



IMF

NOTES

Current Issues in Forward Guidance

Tobias Adrian

NOTE/2026/008

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Tobias Adrian¹

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ABSTRACT: Forward guidance, or forward-looking monetary policy, is an essential part of policymakers' toolkits, yet there is a need to carefully define its scope. Two forms of such guidance exist with a clear distinction between them: first, explicit commitments about the future path of the monetary policy stance, and second, communication about forecasts and the monetary authority's reaction function. Commitments to future rate paths designed for effective lower bound conditions can become costly in an environment marred by supply shocks, as seen during the postpandemic inflation period. It follows that communication about the future path of policy rates should be state dependent and embedded in frameworks organized around clear objectives and risks. More specifically, grounding communication on specific scenarios can help convey how a particular policy mix would adjust as a result of varying combinations of inflation outcomes, demand shortfalls, and indicators of financial stress. Therefore, it is possible to preserve monetary transmission, anchor expectations, and bolster accountability without creating artificially compressed market volatility or unnecessary constraints on future policy. Communicating risks adequately and clearly is key to preserving proper risk-taking incentives of financial institutions. The goal is not to eliminate volatility, but to improve the quality of volatility. Volatility driven by macroeconomic data supports price discovery and market discipline. Volatility driven by changing perceptions of policy intentions can, by contrast, be less informative and more disruptive. Communications should not focus on providing complete certainty about the future policy path; rather, their goal is to stabilize the public's understanding of the central bank's reaction function and to communicate the relevant level of economic uncertainty. A broader principle is at work here: monetary authorities should organize their communication around their policy frameworks, rather than a single unconditional path for future rates.

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Tobias Adrian

August 2026

Forward guidance, or forward-looking monetary policy, is an essential part of policymakers' toolkits, yet there is a need to carefully define its scope. Two forms of such guidance exist with a clear distinction between them: first, explicit commitments about the future path of the monetary policy stance, and second, communication about forecasts and the monetary authority's reaction function. Commitments to future rate paths designed for effective lower bound conditions can become costly in an environment marred by supply shocks, as seen during the postpandemic inflation period. It follows that communication about the future path of policy rates should be state dependent and embedded in frameworks organized around clear objectives and risks. More specifically, grounding communication on specific scenarios can help convey how a particular policy mix would adjust as a result of varying combinations of inflation outcomes, demand shortfalls, and indicators of financial stress. Therefore, it is possible to preserve monetary transmission, anchor expectations, and bolster accountability without creating artificially compressed market volatility or unnecessary constraints on future policy. Communicating risks adequately and clearly is key to preserving proper risk-taking incentives of financial institutions. The goal is not to eliminate volatility, but to improve the quality of volatility. Volatility driven by macroeconomic data supports price discovery and market discipline. Volatility driven by changing perceptions of policy intentions can, by contrast, be less informative and more disruptive. Communications should not focus on providing complete certainty about the future policy path; rather, their goal is to stabilize the public's understanding of the central bank's reaction function and to communicate the relevant level of economic uncertainty. A broader principle is at work here: monetary authorities should organize their communication around their policy frameworks, rather than a single unconditional path for future rates.

Introduction

The period after the global financial crisis saw a rise in the prominence of forward-looking monetary policy, better known as forward guidance. In an environment where short-term interest rates are constrained by the effective lower bound, central banks sought to provide additional policy space for monetary accommodation by guiding the public's expectations of future policy rates. The underlying interpretation is that if households, firms, and investors expected policy rates to remain "low for longer," longer-term yields were likely to decline, leading to an easing in financial conditions and an uptick in demand. Justified by a macroeconomic environment of subdued demand and inflation, this form of guidance has become associated with asset purchases and other unconventional monetary policy measures.

However, the postpandemic inflationary surge significantly altered the terms of this debate. Earlier types of commitments, designed for a demand-deficient environment, appeared less suited to an environment of large supply shocks and rapidly rising prices. As a result, monetary policy shifted toward a tightening stance. Forward guidance, originally meant to reinforce accommodation, now risked delaying adjustment, confusing the public or creating the perception that policymakers were tied to outdated assessments of the outlook. Many central banks deliberately moved away from explicit forward guidance toward data dependence, aimed at a broader reassessment of how policy should be communicated in an environment of heightened uncertainty (particularly with the potential for rapidly evolving risks). Monetary policy, in this regard, should remain consistent with price stability while preserving the effectiveness of its own transmission channels.

