

SNB-FRB-BIS HIGH-LEVEL CONFERENCE
ON GLOBAL RISK, UNCERTAINTY, AND VOLATILITY

MONETARY POLICYMAKING IN A CONTEXT OF EXTREME UNCERTAINTY

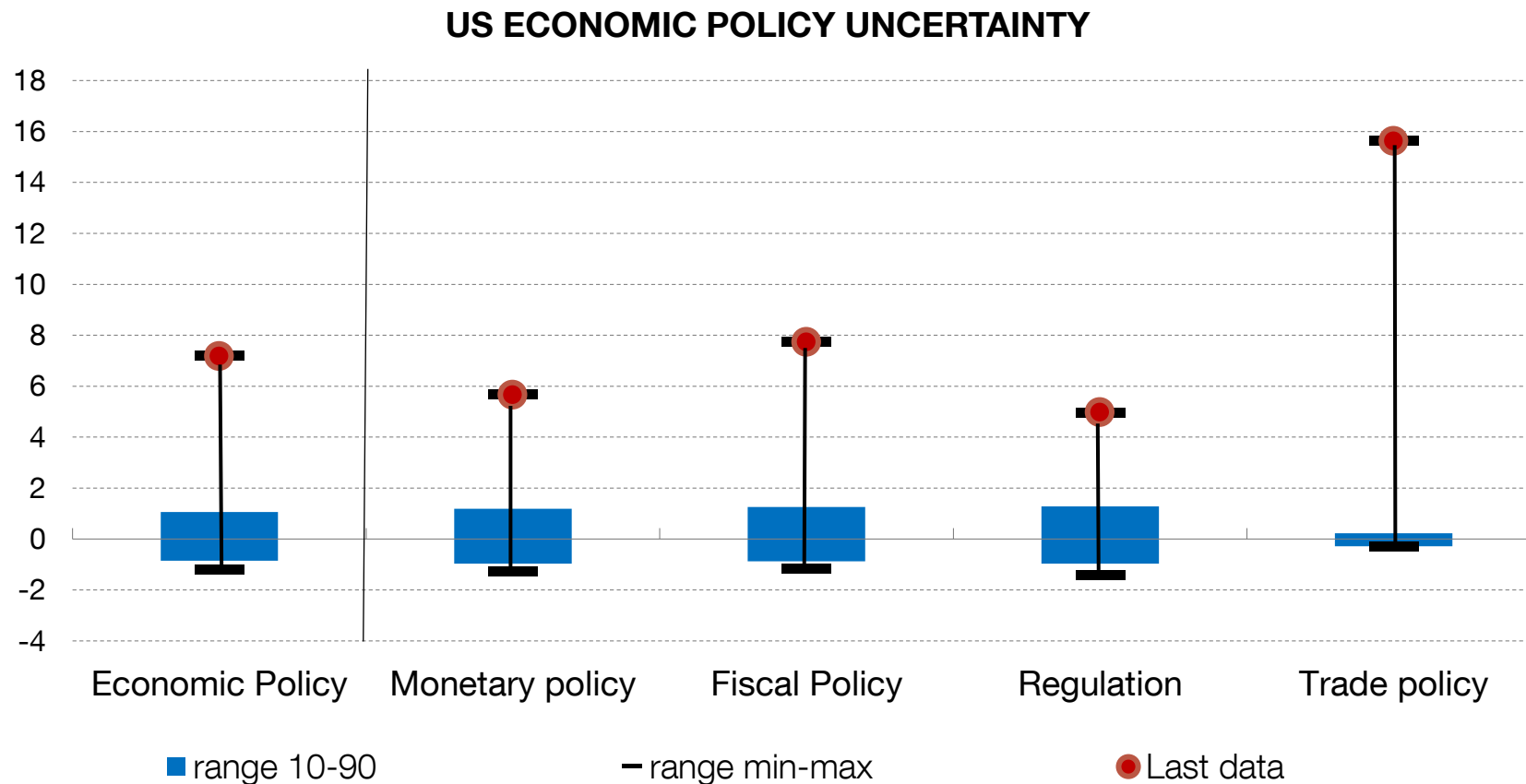
JOSÉ LUIS ESCRIVÁ

GOVERNOR OF THE BANCO DE ESPAÑA

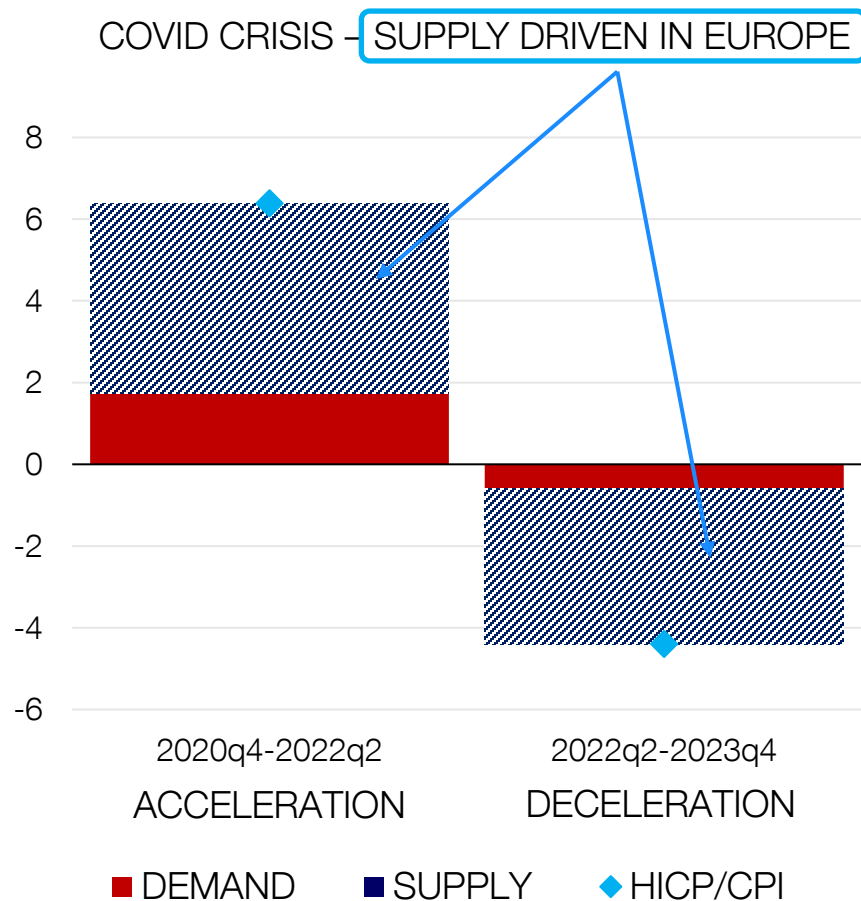
13 MAY 2025



A CONTEXT OF VERY HIGH UNCERTAINTY IN MULTIPLE DIMENSIONS: TRADE, FISCAL, MONETARY, AND REGULATORY



COMPARED TO PREVIOUS EPISODES, THIS IS ONE OF KNIGHTIAN UNCERTAINTY: IT IS HARD TO KNOW IF SHOCKS ARE SUPPLY OR DEMAND DRIVEN



