

## SPEECH

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SPEAKER: Governor Erik Thedéen  
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# Monetary policy communication in practice\*

I would like to begin by thanking you for the invitation and by drawing attention to the fact that this year is actually the thirtieth anniversary of the tradition of the Governor of the Riksbank giving a speech at the Swedish Economics Association. In 1995, the then Governor Urban Bäckström gave a keynote speech at an association meeting. Since then, the Governor has been invited to give a speech every year. On behalf of myself and my predecessors, I would like to take this opportunity to thank the Swedish Economic Association for these three decades. As Governor of the Riksbank, it is a privilege to come to this forum every year to discuss topics that are relevant to the Bank. I hope the tradition can be kept alive for many years to come.

It is no coincidence that the tradition started in 1995. That was the year that the Riksbank officially started to conduct monetary policy to achieve the new inflation target.<sup>1</sup> Inflation targeting has developed a lot over these 30 years, and the speeches given by the Governors of the Riksbank to the Association reflect that journey. Ever since the inflation target was introduced, transparency has been a watchword for the Riksbank, and central banks have become more transparent in general. At the same time, the focus has increasingly shifted to how we communicate monetary policy, which is natural. If you are more open, you also need to think more about what you say and how you say it.

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<sup>1</sup> The inflation target was announced on 15 January 1993, when the General Council of the Riksbank announced that from 1995 monetary policy would be aimed at a target for inflation, measured as the annual change in the CPI, of 2 per cent.

Monetary policy communication is a hot topic that has been the focus of strategy reviews by many of the major central banks recently. Today I would like to describe how attitudes towards transparency and communication have changed, and compare the Riksbank with other central banks, with a particular focus on the points where the Riksbank has chosen to be more open than many others. I will also discuss challenges that all central banks need to address in their communication. One conclusion is that there are clear benefits to central bank transparency, but that transparency does not automatically mean clarity. That's why openness and clarity are the watchwords of the Riksbank's communication policy – both are needed.<sup>2</sup> Communication also needs to be adapted to the circumstances, for example when uncertainty about the economic outlook is unusually high, as it has been recently. I will round off my speech by describing the changes the Riksbank has made in response to this.

## Shift in attitudes towards transparency and communication

Today, central banks spend a lot of time communicating what they do and why, and we endeavour to make the information understandable. This is a major shift compared to a few decades ago. At that time, central banks' stated strategy was to say as little as possible about monetary policy.

When I worked at the Riksbank in the early 1990s, interest rates in the economy were indirectly controlled via liquidity in the banking system. Depending on how much the commercial banks borrowed from the Riksbank, they paid a marginal interest rate that increased in steps. Every day the Riksbank made forecasts of how large the borrowing needs of the banking system were and conducted open market operations to place the banking system on a step with a particular marginal interest rate to achieve the desired effect on market interest rates and foreign exchange flows. There was little transparency and the Riksbank was not very open about what marginal rate it was aiming for. Indirect control and a lack of transparency contributed to signals from the Riksbank sometimes being perceived as unclear, and could lead to newspaper comments of this type: "Market traders are increasingly asking whether the Riksbank has tightened monetary policy."<sup>3</sup>

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<sup>2</sup> The Communication policy is available on the Riksbank's website under About the Riksbank/How the Riksbank is governed/Internal regulatory framework/Policies.

<sup>3</sup> Quotation from Svenska Dagbladet on 5 December 1989, see P. Sellin (2018), "The Riksbank's operational frameworks for monetary policy 1885-2018", *Economic Review 2*, Sveriges Riksbank.

Similar examples can be found at other central banks. There was a perception that explicit statements on monetary policy could lead to unwanted reactions on the financial markets. Thus, monetary policy could become less effective if the central bank were too open and transparent.

From the 1990s onwards, this attitude was turned on its head. There are several explanations for this. For the Riksbank, greater transparency was in part a deliberate strategy to shore up damaged confidence following the economic crisis of the early 1990s and the failed defence of the fixed exchange rate.<sup>4</sup> Another reason, which the Riksbank shared with many other central banks, was greater independence. It became more and more common to give central banks a mandate to conduct monetary policy – often inflation targeting – at arm's length from other economic policies. Greater independence requires a greater focus on openness and transparency, as this is a precondition for democratic scrutiny and accountability.<sup>5</sup>

At the same time, macroeconomic research evolved and models were developed that provided a theoretical foundation for inflation targeting. An important insight characterising these models is the importance of looking at the behaviour and decisions of individual economic agents – households, companies, market participants – to understand how the macroeconomy develops over time. These decisions are influenced by agents' expectations about monetary policy, among other things. This 'channel' through which monetary policy can influence the economy today, in addition to the current level of interest rates, received greater focus.

