



## Research Working Papers

# Communicating Monetary Policy Rules

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A central bank can achieve the gains of a rule-based policy without publicly stating a specific rule by establishing an inflation target, tolerance bands around the target and providing economic projections.

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Sixty-two countries around the world use some form of inflation targeting as their monetary policy framework, though none of these countries express explicit policy rules. In contrast, models of monetary policy typically assume policy is set through a rule such as a Taylor rule or optimal monetary policy formulation. Central banks often connect theory with their practice by publishing inflation forecasts that can, in principle, implicitly convey their reaction function. We return to this central idea to show how a central bank can achieve the gains of a rule-based policy without publicly stating a specific rule. The approach requires central banks to specify an inflation target, tolerance bands, and provide economic projections. Thus, when inflation moves outside the band, inflation forecasts provide a time frame over which inflation will return to within the band. We show how this approach replicates and provides the same information as a rule-based policy.

JEL Classification: E4, E43, E5, E61

## Article Citations

- Davig, Troy, and Andrew Foerster. 2017. "Communicating Monetary Policy Rules." Federal Reserve Bank of Kansas City, Research Working Paper 17-04, April. Available at <https://doi.org/10.18651/RWP2017-04>

## Related Research

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