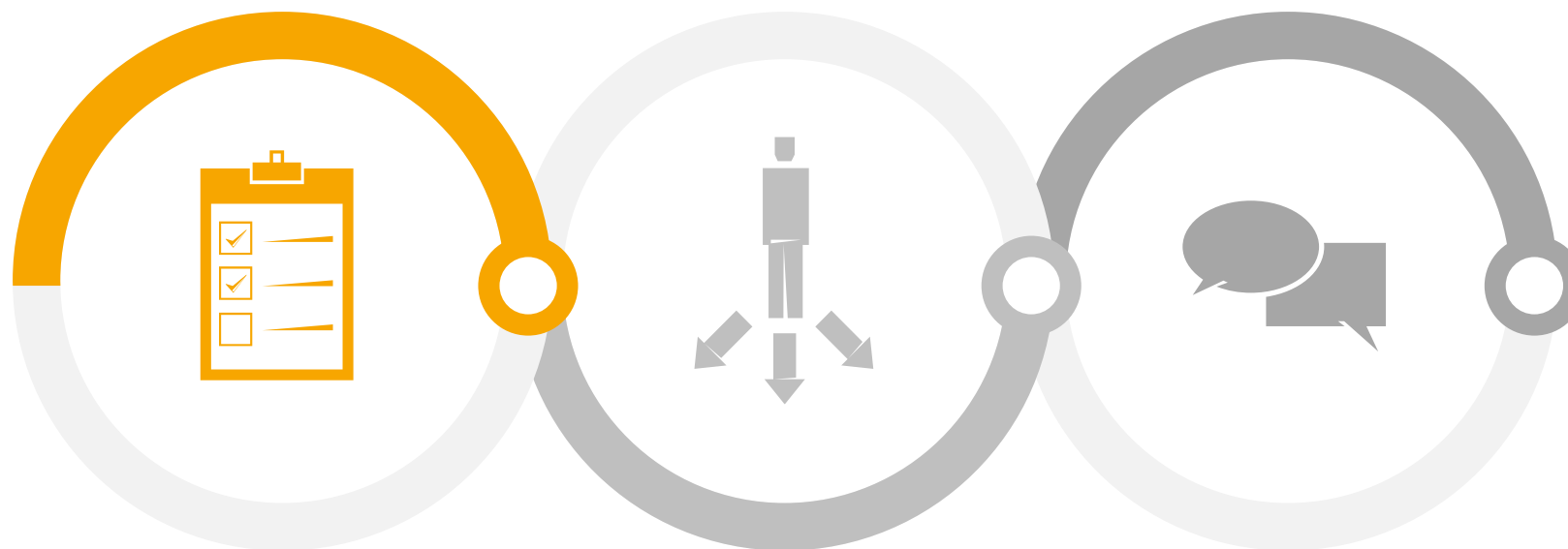
CURRENT CRISIS – SUPPLY/DEMAND DRIVEN?

GDP ↓
HICP ?

Notes: Historical decomposition based on a structural VAR model using euro area quarterly data (2007Q1 to 2023Q4). Structural shocks are identified through exclusion and sign restrictions, see Kataryniuk, Martinez-Martin, Pappa and Rast, 2025 (forthcoming).

EVALUATION

COMMUNICATION



DECISION

UNDER HIGH UNCERTAINTY, THE CENTRAL SCENARIO BECOMES LESS INFORMATIVE AND THE USE OF ALTERNATIVE SCENARIOS GAINS RELEVANCE



Impact of tariffs
on activity and
inflation
(retaliation?)

$Y \downarrow$ $P?$



Size of
impact of
bottlenecks

$Y \downarrow$ $P \uparrow$



Size of impact
of the financial /
uncertainty
channels

$Y \downarrow$ $P \downarrow$



Fosters robustness of monetary policy plans in the face of uncertainty about the state and structure of the economy

