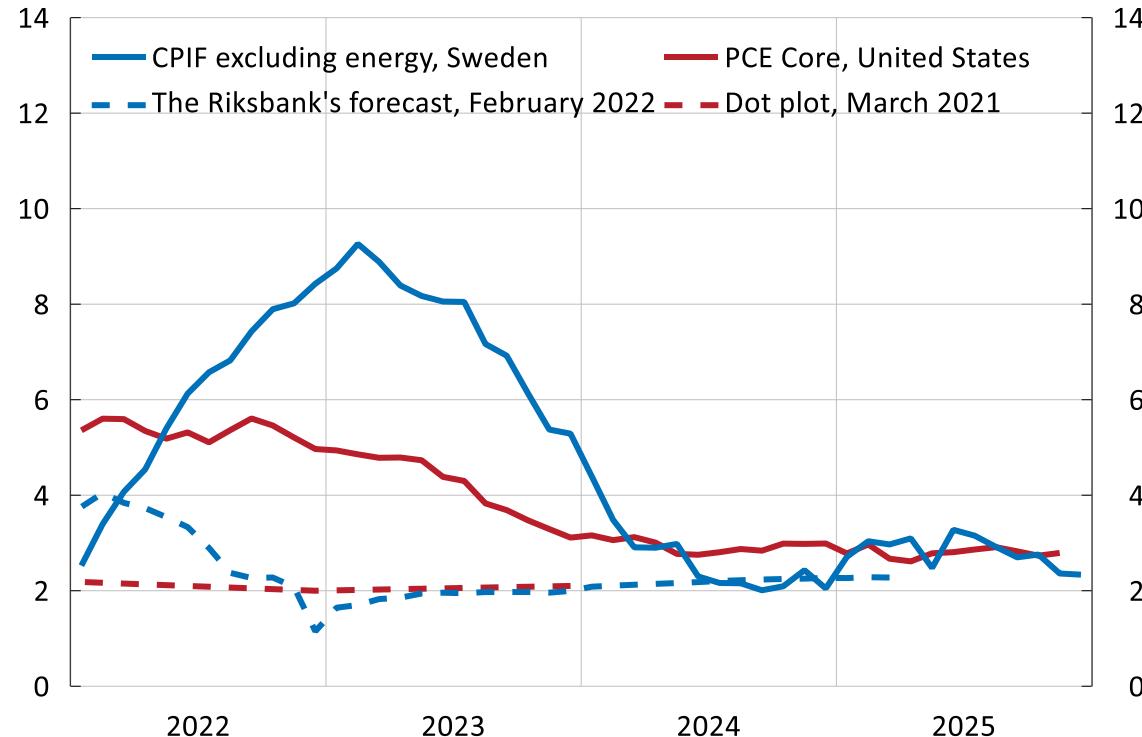
Agenda

- Transparency and forward guidance in turbulent times
- Political pressure and central bank independence