The standard definition of forward guidance is communication about the likely future path of the policy rate (Woodford 2007; Svensson 2014). In practice, however, the term is often used more broadly to encompass communication about a monetary authority's reaction function, the publication of forecasts and scenarios, and explanations of the interactions between monetary measures and financial system stability. This broader usage risks making the current debate more imprecise. Forward guidance may refer to three distinct concepts: an explicit commitment about the future path of policy rates, communication about the variables and judgments policymakers use to decide their responses to changing economic conditions, or the publication of central bank forecasts. Though related, these are not necessarily equivalent concepts. Therefore, this Note opts for a narrower definition: forward guidance as communication about the future path of the policy rate. Communication about forecasts, scenarios, and the reaction function are essential elements of the broader monetary and financial policy framework. This Note reviews how the meaning and use of the notion of forward guidance have changed over time, identifying key conceptual distinctions that can often become blurred in current debates, and the Note draws implications for both surveillance and policy advice. However, it is worth pointing out that it deliberately avoids proposing a single template for central bank communication, and it also avoids prescribing a uniform approach across institutional frameworks. The actual applications are country-specific as appropriate design of forward-looking communication is influenced by mandates and financial market specificities.

The key distinction is between commitment-based forward guidance and communication that explains the monetary authority's framework without any explicit commitments. The former can be a useful unconventional tool when nominal rates are constrained by the effective lower bound. In these circumstances, central banks can expand accommodation by signaling that rates will remain "lower for longer" than would otherwise be expected by the public. By contrast, communication about the policy framework focuses on explaining objectives, risks, and the reaction function.

In practice, policymakers are concerned not only about when forward guidance can help deliver the central bank's mandate but also about when it may create unnecessary constraints. In normal times, the main value of communication is not to commit to a particular future rate path, but to make policy more predictable by helping the public understand how the central bank would respond to the outlook.

In this context, a narrower view of forward guidance emerges in tandem with a broader view of communication. Monetary authorities should not refrain from communicating with the public when uncertainty is high. However,

authorities should certainly avoid unnecessary precision about the future path of their instruments if shocks are leading to rapid changes in the macroeconomic environment. The goal is to communicate clearly within a robust framework while remaining conditional on the current and expected state of the economy.

Three Concepts Related to Forward Guidance

The main argument presented in this Note is that a narrower definition of forward guidance (that is, communication about the future path of policy rates) is likely to be most useful for policy discussions. There are, in principle, at least three separate interpretations of the term.

First, “forward guidance” can mean a commitment about the future path of the policy rate. This interpretation is the one that is actively debated; it includes calendar-based statements and threshold-based and state-contingent commitments. Here, the economic goal is to influence expectations about future short-term rates, thereby acting on current financial conditions. Such commitments were made in the context of the effective lower bound, within a strategy meant to intentionally provide for some overheating of the economy (and an associated overshoot of inflation), which, in turn, would reduce the risks of further declines in inflation expectations into liquidity trap territory. However, the issue is that this strategy carries nontrivial risks: it is most powerful when it deliberately departs from what the public would otherwise expect monetary authorities to do.

Second, “forward guidance” can also be taken to mean communication about a monetary authority’s own reaction function. Although central banks operate based on data, they still need to explain which data matter, specifically, and how such data affect their policy decisions. Multiple variables can become part of policy deliberations, ranging from inflation expectations to underlying inflation to credit conditions to real activity. Monetary authorities must also explain how their price stability mandate is being balanced against the trade-off between inflation and output—especially under dual-mandate contexts. These reaction functions rarely imply a straightforward formula, as central banks tend to avoid mechanical rules. Judgment remains indispensable. Yet qualitative reaction function communication is foundational for these institutions’ credibility and accountability (Blinder and others 2008).

Finally, “forward guidance” can refer to publication of the economic outlook. Projections for inflation, output, unemployment, and other variables are routinely published under specified assumptions about future conditions (including policy conditions, energy prices, and exchange rates). Some central banks publish staff forecasts, others publish policymaker forecasts, and others publish specific information about the future path of policy rates. Such rate forecasts can be useful if they reveal how the central bank’s reaction function maps the outlook into the policy stance, particularly when supported by quantitative analysis calibrated to idiosyncratic country characteristics. As a result, “forward guidance” can imply communicating nominal rates in the form of a state-contingent forecast, supported by incoming data, without making outright commitments. It is when forecast communication is interpreted as deliberate promises on the part of policymakers, rather than as conditional assessments, that confusion can arise.