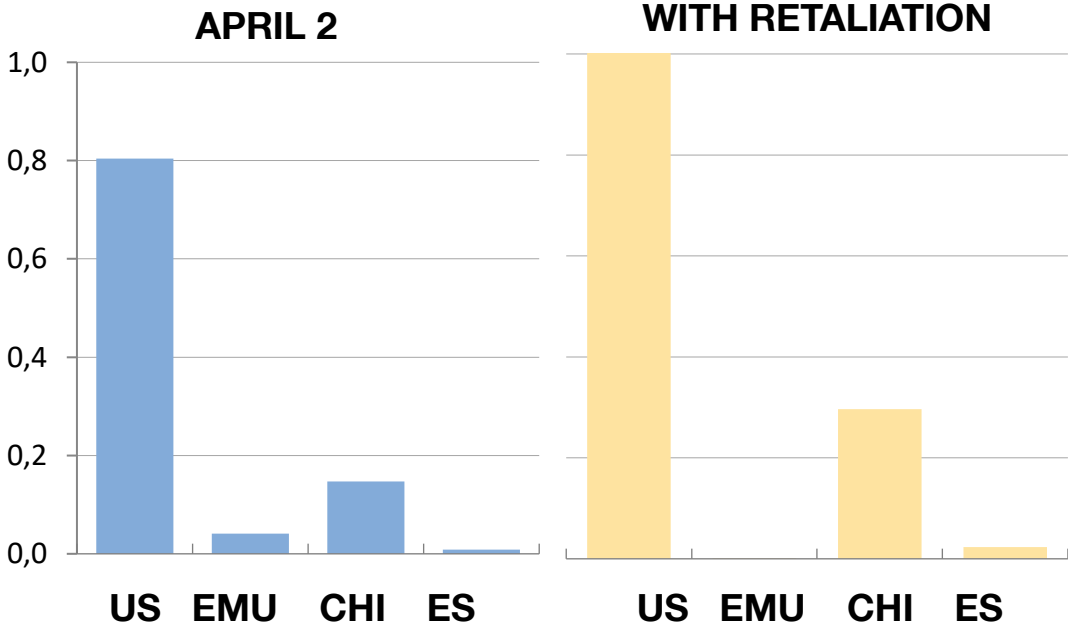
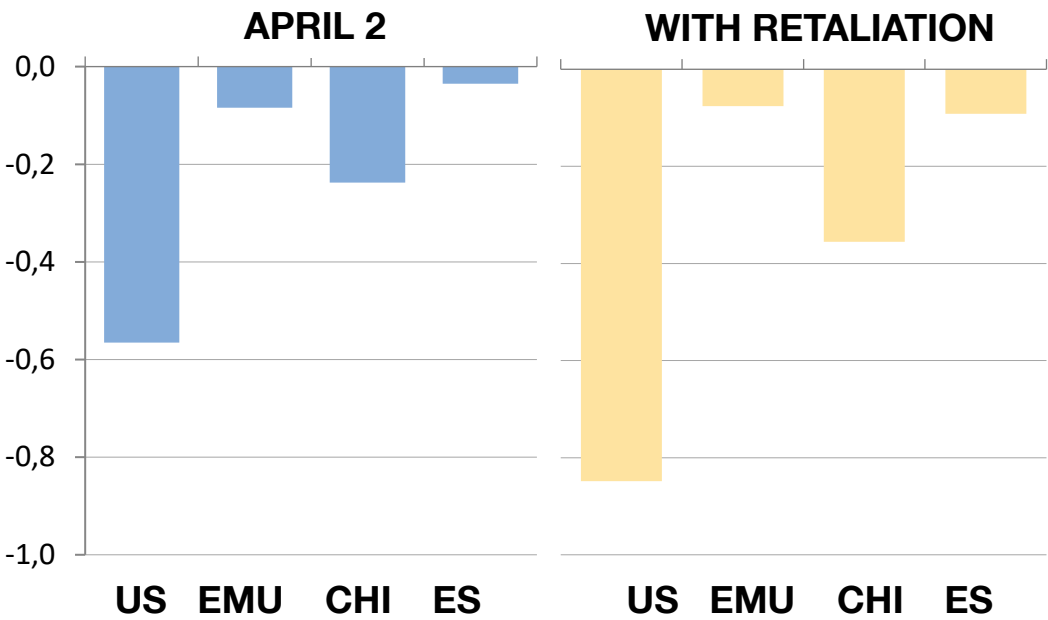


Improves the ability of the public to anticipate how policymakers will respond to various contingencies

ILLUSTRATION: THE EFFECT OF TARIFFS ON INFLATION CRUCIALLY DEPENDS ON THE REACTION OF OTHER COUNTRIES...