## Communication can make monetary policy more effective

In a stylised theoretical world, where all agents are rational and have complete information about how the economy works, ongoing communication about monetary policy is in principle superfluous. The central bank then announces the monetary policy objective and a rule for achieving it in different circumstances. Based on that, everyone can work out for themselves how the central bank will act.

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<sup>4</sup> A discussion of the importance of communication for confidence, with the Riksbank as an example, can be found in P. Meyersson and P. Petrelius Karlberg (2012), "*A journey in communication: The case of Sveriges Riksbank*". SNS förlag.

<sup>5</sup> N. Dincer, B. Eichengreen and J. Martinez (2024), "Central Bank Independence: Views from History and Machine Learning", *Annual Review of Economics* 16.

The reality is of course more complex. No one has complete information on how the economy works. In practice, it is difficult for a central bank to specify a rule to which it will always adhere. But there is still a point in central banks trying to act in a systematic manner. This makes it easier to understand and anticipate monetary policy. Communication then helps households, companies and market participants understand how the central bank acts. This in turn makes monetary policy more effective.

One example is when the central bank announces a target for inflation and then acts and communicates in a way that gives credibility to this target. Households and companies then set their expectations that inflation will eventually be close to the target, which in turn makes it easier to actually keep inflation around the target. Expectations "do some of the job" for the central bank.

Expectations that inflation will be close to the target in the long run are closely linked to expectations of how the central bank will change the policy rate, and hence how short-term market interest rates will develop. Expectations of short-term market interest rates affect other financial prices, such as interest rates on longer-term loans, which play an important role in the decisions that households, companies and market participants make today. Communication that clarifies how the central bank acts can therefore increase the chances of the central bank influencing interest rate expectations and thus the economy today, making monetary policy more effective.

### **Forward guidance as a monetary policy tool**

What kind of information is interesting for the central bank to communicate? In general, all information relevant to the central bank's monetary policy decisions. The objective(s) of monetary policy is of course the most important. But the strategy for achieving the targets can also be useful information, as can the central bank's assessment of the economic situation and what it thinks about the outlook for the future, including how the interest rate will develop.

When the central bank communicates about future monetary policy, it is sometimes called 'forward guidance'. This is sometimes described as a monetary policy tool that can be used in particular when the policy rate is close to its lower bound and cannot be cut further. If the central bank can then adjust expectations that interest rates will remain low for a long time, it will stimulate the economy now, without cutting interest rates further. The difficulty is to make it credible that monetary policy will be conducted in a particular way in the future, especially if it would mean that the central bank then acts in a way that is not normal.

But monetary policy guidance need not necessarily be regarded as a tool whose main purpose is to influence the expectations of economic agents in a particular

direction. It may simply be part of the communication on monetary policy, which is aimed more at explaining the central bank's reaction function. It is then also natural to emphasise that this is a forecast that will change depending on what happens in the economy. As I will discuss later, it is this type of guidance that the Riksbank uses in its communication. But before I talk about the Riksbank, it might be interesting to see how things are at other central banks.<sup>6</sup>

## How do central banks communicate in practice?

A comparison of 15 inflation-targeting central banks in OECD countries shows that the vast majority take eight monetary policy decisions per year. All of them communicate their decisions in a press release and a large majority publish a report with forecasts for four of the decisions. Most also hold a press conference in connection with each decision, while some choose to hold a press conference only in connection with decisions when publishing a report. About half of them report how individual members voted. With a few exceptions, central banks publish the minutes of the meetings at which monetary policy is decided, but usually without revealing the reasoning of individual members. In some cases, central banks transcribe what is said at the meetings and publish this, but with a delay of several years.