Distinguishing between these three concepts is particularly important insofar as policy takeaways differ between them. Explicit commitments about the future path of nominal rates should be used sparingly. Reaction function communication, on the other hand, should be strengthened, albeit with a certain degree of humility regarding model uncertainty and forecast errors: forecast communication should be transparent about the central bank's assumptions and risks, particularly when the baseline is fragile. The present controversy largely reflects disagreements about when, and if, central banks should abandon the first concept alone, or whether they should also move away from the second and third concepts.

In practice, of course, monetary policy is rarely so clear, and the boundaries between these three concepts are often blurry. Forward guidance by inflation targeting central banks is often state contingent. Therefore, it may be better to conceptualize data dependence, reaction function communication, and path commitments as points on a continuum of commitment specificity.

Rate Path Commitments

At the effective lower bound, forward guidance can become an additional policy instrument available to monetary authorities, as emphasized in the monetary economics literature (Eggertsson and Woodford 2003; Woodford 2003). When the central bank signals credibly that rates will remain “lower for longer” than implied by past behavior, expected short-term rates, together with term premiums, decline, leading to an easing in financial conditions. Such guidance can, in theory, stimulate the present demand by raising the expected future income and inflation (which may help explain why forward guidance became central after the global financial crisis, and again during the pandemic). Box 1 illustrates the distinction between explaining the outlook and making a commitment.

Box 1 Explaining the Outlook versus Making a Commitment

A central issue in forward guidance is whether the central bank conveys information or makes a commitment, a distinction that is referred to as Delphic and Odyssean guidance (Campbell and others 2012, 2017). While Delphic guidance explains the central bank's assessment of the economy and the likely policy path conditional on that assessment, Odyssean guidance seeks to tie the central bank to future policy that might not otherwise be expected. These forms of forward guidance have different benefits and risks. Delphic guidance can reduce uncertainty and improve the understanding of the outlook, but it can also be interpreted as revealing private information about weak demand or subdued inflation. Odyssean guidance can be more powerful at the effective lower bound because it changes expected future policy. However, if inflation risks rise or the economy strengthens faster than expected, the central bank may face a choice between honoring the commitment and meeting its price stability objective. Therefore, the postpandemic lesson is that central banks should use conditional language and escape clauses.

Source: Author.

However, the same mechanism creates risks. A commitment to keeping rates low is only valuable insofar as the public is persuaded that it will constrain future behavior. Such constraints may indeed be desirable when a central bank needs to strengthen its credibility with respect to inflation that is too low (committing to allow inflation to modestly overshoot its target can, in principle, lower real interest rates and hasten the recovery). Commitment to low rates can also become inconsistent with price stability if inflation risks shift markedly upward, such as during an adverse supply shock. Central banks must then either abandon the guidance, damaging their credibility, or follow it for too long, damaging their inflation objective.

One may consider the postpandemic period as an illustrative example of this tension. As inflation rose and persisted, it became increasingly clear that guidance that had been built around assumptions of low inflation (and perceived slack in the economy) had become ill-suited to the new macroeconomic environment—which called for a different policy posture (Gopinath 2023). In such situations, a robust framework would make clear that these commitments are meant to be exceptional, contingent on ongoing conditions, and subordinate to the central bank's price stability mandate. It is essential that conditionality is included to provide monetary authorities with an escape clause should the outlook change abruptly. Box 2 provides a review of the postpandemic experience with forward guidance.

Box 2 Postpandemic Forward Rate Guidance

The postpandemic inflation episode is often cited as evidence against forward guidance. Forecasting failure may have led policymakers to underestimate inflationary pressures. There may have been a policy failure because central banks may have reacted too slowly after the outlook changed. In addition, earlier commitment based forward guidance may have constrained tightening once adverse supply shocks hit. The episode underlines that guidance designed for a low-inflation environment can become unsuitable when the shocks change in a persistent fashion. For example, the Reserve Bank of Australia's (2022) review found that forward guidance helped lower funding costs near the effective lower bound. However, time-based language shaped expectations formation and was understood by the public as a promise, creating credibility costs when the policy rate rose.

