



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

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What is the right amount of guidance? The experience of the Bank of England with forward guidance

At a speech to De Nederlandsche Bank's Annual Research Conference on 13 November 2014, external Monetary Policy Committee member Professor David Miles asked what sort of guidance on future monetary policy by central banks is most useful. Drawing on analysis he presented recently at a speech at the London School of Economics on 30 September 2014, he argued that there were few situations where a central bank should commit to a specific future path for policy. Given this, it was important that any guidance should not be construed as a promise to follow a particular path for interest rates.

Nonetheless, giving some assessment of the broad likelihood of interest rates following different paths is likely to be helpful, particularly in situations in which past action and communication is not enough to describe new trade-offs in an unusual environment. But he argued that it was far from clear that making an explicit estimate of the probabilities of interest rates following particular paths was really helpful. It risks giving a false sense of precision as estimating probabilities is deeply problematic.

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