For the most part, the reports reflect the views of the committee that takes the monetary policy decisions. In line with the aim of stabilising inflation over the medium term, the forecasts in the reports usually extend 2–3 years into the future. Some central banks choose to let the policy rate forecast be exogenous, using either market expectations of the policy rate or an assumption that the policy rate will remain unchanged throughout the forecast period. Most allow the development of the interest rate to be determined endogenously in the forecasting process, i.e. it is determined at the same time as other forecasts. However, also publishing the interest rate forecast in the reports is something of a watershed, and only a few do so.<sup>7</sup>

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<sup>6</sup> The comparison is based on Table 1 in C. A. Claussen (2017), "Central Bank of Chile's Monetary policy decision-making process, communication and transparency. Review and recommendations", Banco Central de Chile. An update has been made using information available on central bank websites.

<sup>7</sup> Like the Riksbank, the central banks of New Zealand, Norway, the Czech Republic and Israel publish their own interest rate forecasts. The US Federal Reserve does not have a straightforward interest rate forecast, but publishes the various committee members' assessments of the appropriate level of the federal funds rate at the end of the next three years. The central bank of South Korea publishes a similar so-called 'dot plot'.

### **The Riksbank is one of the most transparent central banks**

What is the situation at the Riksbank? As many may know, the Riksbank is ranked as one of the most transparent central banks in the world, in fact the most transparent about monetary policy in a recent comparison.<sup>8</sup> This is the result of a determined effort that has gone hand in hand with the development of inflation targeting. This transparency is the result of several different factors. I have already mentioned a few: the poor state of trust after the 1990s crisis, greater independence and academic research showing the benefits of transparency. To this can be added a long Swedish tradition of openness in public administration, but also dialogue with various target groups and, not least, inspiration from other central banks.<sup>9</sup>

There are many similarities between the Riksbank and other central banks in terms of how we communicate, but in some respects the Riksbank has chosen a more open approach to communicating monetary policy than several other central banks. These include the Riksbank's own forecast for the policy rate and the transparency of our decisions, which is reflected in the way we draft the minutes of the monetary policy meetings.<sup>10</sup>

### **The interest rate forecast has become a natural part of the Riksbank's communication on the economic outlook**

From the start of inflation targeting in the 1990s until 2005, the Riksbank made forecasts under the assumption that the policy rate would remain unchanged during the forecast period. This was then changed to an assumption that the interest rate would follow market expectations as reflected in the pricing of financial instruments. In 2007, the Riksbank took the step of making its own forecast for the policy rate, which it also communicated externally. The inspiration for this was the Reserve Bank of New Zealand, which had already started publishing an interest rate forecast ten years earlier.

The Riksbank's decision to switch to its own interest rate forecast had developed over a long period, as it felt that the disadvantages of other interest rate assumptions had become too great – both in internal forecasting work and in

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<sup>8</sup> N. Dincer, B. Eichengreen and P. Geraats (2022), "Trends in Monetary Policy Transparency: Further Updates", *International Journal of Central Banking*, vol. 18. The data in the article extends until 2019.

<sup>9</sup> P. Meyersson and P. Petrelius Karlberg (2012), "A journey in communication. The case of Sveriges Riksbank". SNS Förlag.

<sup>10</sup> It is worth noting that the Riksbank also seems to communicate more *ex post* analysis of monetary policy than other central banks, i.e. analysis that is relevant in monetary policy evaluations, see Table 1 in N. Dincer, B. Eichengreen and P. Geraats (2022), "Trends in Monetary Policy Transparency: Further Updates", *International Journal of Central Banking*, vol. 18.

communication.<sup>11</sup> Reading the motivations from 2007, the impression is that the publication mostly followed on from the decision to make its own interest rate forecast – since it was made, it seemed natural to also communicate it. Admittedly, there were practical difficulties in **producing** an interest rate forecast and these needed to be addressed. For example, it was discussed whether the Executive Board could agree on a forecast. On the other hand, possible drawbacks of **publishing** the interest rate forecast were quickly dismissed, drawbacks such as that market participants would start to rely too much on the forecast, or that the Riksbank would feel obliged to stick to its interest rate forecast even though it should be changed.

The possibility of influencing expectations of the policy rate was emphasised as an advantage when the Riksbank began to publish its own interest rate forecast, often called the interest rate path. But the Riksbank was clear from the outset that the interest rate path depends on the economic situation and can be changed. “The interest rate path is a forecast, not a promise” was repeated frequently in the press releases, at the press conferences and for a long time also in the introduction to the Monetary Policy Reports. For the Riksbank, the guidance on monetary policy has thus been more about providing information on the Riksbank's assessment and reaction function than actively trying to steer expectations of the interest rate going forward.