Source: Author.

New Keynesian models generate very large effects from promises about policy rates (Eggertsson and Woodford 2003). The quantitative implications of expected future short rates on activity can be implausibly large in such models, as argued by Del Negro, and others (2023). The response of current activity to far-in-the-future interest rates may thus be weaker in practice than in theory. This is an additional reason for communication to be conditional and feature data dependence.

The narrower definition of forward guidance still allows central banks to communicate conditionally about the likely direction of policy. Forward guidance—in this narrow sense—should be state dependent and subordinate to the mandate, but broader communication about reaction function remains essential as long as it is conditional, disciplined, and uncertainty aware. Risks should be clearly spelled out. Central banks may still seek

to influence the yield curve, but communication should emphasize the contingencies under which the path would change rather than a promise to deliver it. Scenario-based communication can be helpful in this respect.

For example, in the case of the Federal Reserve, recent communication has placed more weight on the incoming data, the evolving outlook, and the balance of risks so as to avoid excessive rate path signaling. At the same time, reaction function communication can remain useful when it is conditional, disciplined, and uncertainty aware—risks must be clearly spelled out.

The Reaction Function and Data Dependence

“Data dependence” is often taken to mean the opposite of “forward guidance.” However, that can be misleading, because data dependence without a clearly conveyed reaction function is opaque, in the sense that it can easily come across as policy discretion without structure. In order for data dependence to be effective, authorities must carefully convey which data matter, and how they affect their balance of risks, to help the public understand the conditional logic that links new data to the policymaker’s decisions.

This is especially important because different types of shocks will propagate through the economy by means of different channels, which, in turn, will lead to very different macroeconomic outcomes. Three examples help illustrate the point: first, a rise in energy prices resulting from a supply shock, which can have a direct impact on inflation expectations, wages, and pricing behavior. In this situation, if second-round effects emerge, monetary policy might choose to lean against persistence, in spite of the ongoing effects on output. Next are demand shocks, which pose potentially large implications for the inflation-output trade-off. Finally, financial shocks introduce a third category of considerations, given their unique effects on credit conditions and risk premiums, which can alter or impair the transmission channel—authorities may find that a given level of the policy rate has suddenly become more restrictive. In all these cases, conditional communication can aid the public’s understanding of the central bank’s state-dependent behavior, clarifying how the interplay between shocks, transmission channels, and risks can determine policy decisions. The goal is for the central bank to explain how its desired policy stance will change if the state of the world changes. This is what distinguishes reaction function communication from guidance based on explicit commitments.

Various central banks have recently moved in this direction. The European Central Bank has emphasized a qualitative reaction function organized around its outlook for inflation and the perceived strength of the monetary transmission channel (Lane 2021; Lagarde 2025). Authorities avoid pursuing an explicit mechanical rule, but are nevertheless able to provide the public with a framework for interpreting its decisions. This ties back to the three-pillar framework introduced earlier, where communication is organized according to different data realizations. Should the inflation outlook remain above target and underlying inflation persistent, the framework points to maintaining or increasing restrictiveness. By contrast, if inflation decreases but the underlying price or wage dynamics look firm, the central bank can convey reasons why policy may need to remain restrictive. When inflation is declining toward target and transmission is weighing on demand, the same framework would justify a more cautious recalibration of the monetary stance. In each of these cases, it is the central bank that provides structure and predictability, by explaining how relevant indicators relate to the balance of risks; the reaction

function does not become a mechanical rule or an unconditional commitment to a given path of future nominal rates.

The approach is not without its challenges, however. In particular, greater transparency can increase complexity when policy is made in an environment of higher uncertainty (Lane 2024; Lombardelli 2025). The more a central bank explains its reaction function to the public, the more it must get into the technical details—discussions involving wage dynamics, financial conditions, underlying inflation, and the role of expectations. Moreover, although this detailed focus can indeed improve the ability of market specialists to interpret policy decisions, it can also make it harder for authorities to get their point across to the general public. The problem is further amplified if members of the monetary policy committee are emphasizing different risks, or considering different possible paths for the monetary stance. These differences, while analytically legitimate, can be interpreted as conflicting signals (rather than conditional assessments) if they are not organized around a common framework.

