
Communication of Forecasts and Board Decisions

CNB's practice and experience

Tomáš Holub

CNB Board Member

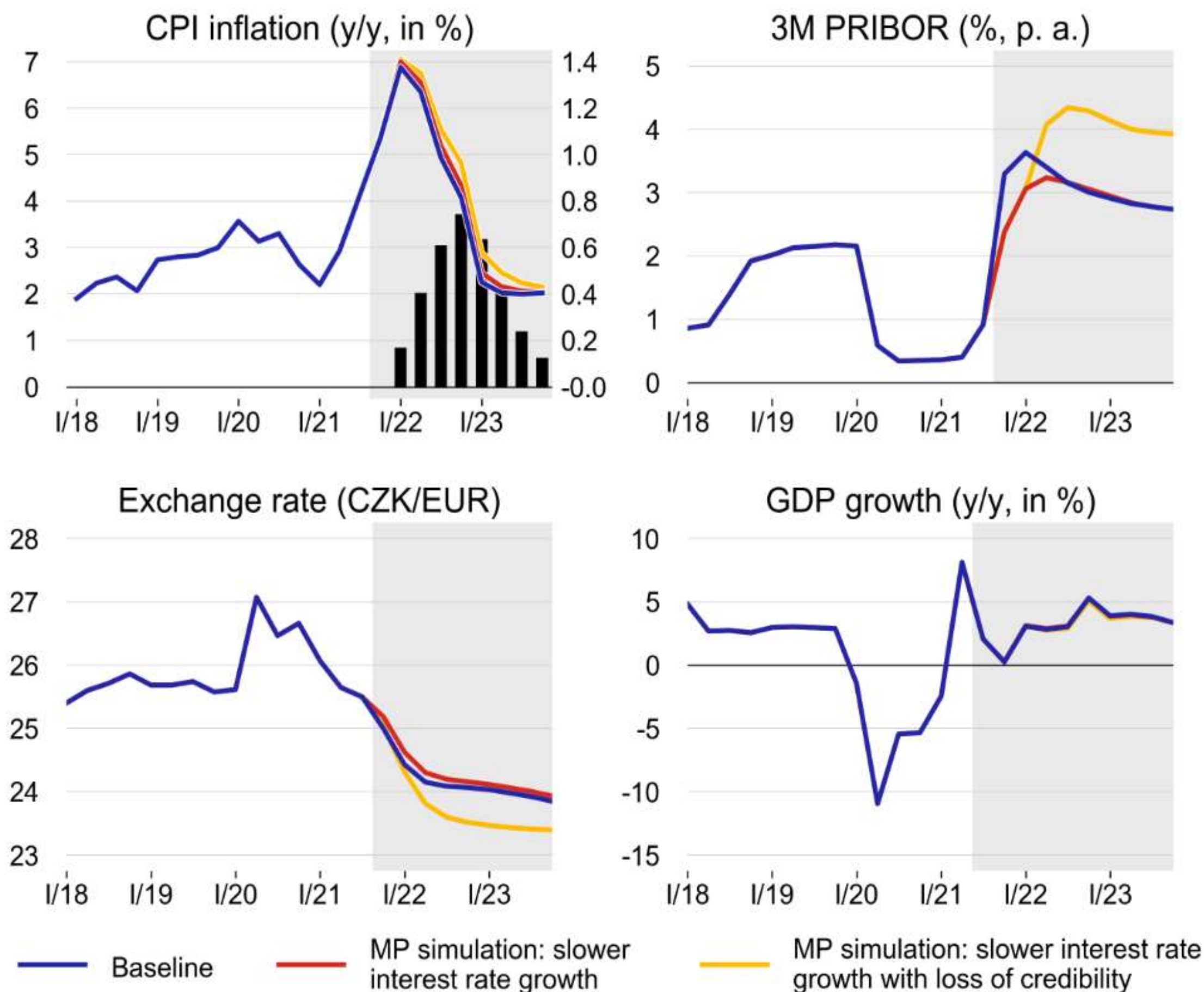
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Scenarios in CNB's monetary policy communication

Autumn 2021 forecast – baseline and monetary policy experiments



- **Baseline** as the cornerstone of the decision making process and communication.
- **Alternatives/sensitivity analyses** published, evaluating implications of risks. They play an important role especially if risks are assessed as skewed to one side and reflected by the Board in decision making.
- **Monetary policy “experiments”** are used for evaluating trade-offs of possible policy deviations from the baseline.
- Baseline compiled as a **staff forecast** while **alternatives** and **MP experiments** describe mainly the Board’s views.

CNB's practical experience

I. Rising role of scenarios given more uncertainty and prudential approach to MP.

- Greater risks and uncertainty alter the optimal policy response and call for macro-prudential approach to monetary policy, i.e. “avoiding dark corners” (the worst-case scenarios).

II. However, the key role of the baseline is still present.

- The “production process” is based on preparing a fine-tuned baseline first.
- Publishing scenarios mapping a very wide perimeter of policy discussions is not necessarily well received by the market.
- Frequent question: Which scenario is used for “your” decision? What is “your baseline”?

III. Having the baseline as a staff projection helps maintain institutional intelligence and mitigate time inconsistency.

- Having policy or risk scenarios only poses a risk of time inconsistency – switching among scenarios.
- We need to preserve a fine balance between constraints and discretion.

Thank you for your attention

Tomáš Holub

CNB Board Member

tomas.holub@cnb.cz