IMPACT ON GDP

IMPACT ON INFLATION

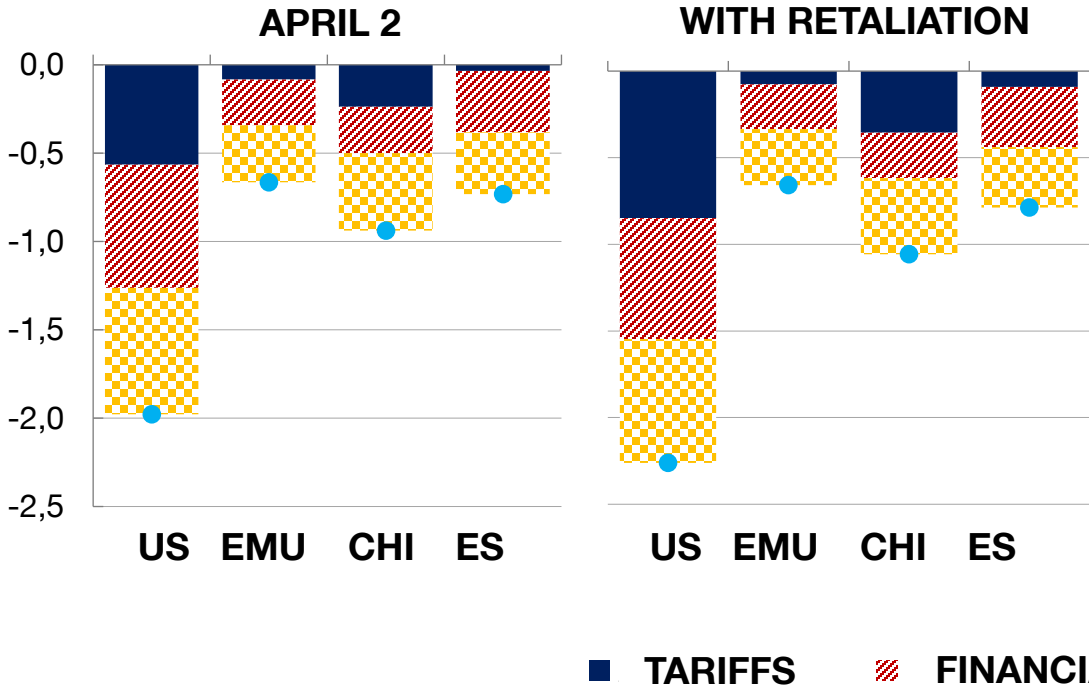


MINIMUM TARIFF OF 10% ON ALL GOODS, EXCEPT ENERGY.
HIGHER TARIFFS ON COUNTRIES WITH LARGEST DEFICITS WITH US:
EA: 20%, China: 34%+(20% February), Japan: 24%, South East Asia ≈ 50%

