

TERMS OF REFERENCE FOR THE REVIEW INTO BANK'S FORECASTING AND RELATED PROCESSES DURING TIMES OF SIGNIFICANT UNCERTAINTY

In the years following the introduction of inflation targeting in the United Kingdom, the economy was largely subject to shocks that the monetary policy framework was well set-up to manage. Over the following years, however, the shocks have been of a different nature, and their impact has been more uncertain. Most recently, the UK has faced a complex constellation of shocks – including a series of substantial supply shocks – that have led to a sharp rise in inflation.

At its May 2023 Meeting, the Bank of England's Court of Directors commissioned a review into the Bank's forecasting and related processes during times of significant uncertainty.

The purpose of this review is to develop and strengthen the Bank's processes in support of the Monetary Policy Committee's forward-looking approach to the formulation of monetary policy, especially in times of high uncertainty.

The focus of the review should also be forward looking – rather than an ex-post review of policy decisions – but that view can be informed by taking lessons from past experiences and from the experiences of other central banks.

As part of that, the review should consider the appropriate approach to forecasting and analysis in support of decision-making and communications in times of high uncertainty from big shocks and structural change focussing on:

- staff processes and analysis supporting the MPC's policy deliberations;
- the analytical framework for taking account of significant shocks and shifts on the supply as well as the demand side of the economy;
- the role of the forecast in the MPC's policy decisions and communications, including the roles of the MPC and the staff in the development of the official forecast;
- the appropriate conditioning assumptions in projections, including the interest rate path on which the forecast is based;
- material provided to the MPC to assist the discussion and communication of the outlook and the risks around that.