Negative experiences with forward guidance during the inflationary upsurge

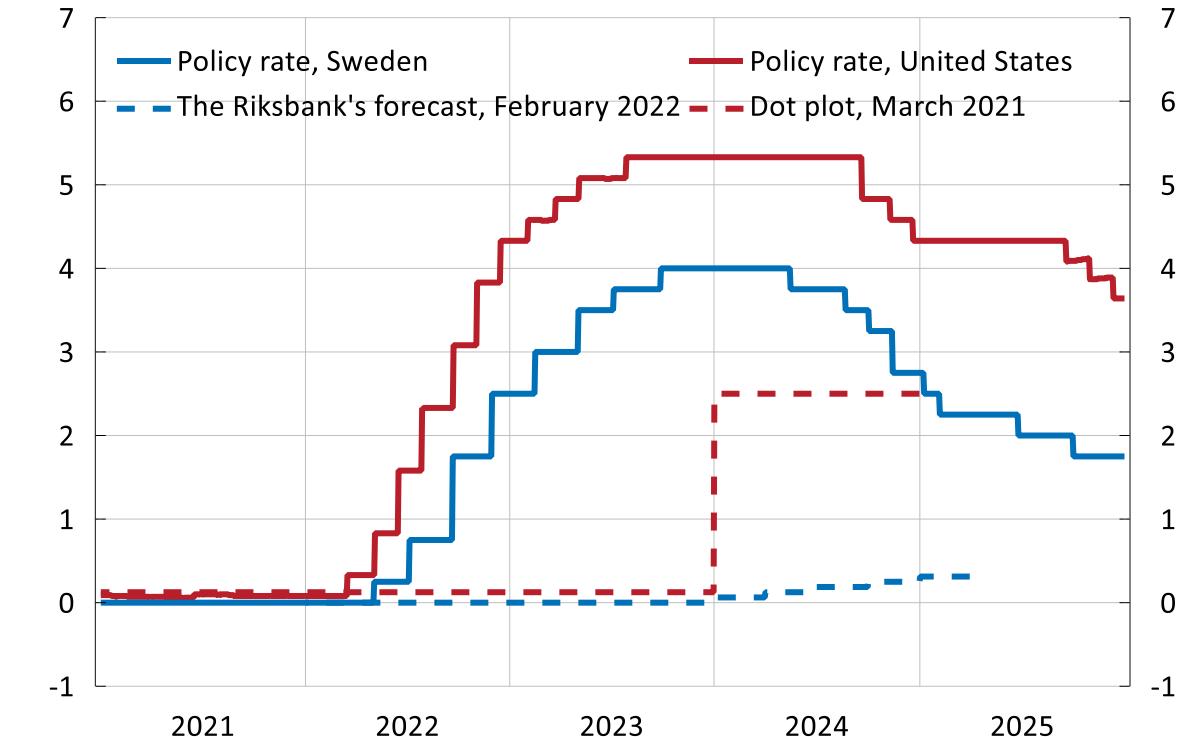
Inflation forecasts just before inflation rose



Annual percentage change. Solid lines refer to outcomes, dashed lines to forecasts. For US inflation, measured as PCE, it refers to inflation excluding energy and food.

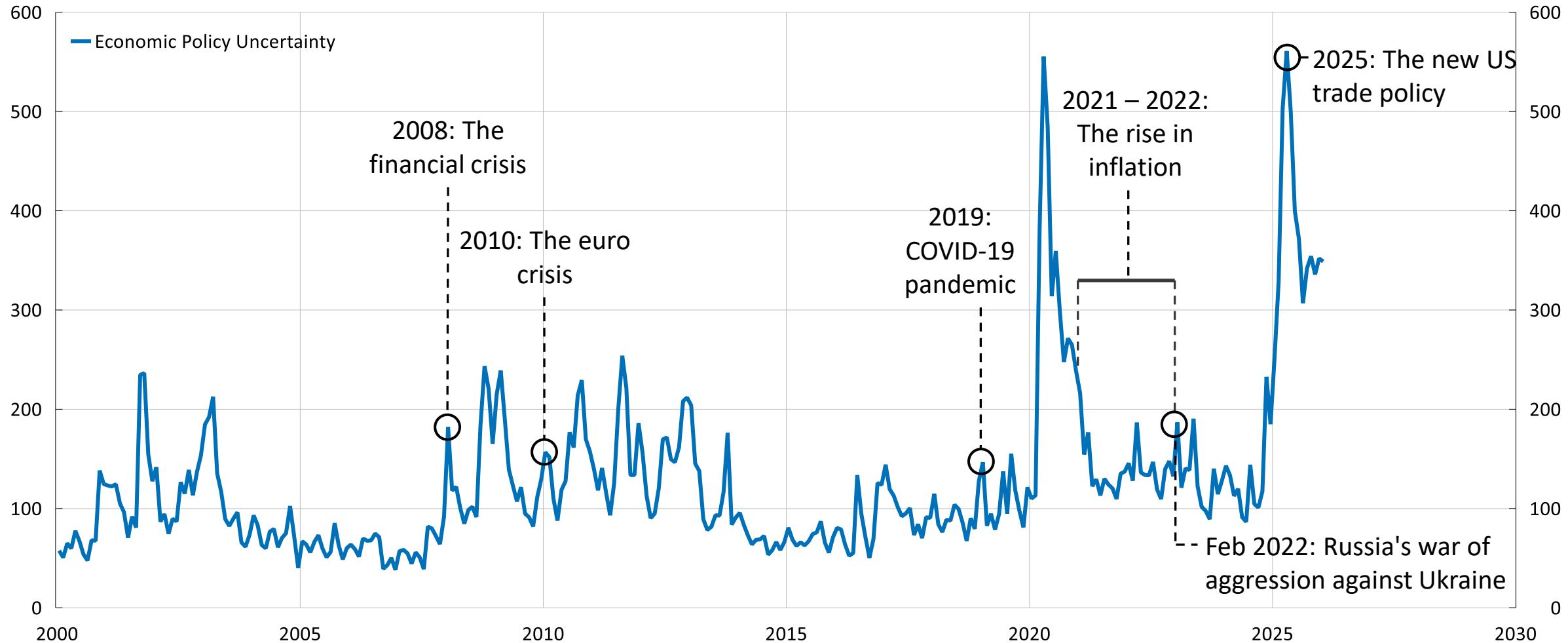
Sources: Federal Reserve, Statistics Sweden, US Bureau of Labor Statistics and the Riksbank.