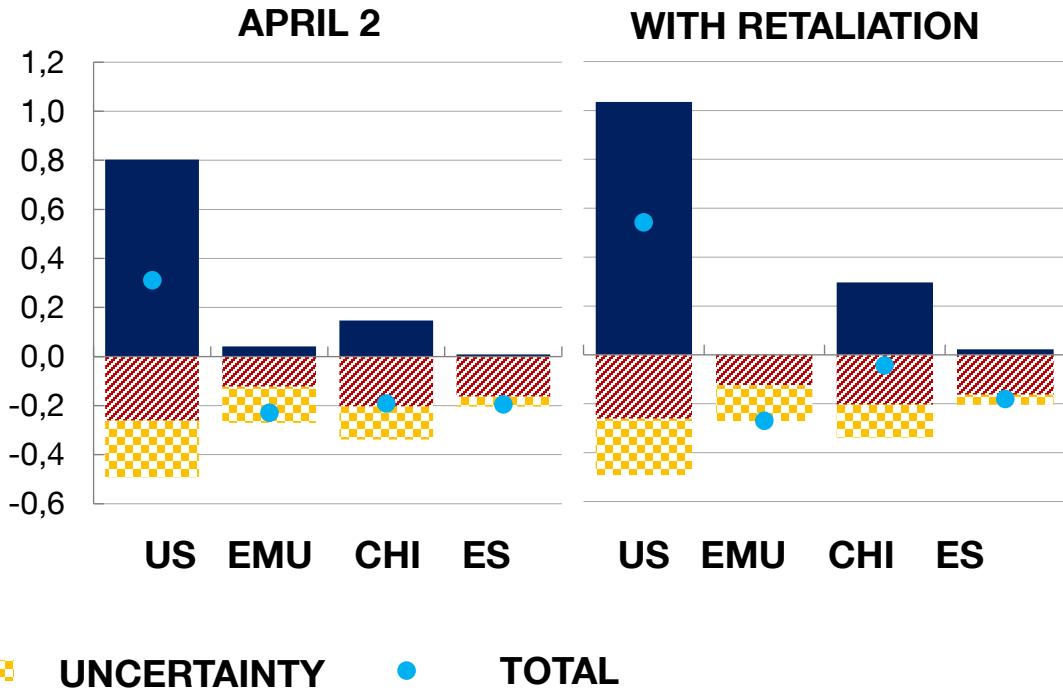
Source: Impact shown is the average over two models Banco de España sectoral model (New Keynesian multisector-multicountry model, Aguilar et al (2025)) and NiGEM and over 3 years.

AND ALSO, ON THE OPERATION OF OTHER, KEY, CHANNELS: FINANCIAL AND UNCERTAINTY (CONFIDENCE)