### **The minutes of the monetary policy meetings make it clear who in the Executive Board has said what**

In 2007, the Riksbank also made other changes to its communication to increase understanding of monetary policy and facilitate evaluations. One such change was the inclusion of members' names in the minutes of monetary policy meetings. The minutes, which are published shortly after the meetings, therefore show which member of the Executive Board makes which contribution. In this respect, the Riksbank differs from many other central banks. One reason is probably that the composition and working methods of the banks' monetary policy committees differ.

A prerequisite for the work of the Executive Board of the Riksbank is that the members take individual responsibility for monetary policy. This is reflected, among other things, in the fact that we are not expected to agree on our

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<sup>11</sup> For more details on the background and motivations, see M. Apel and A. Vredin (2007), "Monetary-Policy Communication. The Experience of the Swedish Riksbank", *Czech Journal of Economics and Finance*, 57 and E. Bylund, J. Iversen and A. Vredin (2023), "Monetary policy in Sweden after the end of Bretton Woods", *Comparative Economic Studies*, 66. An evaluation of the first ten years with an own interest rate forecast can be found in Sveriges Riksbank (2017), "The Riksbank's experiences of publishing interest rate forecasts", *Riksbank Studies* June.

decisions.<sup>12</sup> Decisions are taken by majority vote, with dissenting members entering reservations, which we communicate with the monetary policy decision. It is important that each member of the Executive Board can explain his or her own views on monetary policy and the basis for them. In the past, this was communicated in speeches, but now the minutes are the main source of such information.

The Riksbank's own research shows that, since we started reporting names in the minutes, members explain their positions in more detail and it is now also more common for them to refer back to their own reasoning.<sup>13</sup> It is, of course, positive in itself that we in the Executive Board think carefully about and prepare our contributions. But one drawback is that there are rarely spontaneous discussions at our monetary policy meetings. Such discussions take place earlier in the preparation process. While this may be perceived as a disadvantage from a transparency perspective, an advantage of this arrangement is that it should increase the conditions for a more consistent and predictable monetary policy.

Another advantage of including the names of the members in the minutes is that it facilitates the internal work of the Executive Board, which is a necessary condition for effective communication of monetary policy in general. When there is an opportunity to nuance positions, it becomes easier for the five of us on the Executive Board to agree on a level for the policy rate, a press release with a monetary policy message and a report with forecasts, including a forecast for the policy rate. As I mentioned, we do not necessarily aim to be unanimous. However, to reach a decision, it can be necessary to compromise on details. This is easier when we can use the minutes to 'ventilate'.<sup>14</sup> They show that there are nuances in the consensus and that we often arrive at a decision from different directions.

## Communication in practice – challenges

Regardless of how central banks communicate, they all face similar challenges in getting their messages across. Today I happen to be speaking to the Swedish Economics Association, an audience we can count as a statistical extremity when it comes to knowledge of and interest in economics and monetary policy. Of

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<sup>12</sup> The Executive Board of the Riksbank is usually described as an individualistic monetary policy committee, as opposed to a collegial committee in which consensus is sought and the members do not openly state dissenting opinions once the decision has been taken. See, for example, A. Blinder (2007), "Monetary policy by committee: Why and how?", *European Journal of Political Economy*, vol 23.

<sup>13</sup> M. Apel, M. Blix Grimaldi, L. Ahrenberg, D. Holmer and A. Jönsson (2025), "The effect of increased transparency on an individualistic monetary policy committee", forthcoming in Sveriges Riksbank Working Paper Series.

<sup>14</sup> See also M. Flodén (2024), "Communicating future monetary policy – reflections after eleven years as a member of the Riksbank's Executive Board", speech 17 April, Sveriges Riksbank.

course, financial market participants are also a group that closely follows monetary policy and is often targeted by central banks.

However, the vast majority of society is not an expert in economics and is unlikely to be interested in following monetary policy communication in detail. And maybe they have no reason to do so. If inflation is low and stable, it may be natural to care less about following monetary policy.<sup>15</sup>

### **Most people take part in central bank communication indirectly via the media**

But while in some ways low interest in central bank communication could be interpreted as a top grade for monetary policy, it poses an even greater challenge in communicating monetary policy and getting the message across. Central banks' communication with the public has come under greater focus in the past decade.<sup>16</sup>

An interesting question is through which channels the public receives information from central banks. Traditional sources such as TV and newspaper articles are still a more common source than social media.<sup>17</sup> Even for groups that may have a greater interest in following monetary policy, such editorial media appear to be an important interface for central banks.<sup>18</sup> But it cannot have escaped anyone's notice that the media landscape is nevertheless changing. This is why central banks also need to constantly consider how best to reach out. The Riksbank has long been present on social media, partly reaching groups that are not as easily reached via traditional media. There is also greater scope for customising communication to the recipients.