Policy-rate forecasts just before inflation rose



Per cent. Solid lines refer to outcomes, dashed lines to forecasts. Sources: Federal Reserve and the Riksbank.

More difficult to communicate forward-looking when uncertainty is high

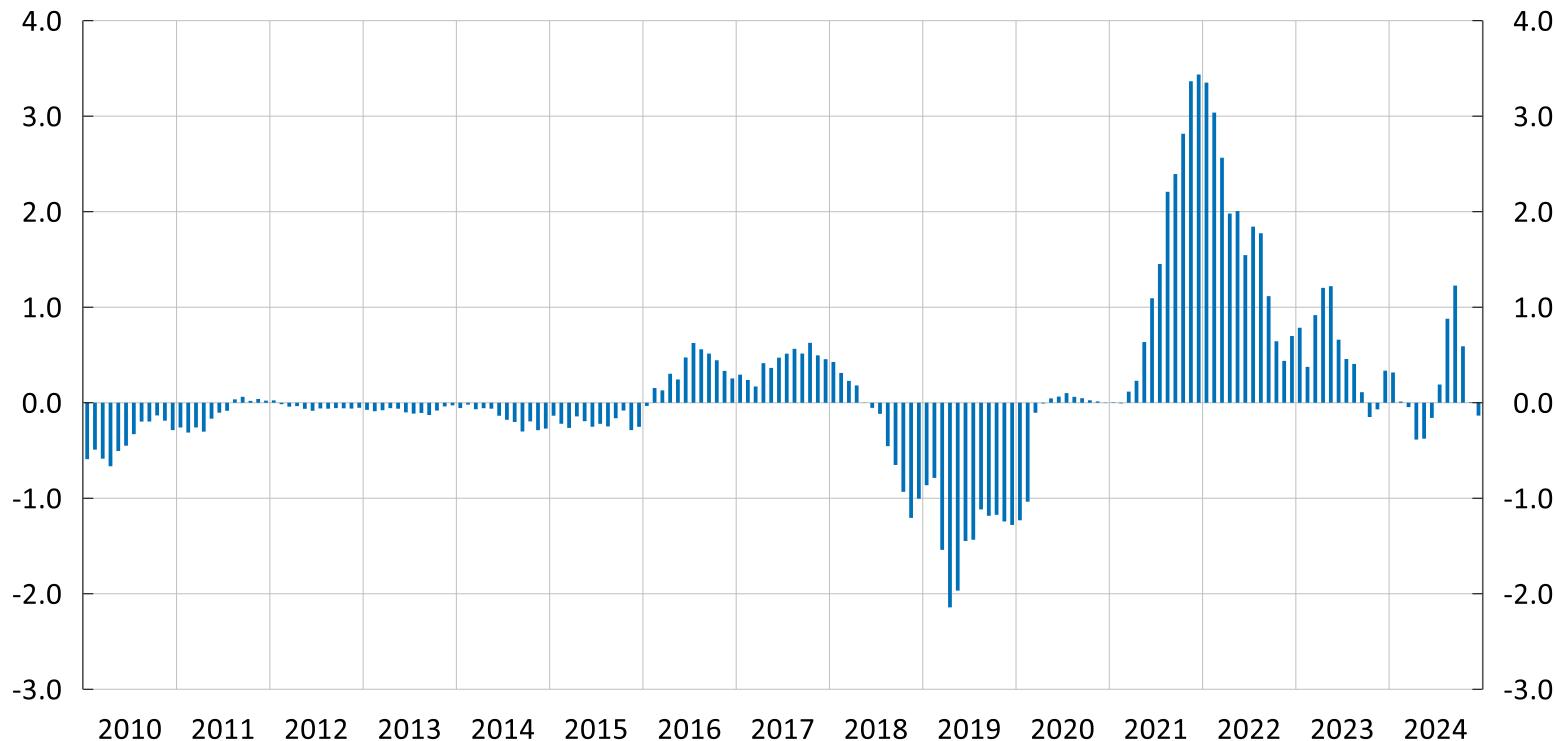


Normalised index of number of news articles in the United States mentioning economic-policy uncertainty. 100 means that 1 per cent of the articles concern economic-policy uncertainty.