These challenges are compounded in situations where policymakers are uncertain not only about the outlook, but also about the nature of the shocks facing the economy. Early on, it may well be unclear if inflation is being driven by supply constraints, shifts in inflation expectations, changes in markups, or wage dynamics. It may be equally unclear whether shocks are likely to be transitory or long-lasting. In these cases, observed indicators can be informative about inflation outcomes, but less so about the right policy response. An increase in headline inflation, for instance, could call for a very different policy communication depending on the nature of shocks. For example, it could reflect a fading relative price shock, a supply shock that is feeding into inflation expectations, or an amplifying demand shock. Therefore, communications about the monetary authority's reaction function should avoid suggesting that certain data will mechanically determine policy. Instead, the focus should be on the diagnostic questions being asked by policymakers, what evidence would distinguish competing interpretations, and the contingencies that would follow from those interpretations. Ultimately, policy depends both on what indicators show and on what kind of shock these indicators reveal.

Forecasts and Scenarios

Forward-looking monetary policy relies heavily on forecasts to anchor macroeconomic variables around its price stability objective. Since policy affects inflation and activity with varying lags, the process of expectations formation lies at the core of inflation targeting. Central banks set the monetary stance by considering the current inflation together with a view of where prices are likely to be over the horizon of interest. This implies that flexible inflation targeting is forecast-based: the target provides the economy with a nominal anchor, and the forecast conveys if policy is sufficiently restrictive or accommodative to lead actual inflation to the said target.

There is a substantive literature on the role of forecasts for inflation targeting. Svensson and Woodford (2003) show that forecast targeting ties together policy instruments, inflation objectives, and stabilization goals. In a similar vein, Woodford (2007) highlights that forecast targeting can help reconcile rules and discretion, since central banks are placed in a position to justify the current policy by referencing a coherent projected path for inflation and economic activity. Adrian (2018) argues that if the central bank can successfully explain to the

public how it will adjust policy as conditions evolve to bring inflation back to target, the nominal anchor is strengthened as a result (see also Casiraghi and Perez 2022 for an overview).

Note, again, that forecasts do not imply a promise. They are a conditional analysis of underlying macroeconomic conditions, under a specific set of assumptions about future shocks and the path of relevant macroeconomic variables. Forecast errors, in turn, are not policy reversals, but authorities' own updates to new and evolving information. As a result, explaining the outlook when facing an uncertain environment is likely to strengthen the economy's nominal anchor. Authorities should strive to communicate forecasts transparently, thereby emphasizing that they are conditional and highlighting the risks around their baseline.

Therefore, policy-rate forecasts can play a constructive role in central bank communications about the underlying reaction function. Their level of detail will likely vary across monetary institutions, and should be designed to match the capacity and institutional design of the central bank. Forecasts should include caveats about uncertainty in the underlying economic evolution and the possibility of rapid revisions as new data are made available.

Scenarios play a complementary role to forecasts, especially in environments of high uncertainty. Instead of presenting a single central path as the sole guide for future actions, scenarios convey how the economy (and the monetary stance) may evolve under different realizations of possible shocks.

The key goal for scenario communication is to share views about risks going forward, and how policy may react to such risks. This is an essential element for proper risk-taking incentives of financial institutions.

Scenarios could include the possibility of higher-than-expected inflation, shortfalls in aggregate demand, tighter financial conditions, and increases in commodity prices. Scenarios make risk management more explicit and make it less likely that the baseline projection might be misunderstood by the public as a commitment by the central bank to future policy actions. This is also the central message of Bernanke's review of forecasting at the Bank of England. Forecast processes should better support policy decisions and communication in periods of high uncertainty by helping policymakers identify, quantify, and explain risks around the outlook (Bernanke 2024).

Too many scenarios can be overwhelming. Scenarios that are poorly designed could be misinterpreted. Monetary policy committee members may attach different probabilities to alternative scenarios or emphasize different risks around the baseline. Scenarios should be presented as tools for reasoning about contingencies, not as commitments or competing policy preferences. Box 3 discusses the policy case for scenarios and communication about uncertainty.