Obtaining information directly from the central bank's website is less common, but it does happen to some extent. To take the Riksbank as an example, our website has an average of just over 100,000 page views on the days we publish a new interest rate decision, compared with just over 20,000 page views per day on average over a year. If, in addition to information on the level of the policy rate, you would like more details on the interest rate announcement, you can find

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<sup>15</sup> See for example M. Weber et al. (2025), "Tell Me Something I Don't Already Know: Learning in Low- and High Inflation Settings", *Econometrica*, 93, and C. Sims (2010), "Rational inattention and monetary economics", Chapter 4 in B. Friedman & M. Woodford (eds) *Handbook of Monetary Economics* vol. 3, Elsevier.

<sup>16</sup> For a review of the research, see A. Blinder, M. Ehrmann, J. De Haan and D-J. Jansen (2024), "Central Bank Communication with the General Public: Promise or False Hope?", *Journal of Economic Literature*, 62.

<sup>17</sup> See M. Gardt, S. Angino, S. Mee and G. Glöckler (2021), "ECB communication with the wider public", *ECB Economic Bulletin* 8.

<sup>18</sup> Surveys conducted by the Riksbank show that the editorial media are the main interface that the Riksbank has with financial actors, people in labour market organisations and officials at other authorities.

them in the press release and the report published at the same time. The press release page has an average of around 13,500 views and around 1,400 downloads on the days when an interest rate announcement is published.<sup>19</sup>

But most people receive the Riksbank's message via the media. This stage in the communication between a central bank and the public matters for how the central bank's message reaches the public.<sup>20</sup> To begin with, the extent of media coverage is important, as the greater the coverage, the more likely it is that the message will reach its intended audience. Of course, the extent of media coverage depends on what the central bank actually does. But research shows that the narrative of central bank communication itself also influences the scope.<sup>21</sup> The way central banks express themselves also plays a role in how much of the central bank's wording is reflected in the reporting. This is especially true when the state of the economy is more uncertain.<sup>22</sup>

Once the communication from the central bank reaches the public, the next question is how it is received. Put simply: Do people understand what central banks say? Research shows that this may not always be the case.<sup>23</sup> For one thing, the results show that there is limited knowledge about the tasks of central banks and how monetary policy works. Reasonably, however, the experience of recent years should have raised this knowledge somewhat, so it will be interesting to see what new studies will show. But it is also the case that central banks have historically tailored their communication and language more to experts. However, there have been changes here. The Riksbank launched a plain language project back in 2007 to ensure that our communication is understandable. Like other central banks, the Riksbank has also worked with what the Bank of England calls layered communication, where the same message is formulated and illustrated in different ways for different groups.<sup>24</sup> One example is our short videos summarising the key messages of each interest rate decision.

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<sup>19</sup> More downloads of the reports take place in the days following the rate announcement. These are not total figures.

<sup>20</sup> See, for example, O. Coibion, Y. Gorodnichenko and M. Weber, "Monetary Policy Communications and Their Effects on Household Inflation Expectations", *Journal of Political Economy*, 130.

<sup>21</sup> See for example S. Ter Ellen, V. Larsen and L.A. Torsrud (2022), "Narrative Monetary Policy Surprises and the Media", *Journal of Money, Credit and Banking* 54.

<sup>22</sup> See T. Munday and J. Brookes (2021), "Mark my words: the transmission of central bank communication to the general public via the print media", Staff Working Paper No. 944, Bank of England.

<sup>23</sup> See A. Blinder, M. Ehrmann, J. De Haan and D-J. Jansen (2024), "Central Bank Communication with the General Public: Promise or False Hope?", *Journal of Economic Literature*, 62.

<sup>24</sup> See, for example, A. Haldane (2018), "Climbing the Public Engagement Ladder", speech on 6 March, Bank of England.