Source: Economic Policy Uncertainty.

Transparency and forward guidance particularly important in turbulent times

The difference between actual and expected policy rate in the U.S.

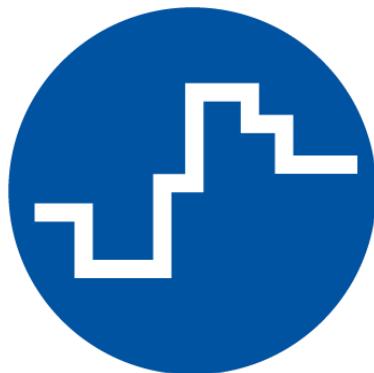


- We have seen large movements in market expectations for the Fed in recent years.
- The central bank can help to reduce uncertainty by being clear about its own judgements.
- There are several ways for a central bank to be transparent. Much can be summarised in:
 - Policy-rate forecasts
 - Alternative scenarios

Percentage points. The measure of market expectations refers to 30-day Futures contract, which is a forward-looking measure of the expected level of the policy rate in 12 months' time.

Sources: CME Group, the Federal Reserve and the Riksbank.

Specifically on policy-rate forecasts



- Central banks communicate about the policy rate in different ways.
 - The Riksbank has been publishing policy-rate forecasts since 2007.
- Several benefits of publishing policy-rate forecasts:
 - Facilitates forward guidance
 - Coherent forecasts
 - Improved internal analysis and quality of policy discussions
 - Easier to evaluate monetary policy
 - Advantage in accountability

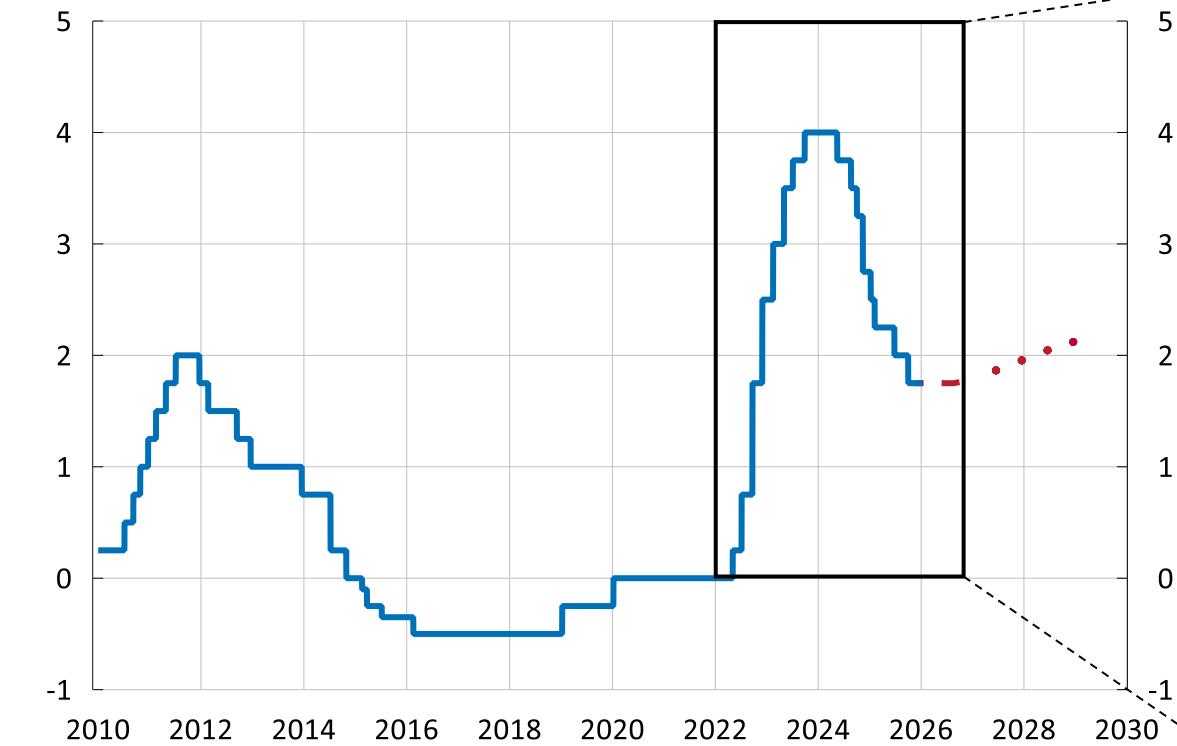
So why do so few central banks publish policy-rate forecasts?