Box 3 Scenarios, Uncertainty, and Communication

Interest in scenario-based communications has increased markedly in recent years (Lane 2024; Bank for International Settlements 2025; Lombardelli 2025; Bell and others 2026). Scenarios allow central banks to explain how policy would respond if the economy evolved differently than outlined in the baseline forecast. Scenarios thus provide the public with an understanding of the type of contingencies that could lead to policy changes in the future. Scenario communication is especially important when uncertainty is skewed or nonlinear (Adrian and others 2026). While a baseline forecast may show inflation returning to target even when risks are asymmetric, alternative scenarios can illustrate the nature of risks, and the reaction function, across alternative assumptions about future shocks and across alternative policy transmission mechanism. To avoid excessive complexity, a possible approach is to limit the number of scenarios and to explain the reaction function linking each scenario to policy.

Source: Author.

Risk Management

Inflation targeting combines a clear nominal anchor with a recognition of the trade-offs between inflation, economic activity, and financial stability. The framework requires authorities to explain the way in which inflation will return to target, and why temporary deviations can at times be tolerated. Communication focuses on the underlying reaction function of the central bank and the balance of risks.

Risk management provides an organizing principle for this communication. When authorities are operating in more or less standard macroeconomic environments, the Brainard (1967) principle applies: it is reasonable to change policy gradually when the state of the economy (or the strength of the transmission mechanism, for that matter) is more uncertain. However, uncertainty does not always call for gradualism. In situations of severe financial stress, uncertainty may instead justify decisive rate easing—in the form of balance sheet interventions or liquidity provision—to address market dysfunctions with the potential of becoming self-reinforcing.

Scenario-based communication can help central banks achieve the desired clarity. The key is to avoid presenting one single path as the sole relevant guide for the public; scenarios can show how the policy mix would adjust under alternative contingencies. Once the public comes to understand the contingencies conveyed by monetary authorities, future revisions to guidance are, in turn, also understood as a disciplined update. The proper communication of risks is key to preserve financial institutions' incentives for risk-taking. Unduly compressing market volatility can potentially fuel excessive risk-taking, a theme that is discussed next.

Communication and Market Volatility

Monetary policy communication requires the judicious balancing of providing transparency to anchor expectations without impairing markets' informational role. Although timely, clear communications are helpful for households and firms to understand monetary authorities' goals, excessively detailed guidance (whether through forecasts or frequent public remarks) can lead markets to dedicate increased efforts to decoding the

central bank's perceived "signals," distracting them away from independent assessments of the economy's fundamentals. As emphasized by Stein (2014), communication is a strategic interaction between policymakers and markets, and there is a risk that excessively elaborate communication could make market prices less informative, even to policymakers themselves, which, in turn, would weaken an essential input for monetary policy.

The same trade-off extends also to cases of market volatility. Adrian and Shin (2008) argue that forward guidance risks compressing market volatility. Such a compression of market volatility can, in turn, fuel risk-taking by financial institutions, particularly nonbank financial intermediaries. Such risk-taking, in turn, can feed back into the market pricing of volatility and the level of interest rates, potentially increasing system-wide risk through a feedback loop. The impact of forward guidance on market risk should be carefully calibrated in the monetary policy communication strategy, and scenario communication can help preserve risk-taking incentives.

Although more extensive communications can reduce the volatility surrounding monetary policy meetings (by limiting surprises), they can also increase markets' sensitivity to the central bank's language. As argued by Stein and Sunderam (2015), attempts to avoid market volatility can lead to overly gradual policy adjustments.

The goal is not to eliminate volatility. Volatility driven by macroeconomic data supports price discovery and market discipline. Volatility driven by changing perceptions of policy intentions can, by contrast, be less informative and more disruptive. Communications should not focus on providing complete certainty about the future policy path; rather, their goal is to stabilize the public's understanding of the central bank's reaction function and to communicate the relevant level of economic uncertainty.

A broader principle is at work here: monetary authorities should organize their communication around their policy frameworks, rather than a single unconditional path for future rates. Conditional policy forecasts can contribute to this framework if they are (clearly and explicitly) linked to the outlook, supported by scenarios that illustrate this state contingency.

Recent IMF work on monetary frameworks under high uncertainty has urged for robust, adaptable approaches that are also clearly communicated (Katz 2026). In the context of forward guidance, such approaches would link together the central bank's price stability goal, its reaction function, ongoing financial risks, and its available instruments—all into a single coherent narrative. Here, the inflation target continues to be the economy's nominal anchor, and the role of the framework is to explain how the policy mix would adjust if prospective risks were to materialize.