### **Communicating uncertainty is a challenge**

One of the major challenges for the communication of monetary policy, whether aimed at experts or not, concerns uncertainty and risk. I'm not just saying that because this has been particularly challenging lately.<sup>25</sup>

Monetary policy operates largely with a time lag and central banks therefore need to base their decisions on forecasts of the economic outlook, forecasts that are inevitably uncertain. As a central bank, one wants to provide information about the forecasts on which the decisions are based and give some kind of guidance on how monetary policy will be conducted. At the same time, you would normally emphasise that these statements are highly uncertain, that unexpected events may occur and that the economic outlook can change in a way that requires monetary policy to take a different path. This part of the communication is difficult to get across.

One reason for this is that we all prefer clear messages to uncertain ones. "What does the weather forecast say – will it rain tomorrow?" Information on the likelihood of rain is often available, but to answer the question, many people are probably content to see whether or not the weather map has a cloud with raindrops. The focus is on averages and modes. The fact that there is a whole distribution of possible outcomes behind these measures is overlooked or completely ignored. But for communication to provide a better understanding of the central bank's assessments and decisions, it is important that the uncertainty in the assessments is highlighted and that households, businesses and market participants understand that it exists. Otherwise, the communication of the economic outlook and forward guidance could be interpreted as more confident statements than the central banks intended.

### **Several examples of the difficulty of providing forward guidance conditional on what is happening in the economy**

Even where central banks have more actively sought to guide interest rate expectations, forward guidance has in principle always contained elements of caveats, emphasising that monetary policy depends on the outlook, which is uncertain and subject to change. In general, guidance has thus been more conditional than unconditional.<sup>26</sup>

There are several examples of the difficulty in getting such reservations across. The Bank of England's 2013 "conditions-based" forward guidance described how

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<sup>25</sup> E. Thedéen (2025), "On risk, uncertainty and geoeconomic fragmentation", speech on 16 May, Sveriges Riksbank.

<sup>26</sup> See, for example, B. Broadbent (2022), "Reliable partners", speech on 30 March, Bank of England.

monetary policy would be conducted until unemployment had fallen below a certain level. This guidance only applied under certain conditions. As David Miles, a member of the Bank of England's Monetary Policy Committee at the time, has noted, the guidance then inevitably became more complex than if they had simply promised to conduct monetary policy in a certain way.<sup>27</sup> But that was how the message was interpreted in many quarters, judging from comments in the media, for example. A similar example is the Reserve Bank of Australia's combination of a conditions and time-based forward guidance in 2020–2021. The Bank noted in an evaluation that while the guidance was conditional, many people did not interpret it as such.<sup>28</sup>

### **It is natural that the Riksbank changes its interest rate forecast**

As I have tried to describe, the Riksbank publishes interest rate forecasts more because we want to be transparent and provide information about how we think and normally act, rather than to make commitments about the interest rate. From this point of view, it is essential to emphasise that the Riksbank is communicating a forecast, not a promise, and that it is natural – in fact quite fundamental – that we change the interest rate forecast.

If the Riksbank makes the right assessment of the economic situation, if key assumptions about the economy hold and if future developments are not affected by new "shocks" – then the interest rate forecast reflects how we would probably conduct monetary policy in the future. But if – or rather when – any of this changes, we will need to change the interest rate forecast so that it once again reflects a well-balanced monetary policy where inflation is lastingly around our target of 2 per cent at the same time as monetary policy contributes to a balanced development of production and employment.

We think that this way of communicating works well in general and several of the fears that existed with publishing an interest rate forecast have not been realised, for example that the Riksbank would feel obliged to follow its interest rate forecast or that market participants would rely on the Riksbank's forecast.

But there are also challenges. One such is that the interest rate forecasts have not been particularly accurate. For example, they systematically overestimated the path of the policy rate over a long period of time, which resulted in some criticism. In some periods, there have also been relatively large differences between the Riksbank's interest rate forecast and how market participants

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<sup>27</sup> D. Miles (2014), "What is the right amount of forward guidance? The experience of the Bank of England with forward guidance", speech on 13 November, Bank of England.

<sup>28</sup> Reserve Bank of Australia (2022), Review of the RBA's Approach to Forward Guidance.

expected the policy rate to develop, particularly in the longer term. Such differences have not been easy for the Riksbank to deal with. Are they due to different perceptions of the economic outlook, or to difficulties in separating risk premiums from expectations? Or do they indicate that market participants do not believe that the interest rate forecast reflects how the Riksbank normally acts?