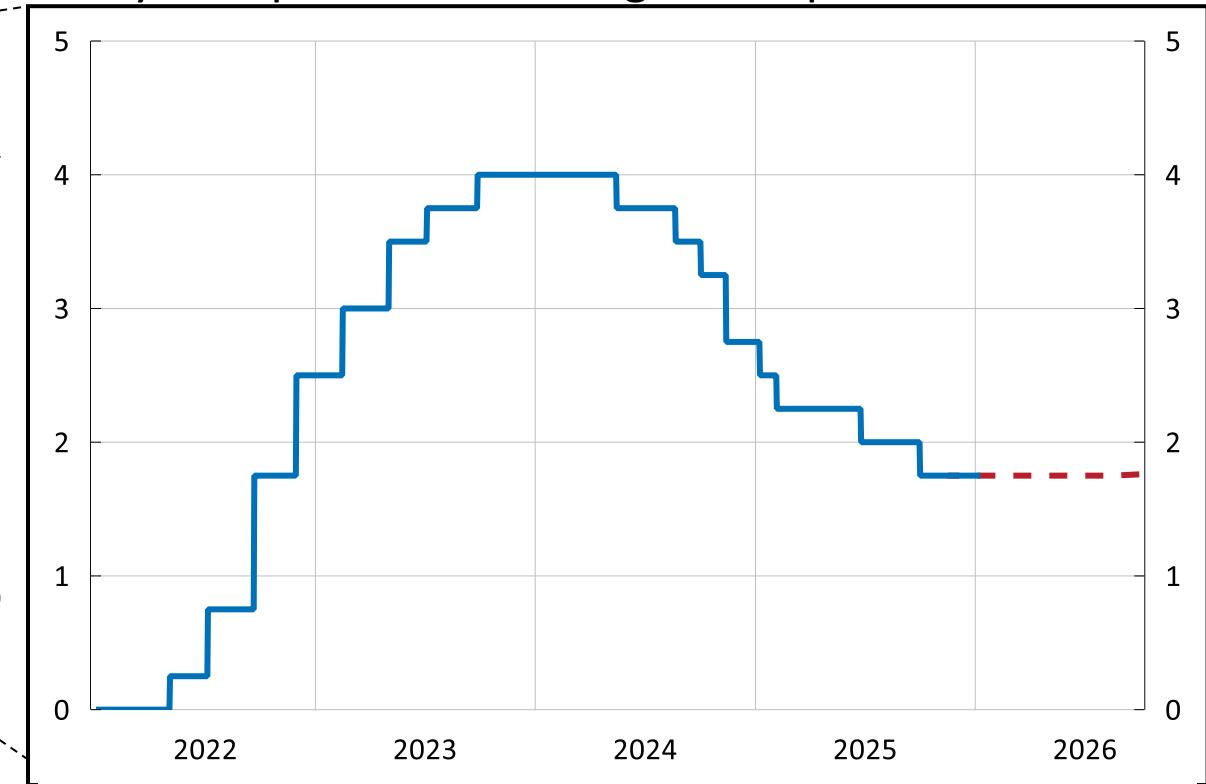
- Different compositions of monetary policy committees
 - Different sizes, external and geographically dispersed members
 - Fear that the forecast will be perceived as a *promise* of future monetary policy
 - Risk of being criticised for having “tricked people”
 - Incorrect forecasts can be perceived as a loss of prestige for the central bank
- *But these problems are surmountable!*