Finally, communications should also be layered, in the sense of striving for concise and accessible public messages, while engaging in market-facing explanations that provide sufficient data to support transmission and technical material that documents the authorities' models, scenarios, and assumptions. Again, forward guidance should place less focus on a single given path for future rates, but more emphasis on objectives and the conditions that would lead to adjustments in policy.

The Risk Taking Channel of Monetary Policy

Adrian and Shin (2008) emphasize monetary policy transmission through market-based financial intermediaries. The balance sheets of nonbank intermediaries, such as securities broker-dealers, channel financial conditions to the broader economy. Intermediaries are not passive conduits between savers and borrowers; they face risk-management and regulatory constraints that affect credit supply. Balance sheet size responds directly to the policy rate, creating a risk-taking channel of monetary policy that complements the traditional intertemporal savings and investment channel (see also Adrian and Liang 2018). Leverage in this framework is procyclical, creating amplification mechanisms that exacerbate both booms and busts.

Intermediary balance sheet growth is fueled by lower interest rates. In addition, risk-taking can feed into the level of interest rates. Hence, Adrian and Shin (2008) argue that monetary policy and financial stability objectives are closely intertwined. Adrian and Duarte (2025) formalize this logic in a full-fledged general equilibrium model in a New Keynesian setting, yielding an asymmetry in downside risks associated with financial intermediary risk taking. In that setting, optimal monetary policy does indeed explicitly condition on the potential downside risks created by the intermediary leverage cycle.

Market volatility similarly impacts risk-taking: when risk measures fall, value-at-risk–based leverage constraints loosen, and balance sheets grow. If central bank communication compresses uncertainty around the future path of short rates, it compresses the measured risk of financing longer-term assets with shorter-term liabilities, potentially encouraging leveraged maturity transformation. In this context, forward guidance is not a free lunch. Hence, financial stability considerations matter for monetary policy, and forward guidance about the future path of interest rates must take its impact on risk-taking explicitly into account. Optimal monetary policy should therefore condition not only on the central outlook for inflation and real activity, but also to downside risks.

Communications During Acute Liquidity Crises

There are times when an imminent liquidity crisis threatens macroeconomic and financial stability, and central banks must take forceful action. These actions can be strengthened by providing greater certainty about their implications for interest rates and broader financial conditions. The underlying challenges can change abruptly, in turn requiring an equally abrupt shift in the monetary stance. What might start as a deterioration in market confidence, or a jump in risk premiums, can spiral into broader concerns about financial stability concerns, with an ensuing market dysfunction, impaired intermediation, deleveraging, and increasing risks to economic activity. During these episodes, intervention becomes necessary both to prevent financial instability from amplifying the original shock and creating real economic downside realizations (Cieslak and Vissing-Jorgensen 2021; Adrian and Duarte 2025). A range of historical episodes including the 1987 stock-market crash, the global financial crisis, and the 2020 “dash for cash” show that liquidity support can prevent market dysfunction.

The policy implication is that central banks should respond forcefully to acute liquidity crises, but with a clear assignment of instruments to objectives. Liquidity facilities, asset purchases, and other interventions that aim to ensure market functioning should be deployed promptly and decisively when funding pressures or impaired intermediation threatens financial stability. The policy rate should be adjusted only to the extent that the financial

shock changes the downside outlook. There are some crises in which the assessment will justify prompt rate cuts, and there are others where substantial liquidity support could be appropriate even as the monetary policy stance remains restrictive. It follows that crisis communication should highlight objectives, reaction functions, and instrument assignments, but not explicit commitments to a policy-rate path.

The banking stress from March 2023 provides a helpful illustration of this distinction. Monetary authorities reacted to severe funding pressures by deploying liquidity facilities and complementary measures aimed at bolstering confidence, supporting financial intermediation, and preventing a disorderly tightening in credit. And, at the same time, if inflationary pressures remained high, policy rates could stay restrictive, since the goal of liquidity support was to keep transmission functioning, rather than to ease the monetary stance. Crisis communication should emphasize the central bank's mandate and establish a clear separation between liquidity tools and the monetary stance itself.

