Clare Lombardelli: Central bank communications and uncertainty

Speech by Ms Clare Lombardelli, Deputy Governor for Monetary Policy of the Bank of England, at the Second Thomas Laubach Research Conference, organised by the Federal Reserve Board, Washington DC, 16 May 2025.

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Thank you for inviting me to speak today.

It seems the Bank of England has become something of a trendsetter by having Ben Bernanke evaluate our monetary policy arrangements. We're incredibly grateful to Ben for the time and thought he put into his advice to us. His insights are proving invaluable in enabling us to change our approach for the better.

The emphasis of Ben's review for the Bank of England was on the Monetary Policy Committee's processes for policy making, our tools and our communications during times of high uncertainty and structural change. So it was not a framework review, like the Federal Reserve is currently undertaking. There's an important reason for that difference – namely that the key elements of the UK institutional framework for monetary policy are set by Government, not by the Bank or its Monetary Policy Committee.

There are a lot of similarities in the themes from Ben's reviews of the Bank of England and the paper he has just presented on proposals to improve the Federal Reserve's communications. In particular, in both reports he notes the unhelpful emphasis on a single, central forecast and the way that current communication frameworks struggle to adequately convey sufficient information about policy strategy, especially under conditions of uncertainty.

For the Federal Reserve he goes into further detail and makes practical proposals on some key areas we are also reflecting on and may change in our practice. Particularly: what is an input to policy making and what is an output; the respective roles of staff and policymakers in forecasts, scenarios and other judgements; and what policy paths to use in published analytical material. These issues are important. Different central banks handle them differently reflecting differences in institutional set-up and the pros and cons of different approaches. There is no 'correct answer' on the specifics, but as Ben's two reviews show, there are some common themes that point towards good practice.

The Bank of England approaches Ben's conclusion that it is useful to use a baseline forecast and scenarios from a different place to the Federal Reserve. We heavily anchor our analytical processes and communications of the policy decision around our central forecast.

So it is quite a philosophical change as we move to explicitly focus less on a central forecast, and instead consider a wider range of scenarios for both policymaking and communications.

Our forecast-based approach to communication has risked the impression that monetary policymakers at the Bank of England put more weight on a single view of the outlook, or that we have more certainty, than we actually do. In reality, our policy discussion is more comprehensive, more lively and exposes a wider range of views, as our published one-member, one-vote structure makes transparent.

Of course we have always discussed uncertainty and risks in our communication products. And we have long used fan charts to show uncertainty around inflation and output. Fan charts have their advocates and are a powerful visual representation of uncertainty. But they have limitations, including in enabling people to understand *how* and *why* the economy may be different to a baseline forecast.

Scenarios can play a valuable role in both policymaking and communication.

For monetary policymakers, scenarios can help to shed light on economic forces that might shape the macroeconomic outlook. They are quantitative exercises, if inevitably highly stylised. The quantification helps policymakers understand the extent to which certain economic shocks and mechanisms may or may not have material effects on the outlook. It also helps them explore possible trade-offs between stabilising inflation and mitigating output volatility and the possible policy responses.

The process of producing scenarios also helps staff to learn more about the reliability and robustness of those scenarios: for example, how reliant they are on assumptions about parameters or mechanisms that we have relatively little information or evidence on. This is also useful information for policymakers. Overall, while scenarios provide valuable quantitative results, the main lessons for monetary policymakers will often be directional and qualitative.

One of the most useful elements of the policy process at the Bank of England is the internal discussion among MPC members and with the staff, which explores what are the most important questions shaping our respective policy views and how we can learn from each other. That discussion shapes policymakers' views and our votes. In this context, forecasts and scenarios are most useful when they bring issues to life, facilitating that conversation and allowing each of us to learn from others' perspectives.

The discussions of policy strategy and tools yesterday demonstrated how scenarios can also help us think about policy 'robustness'. For example, Silvana Tenreyro talked about the value of considering different scenarios when considering guidance, including conditional guidance on balance sheet tools – they enable policymakers to think practically about how that guidance would stand up in different circumstances.

In his opening remarks at this conference Chair Powell talked of the need for clear communications and also the need to convey the uncertainty that surrounds our understanding of the economic outlook.

In this context, the potential benefits of scenarios are obvious. They provide clear narratives or stories that bring to life not only how the economy may evolve differently but also the economic forces that could be driving those differences. They can highlight the features policymakers are most focussed on and how they would react if the economy evolved in that way. They can also speak to a wider audience than fan charts and similar tools, which can be quite specialist and technical.

Ben's paper on Federal Reserve communications also draws out how scenarios can help overcome a frequent challenge for policy communications. By underscoring how the future path of policy is conditional. The publication of selected alternative scenarios makes explicit how policy will depend on the evolution of the economy. By giving a concrete example, it brings that point to life.

In communicating monetary policy to observers, we aim to give clear and simple messages. But the credibility of, and trust in, central banks will be enhanced if we acknowledge the genuine uncertainty that policymakers need to confront. It does not inspire confidence or support credibility to ignore it. Scenarios can help communicate that uncertainty and the factors that policymakers may need to react to if uncertainties crystalise. We need to do that in a way that does not overload people and guides observers to what policymakers judge is most important.

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 is a broad framework to guide policy and what people should expect from policy, thereby anchoring inflation expectations as Carl Walsh emphasised yesterday.

If the Federal Reserve were to move towards an economic review-type product, as Ben suggests, it would need to answer the question of whose report it is, or who is the 'owner' of its components. In the UK, our historical approach has been to publish a forecast that represents the best collective judgement of the Monetary Policy Committee.

In part that is because, in our framework, the Committee is required to set out our view of the outlook. Rightly so given the importance of transparency and accountability. One practical difference with the FOMC is that we have a smaller committee of nine people, geographically located together. This makes it easier to support a very interactive process.

However, our historical approach to producing a best collective judgement forecast potentially created pressures to compress the Committee's views and judgements through a single funnel. So we are going to move away from that to a forecast based on an initial staff proposal, that a majority of the Committee agree is a reasonable basis for discussions. This approach shares some similarities with the Riksbank and Norges Bank, perhaps unsurprisingly given that our institutional structures share some similarities.

In moving away from a best collective judgement forecast, we are recognising there is no single view of the central outlook across the Committee and creating more space for individual policymakers to debate different views before finalising their policy judgements. This will allow us to better harness the deep expertise within the Committee, which has broad diversity of views and experience built in. At the same time it will liberate the Committee from the fine details of the forecast and enable more focus on policy strategy.

At the Bank of England, we are excited about the benefits that these changes can bring. But we realise that we are on a journey and so conscious that there is a huge amount to learn. That is why events like this, which offer the opportunity to learn from others travelling similar journeys, are so valuable. With that in mind, let me thank the organisers of this conference for putting together such a thought-provoking event. From a Federal Reserve perspective, it may be targeted at your framework review, but I can assure you that it is enormously useful for the wider central banking community.