Modification of the Riksbank's forward guidance

Policy-rate path over coming three years



Policy-rate path over coming three quarters

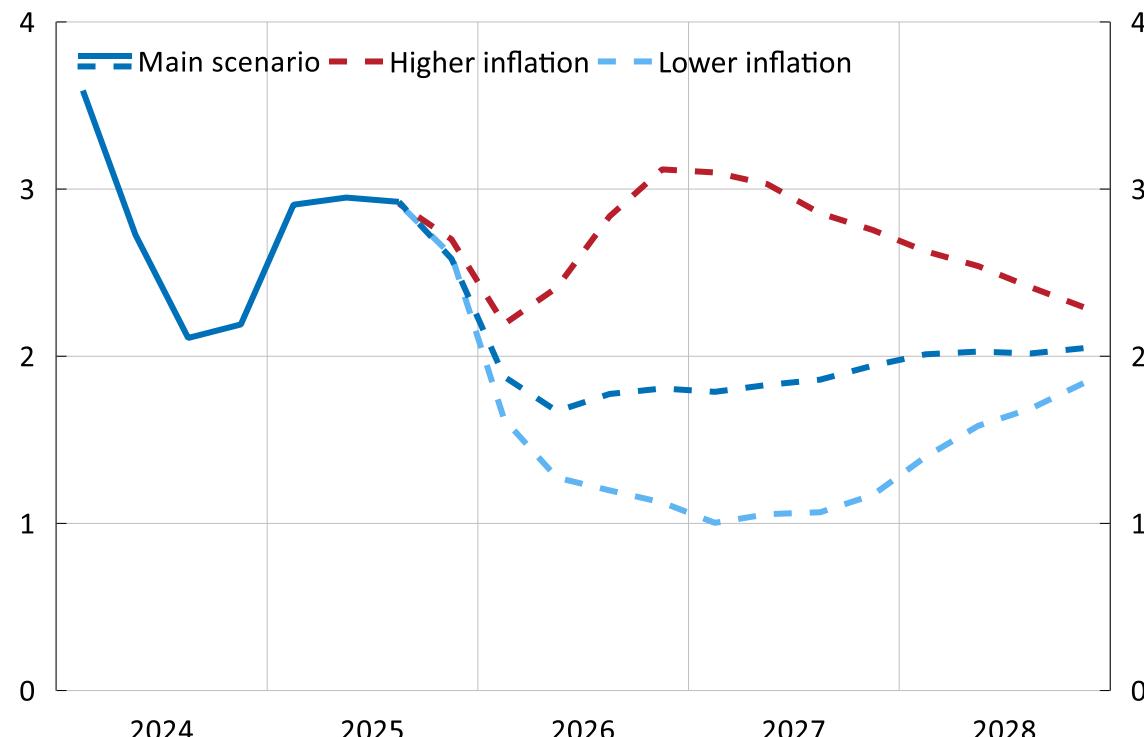


Figures from the Monetary Policy Report in December 2025. Solid blue lines refer to outcomes, dashed lines to the Riksbank's forecasts.

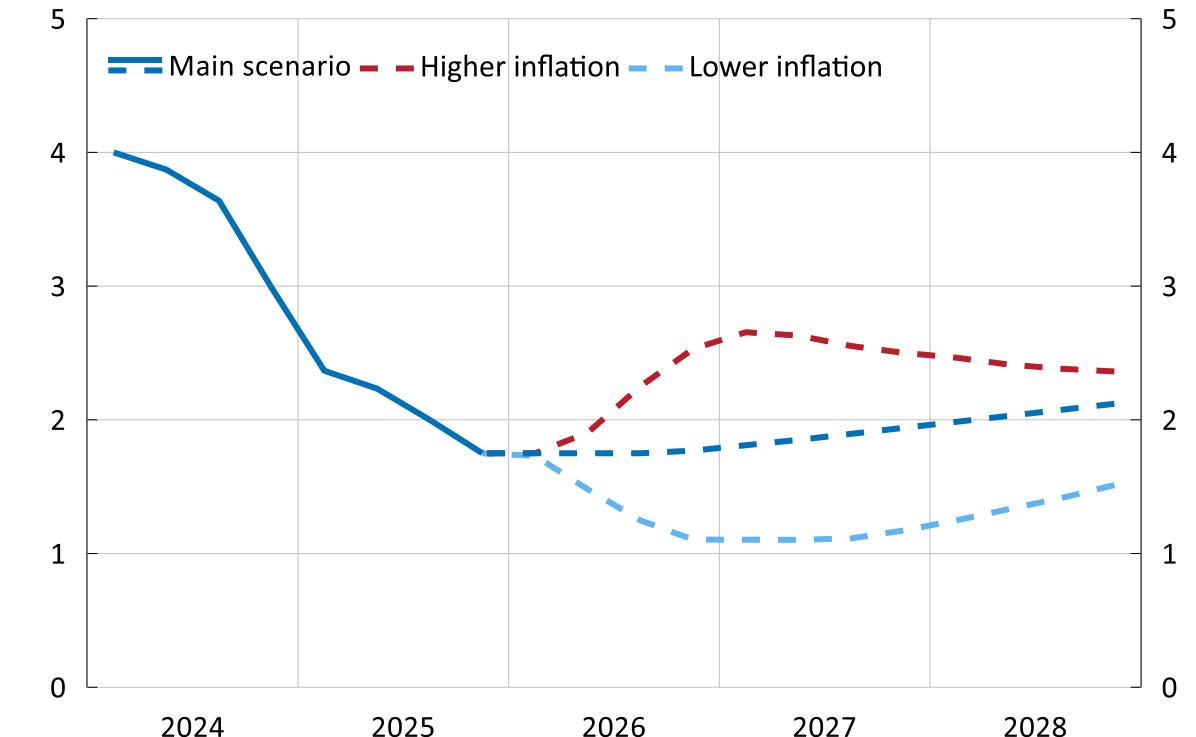
Source: The Riksbank.