Balance Sheet Policy

Aside from their use in severe liquidity crises, asset purchases have also been deployed as an easing tool when nominal rates are constrained by the effective lower bound. In these situations, quantitative easing has often worked together with forward guidance, with purchases aimed at compressing term premiums, while guidance is focused on shaping expectations on nominal rates. When there are limits to forward guidance's efficacy, asset purchases can support output and inflation in a liquidity trap. In addition, quantitative easing can also improve the consolidated fiscal position (by bolstering the economic recovery, improving revenues, and lowering debt servicing costs) even when central bank accounting losses materialize later (Adrian and others 2026).

It is key that these effects of quantitative easing aren't presented as an objective of the central bank itself; ultimately they depend on the overall macroeconomic environment, the maturity structure of government debt, and the eventual discontinuation of asset purchases. Clear escape clauses are crucial. The central bank communications should underline the monetary authority's core message that balance sheet policy is grounded in the central bank's mandate and appropriate market functioning, and temporary in nature.

Easing in times of crisis should be explicitly labeled as temporary, aimed at restoring financial stability and bolstering the monetary transmission mechanism. More specifically, authorities should avoid framing communications as an unconditional commitment to keep central bank balance sheets large once the liquidity problem has passed. The central bank should stand ready to recalibrate its stance in line with the outlook for inflation. This is a crucial distinction: a given intervention may be both aggressive and appropriate in times of a liquidity crisis, and nevertheless counterproductive if it were to become an open-ended promise in a shallow liquidity trap or an economy that is back on the path to recovery.

Scenario analyses can be of significant help to monetary authorities for explaining the underlying asset purchase regime. Scenario communication can strengthen the credibility of monetary actions taken during periods of crisis, and keep the public from interpreting temporary interventions as signaling permanent accommodation.

Artificial Intelligence

Communications now operate in a highly dynamic environment where social media, automated news analysis, and artificial intelligence (AI) tools play increasingly relevant roles. Authorities have access to technology that can enhance their communication consistency across published documents. AI tools can be used to clarify language and avoid unnecessary complexity. Central banks could even use AI tools to assess whether specific forward-looking guidance is being interpreted by the public as explicit guidance on future policy decisions. The literature on these features is growing, and recent IMF research has quantified central banks' communications and highlighted the advantages of systematic benchmarking (see Silva, Moriya, and Veyrune 2025; Caselli and others 2026).

On the other hand, communication analysis rooted in AI can inadvertently lead to misinterpretation. Market participants may analyze words in search for implicit signals by the central bank. Qualitative nuance risks being stripped away. Conditioning assumptions, which are crucial to establish the state-contingent nature of monetary policy, may be missed or compressed away, leading to misunderstood expectations for the future paths of nominal rates. A disciplined communications framework is key: central banks need stable terminologies, explicit discussions of uncertainty assessments, and frequent reminders to the public that policies remain conditional.

Conclusion

Forward guidance is a powerful tool for central banks as it can help guide the public's expectations. Yet it risks being understood as a commitment and thus can constrain future policy. Any forward guidance should be clearly conditioned on the future state of the economy and placed in service of the central bank's mandate of price stability.

The postpandemic inflation episode made the case for a narrower view of forward guidance in the form of rate communication, emphasizing the importance of clear communication of monetary policy objectives and reaction functions. Communication should be organized around a clear framework, with messages tailored to different audiences. This becomes increasingly important as AI and automated interpretation tools create novel risks.

Risk is central to this framework. Scenarios can support the communication of objectives and reactions functions, allowing central banks to specify risks around the forecast, and explaining the policy reaction function under alternative scenarios. In normal circumstances, policymakers may need to proceed cautiously when uncertainty is elevated, to avoid artificially compressing market volatility and increasing risk-taking incentives. Adequate communication about risks is essential to preserve the risk-taking incentives of financial institutions. Scenarios can be used to explain the nature and magnitude of risks, and to illustrate how the reaction function would evolve. Under acute liquidity stress, forceful intervention may be necessary to preserve market functioning and the policy transmission mechanism. Communication should then focus on why a policy response remains conditional on the evolving outlook and on achieving the mandate.

For IMF policy advice, the appropriate questions are whether communication is consistent with the central bank mandate, whether forecasts and scenarios are clearly conditional, and whether information on the rate path is being interpreted as a commitment. These principles provide a framework for surveillance and policy dialogue.

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