The Riksbank has drummed home the message that the interest rate forecast should not be interpreted as a promise, and it seems to have got through. But it is still a challenge to get across that the interest rate forecast is part of the communication of a reaction function, i.e. **how** the Riksbank thinks about monetary policy and **how** we normally act. In the media reporting and the debate on monetary policy, the focus is still mostly on **what** we will do at the next monetary policy meeting and **what** the Riksbank's forecast for the interest rate is in the long term.

### **Unusually high degree of uncertainty may mean we need to communicate differently**

As I have mentioned, uncertainty is one of the major challenges for communication, and recently uncertainty has increased significantly. Since the large surge in inflation, there has been fundamental uncertainty about the pricing behaviour of firms and its implications for the inflation propensity of the economy. In addition, uncertainty about the economic outlook has grown in line with risks related to the war in Europe, the conflict in the Middle East, government crises in European countries and uncertainty about economic policy in the United States.

The arguments in favour of transparency are basically the same regardless of the level of uncertainty. It is natural that many people seek guidance from the central bank when uncertainty about developments is particularly high. At the same time, it is likely to make it even more difficult for central banks to reach out with caveats in the guidance. In times of unusually high uncertainty, it may therefore be necessary to adapt the way one communicates. An extreme example of a situation of great uncertainty is when the pandemic paralysed the global economy in spring 2020.<sup>29</sup> The Riksbank then changed the format of its Monetary Policy Report. Instead of one main scenario, two equivalent scenarios were published, based on different assumptions, including the spread of infection. The scenarios also only illustrated developments for a limited number of variables. An interest

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<sup>29</sup> Another example is the global financial crisis of 2008. How the Riksbank then adapted its communication is described in P. Meyerson and A-L. Mikiver (2018), "The Riksbank's communication before, during and after the financial crisis", *Economic Review* 4, Sveriges Riksbank.

rate path was published, but only for developments over the next year instead of the next three.<sup>30</sup>

The recent unusually high level of uncertainty about the economic outlook has left its mark on central bank communications. For instance, several central banks, including the Riksbank, have emphasised more than before that monetary policy will be determined by new information on the economic and inflation outlook. Moreover, some central banks that provided monetary policy guidance during the pandemic and the period of high inflation have basically stopped doing so. For example, communication from the ECB, the Bank of England and the Federal Reserve is less concrete about future monetary policy now than it was before. This is probably explained by the fact that there is a less clear direction for future interest rate decisions when inflation has fallen back towards the inflation targets. In addition, the direction of monetary policy is thus unusually uncertain. This makes it less relevant to use guidance as a tool to manage expectations.

In a world that can change rapidly, it is of course important to constantly review and assess the effectiveness of monetary policy communication – and to be prepared to make changes if this is deemed necessary. The Riksbank has not reduced its guidance on monetary policy in that we have continued to publish interest rate forecasts. However, following discussions within the Executive Board and with Riksbank staff, we have made some changes to address the challenges faced in communication. Let me mention some of the changes we have made recently in terms of how the Riksbank communicates about risks and uncertainty.<sup>31</sup>

## The Riksbank's changes in communication.

One major change we made in 2024 is that we now have eight regular monetary policy meetings a year instead of five. So we followed the most common approach for central banks. Although it is, and has always been, possible to hold extraordinary meetings, more regular meetings allow the Riksbank to adjust monetary policy more quickly. In times of rapid change, it also improves the conditions for effective communication by allowing us to communicate more often a comprehensive view of economic developments.

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<sup>30</sup> Monetary Policy Report, April 2020, Sveriges Riksbank. The format with a main scenario and full projections was back to normal in the subsequent report in July 2020, but then with alternative scenarios to illustrate the high uncertainty surrounding the main scenario.

<sup>31</sup> More details can be found in the article “Changes in the Riksbank's monetary policy communication” in the *Account of Monetary Policy 2024*.

At four of the eight monetary policy meetings, the Riksbank publishes a Monetary Policy Report. At the other meetings, we publish a Monetary Policy Update without any new forecasts. Hence, at every other meeting we do not publish a new inflation or interest rate forecast, but we still need to refer to the previous forecasts. We have therefore adapted to communicating guidance more verbally, for example when we judged in our last decision in May that inflation was slightly more likely to be lower than to be higher than in the March forecast. I think this has worked well, and the communication has been able to handle monetary policy adjustments even without forecasts. Nor have there been abnormally large market reactions on those occasions.