Alternative scenarios – an important and increasingly common tool

Inflation



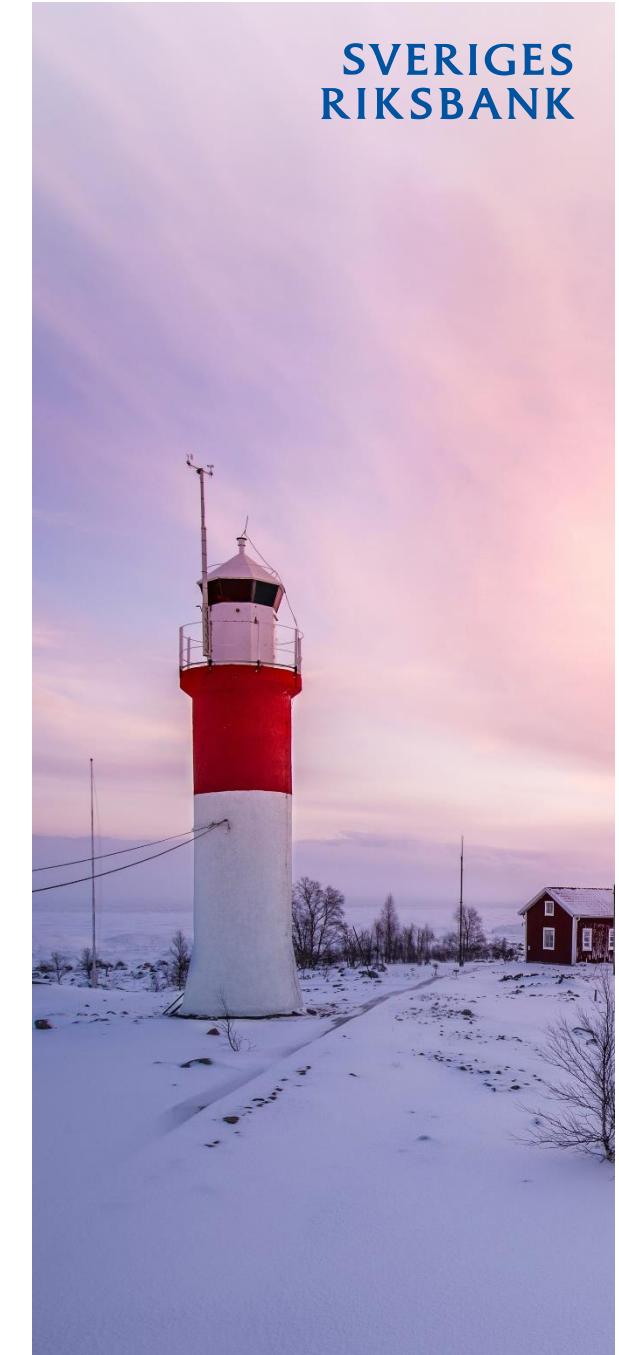
Policy rate



Alternative scenarios from the Monetary Policy Report in December 2025. Solid lines refer to outcomes, dashed lines to forecasts and scenarios. Inflation refers to CPIF excluding energy and VAT changes on food. Quarterly data. Sources: Statistics Sweden and the Riksbank.

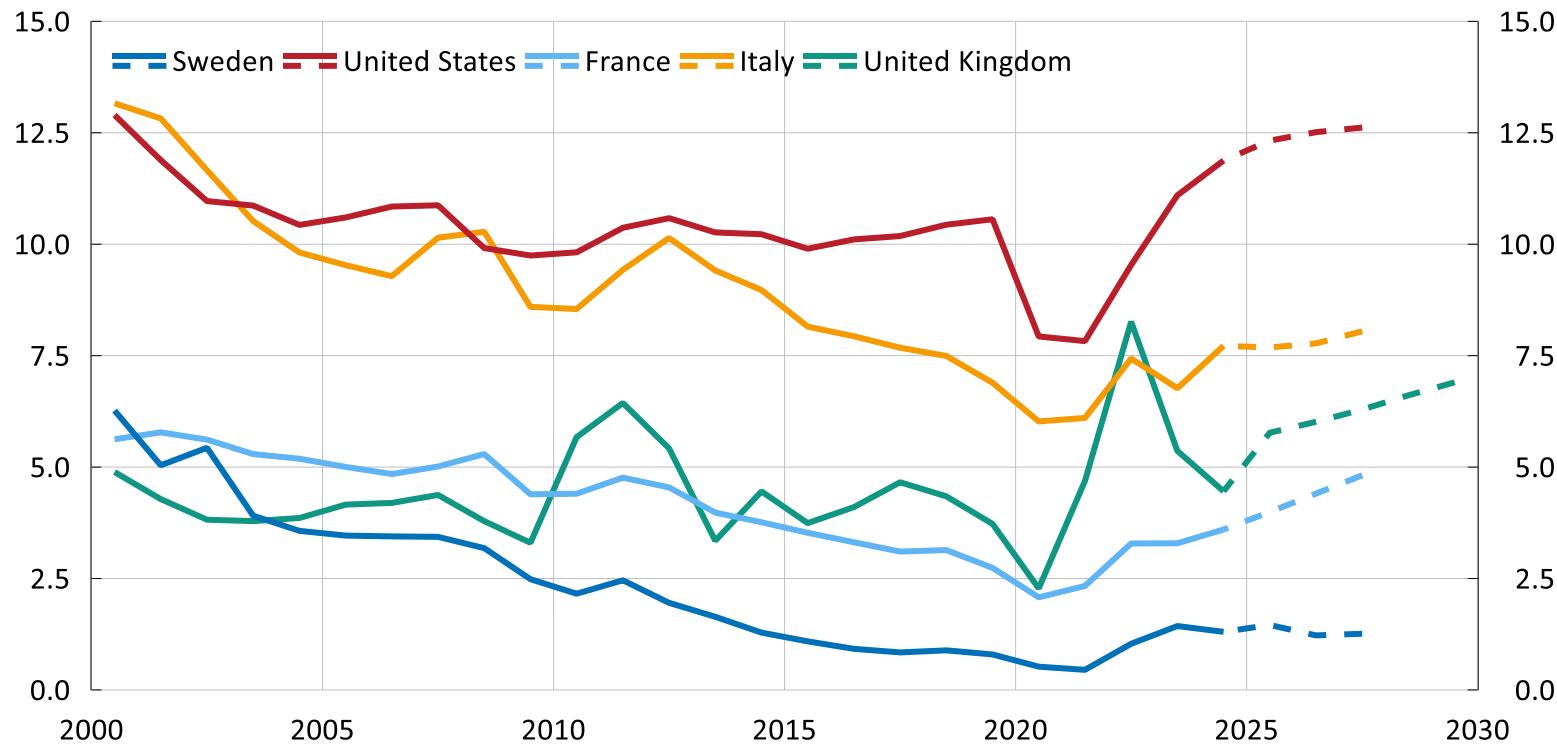
Summary so far

- Central banks seem to have become less inclined to use forward guidance. This could be due to:
 - Negative experiences during the global inflationary upsurge
 - Increased uncertainty in the world
- But transparency and guidance are even more important in turbulent times!
- Policy-rate forecasts and alternative scenarios summarise much of the information that central banks can and should provide in their forward guidance.



Political pressure may also play a role in central banks' forward guidance

Rising interest costs in several countries



- Political pressure risks reducing transparency.
- No-one wins if the central bank is politically controlled.
 - This leads to negative consequences for the economy.
- Independence is also important in forward guidance!

Interest payments on government debt as a share of total government expenditure. For the United Kingdom, it refers to net interest payments. Solid lines refer to outcomes and dashed lines to the European Commission's and the IMF's forecasts.
Sources: European Commission and IMF.

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