We have also changed the communication around the interest rate forecast to some extent. As I have mentioned, the challenge is to convey a message about monetary policy that also clearly communicates risks and uncertainty. Given the experience of recent years, we recognised that this part of the communication needed to be more nuanced and concrete. In general, uncertainty about interest rate developments is greater further ahead than in the near term. To illustrate this, the Riksbank previously published an uncertainty interval around the interest rate forecast, based on historical forecast errors. But it was difficult to convey via this interval, for example, how uncertainty was linked to the inflation outlook for a specific decision.

We have now made some changes to the Monetary Policy Report to clarify the difference in how the Executive Board views the forecast for the policy rate in the near term, where the information value is quite simply greater, and the longer-term forecast. The first section of the Report presents the considerations that are most important for the current monetary policy decision and focuses on the Executive Board's assessment of the policy rate over the next three quarters. The final chapter of the Report contains a more detailed monetary policy analysis, which also discusses developments over the entire three-year forecast period. It also makes it more clear that there is greater uncertainty about longer-term developments.

Another change the Riksbank has made concerns alternative scenarios. Analysing scenarios has long been a central part of the material for monetary policy decisions, for instance to identify important risks that the Executive Board needs to take into account in its decisions. They can also be an effective tool in external communication to make uncertainty about future monetary policy more concrete.

While this is not a new tool for the Riksbank, we now publish alternative scenarios in every Monetary Policy Report and highlight them more in our communication.<sup>32</sup>

Alternative scenarios illustrate the uncertainty of developments and provide information on the risks that the central bank is focusing on at the time of the decision. But the fact that the future is uncertain is in some sense trivial. I believe that the communication of alternative scenarios is most effective when combined with a forecast for the policy rate, or equivalent guidance on what monetary policy would look like in the alternative scenarios. In this way, the scenarios can make the uncertainty more concrete and also help to provide more information about the central bank's reactions.

## Communicating the purpose of monetary policy remains important

To summarise my discussion today, I have described how the shift towards greater transparency has meant a greater focus on how central banks communicate their monetary policy. I have also discussed challenges that our communication faces in practice and the need to adapt it to the circumstances. Transparency is generally a good thing, but it does not work to merely open all the windows wide and think that is enough. Communication needs to be adapted so that the information and messages are clear and properly understood. Conditions differ from one central bank to the next and can influence the choices made. The Riksbank has chosen to be more transparent in some respects than many other central banks, for example with regard to its own interest rate forecast and the minutes of monetary policy meetings. This is partly due to a generally favourable attitude towards transparency and partly to changes that the Riksbank has made to facilitate its internal work.

Finally, let me end where I started, with the thirtieth anniversary and with Urban Bäckström's speech at the Swedish Economics Association in 1995<sup>33</sup> One of the purposes of Urban's speech was to explain the meaning and interpretation of the inflation target announced by the General Council of the Riksbank. It is interesting to note that the wording of the inflation target has since changed in a couple of respects, partly in response to communication challenges for the Riksbank. For example, the target was originally defined in terms of the CPI, but is now formulated as a target for the CPI with a fixed interest rate, the CPIF. Another

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<sup>32</sup> Since 2007, when the Riksbank began publishing forecasts for the policy rate, the Riksbank has, over time, to varying degrees used alternative scenarios to communicate monetary policy.

<sup>33</sup> The speech was published in the Society's proceedings in *Ekonomisk Debatt* No. 3, 1995 and is available on the Society's website (in Swedish).

example is that there was originally a tolerance band around the target of  $\pm 1$  percentage point, which was removed and then replaced by a variation band.

That said, the 1995 speech feels surprisingly relevant, not least the discussion of the costs of high inflation and the importance of price stability. Inflation targeting was admittedly in its infancy, and it was far from obvious that it would manage to anchor inflation expectations. But Urban said that there was "could be reason for cautious optimism". Three decades later, we can see that the optimism about inflation targeting was justified. But as the rise in inflation in 2021–2022 shows, nothing can be taken for granted. There is every reason for central banks to constantly remind themselves of the purpose and objectives of monetary policy. Research also suggests that such communication from central banks may be the most important.

In that spirit, I will give the last word to Mr Bäckström:

"This is also why central bankers around the world so often say that the best contribution monetary policy can make to high and stable growth is to preserve price stability. It also means that price stability should not be seen as an end in itself but as a means of creating the conditions for stable and favourable long-term economic development."