IMPACT ON GDP



IMPACT ON INFLATION

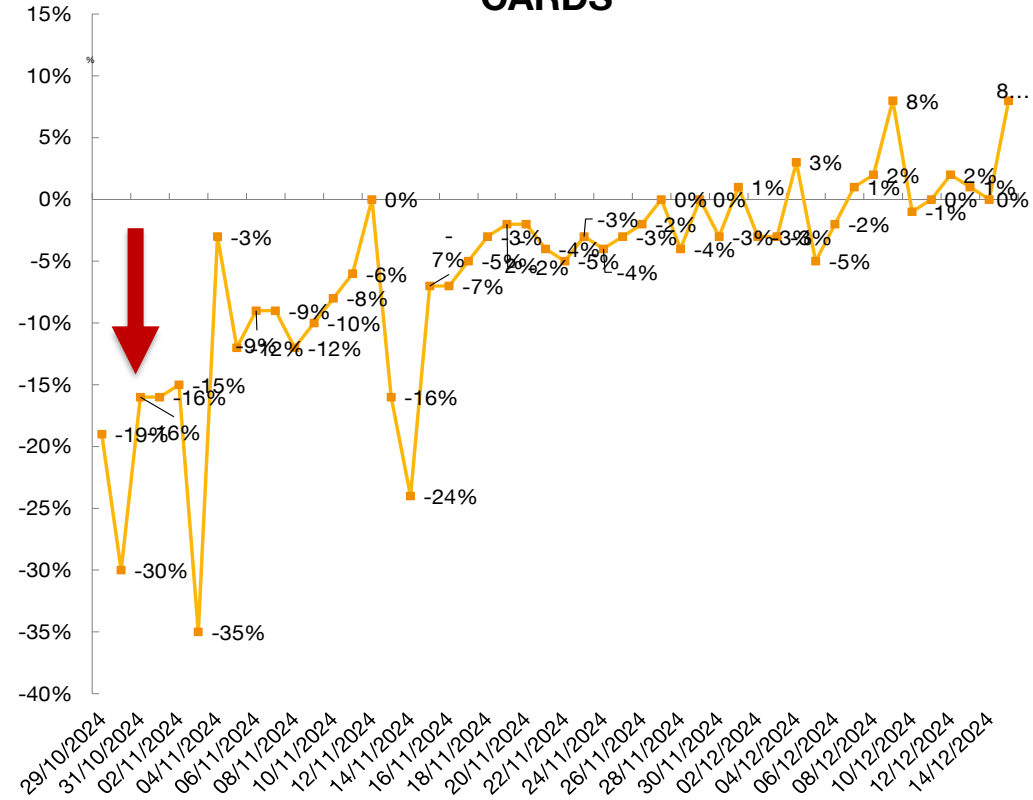


FINANCIAL/UNCERTAINTY CHANNELS CALIBRATED TO REPLICATE THE IMPACT OBSERVED SINCE APRIL 2 FOR: LONG-TERM & CORPORATE RATES, EXCHANGE RATE, PRICE OF OIL & EPU

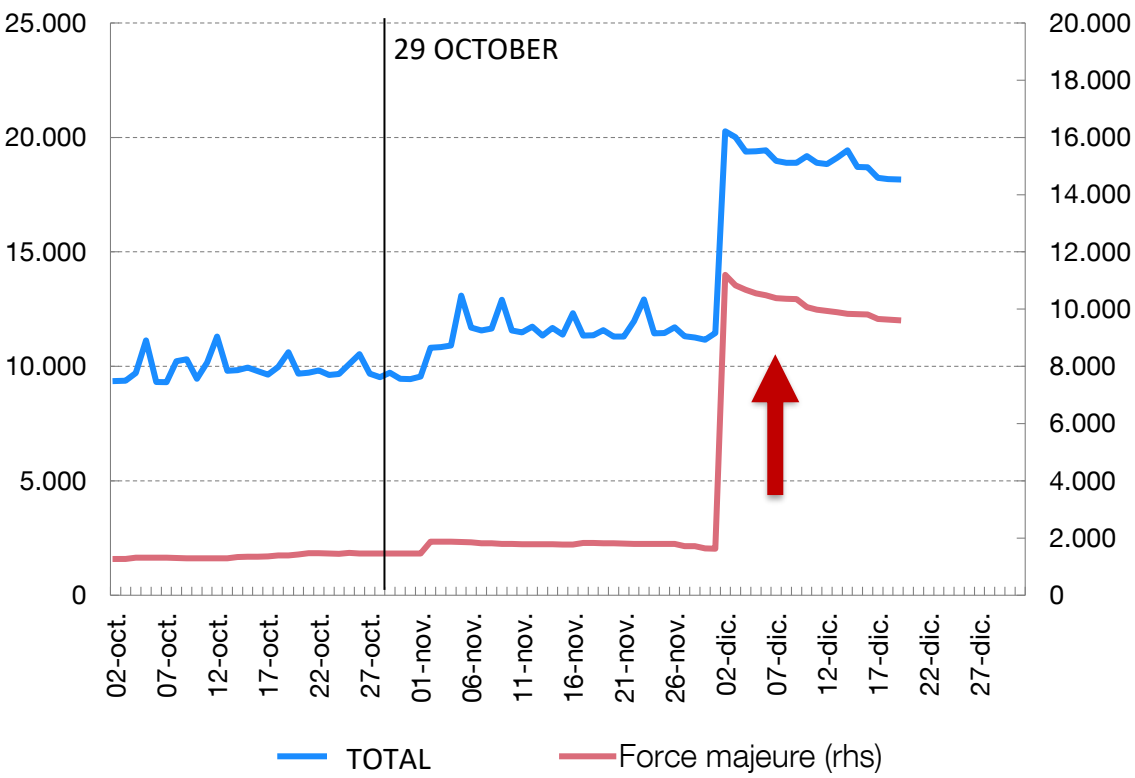
Source: Impact shown is the average over two models Banco de España sectoral model (New Keynesian multisector-multicountry model, Aguilar et al (2025)) and NiGEM and over 3 years.

EXAMPLE: USE OF HIGH FREQUENCY DATA DURING THE VALENCIA FLOODS (29-OCT-2024)

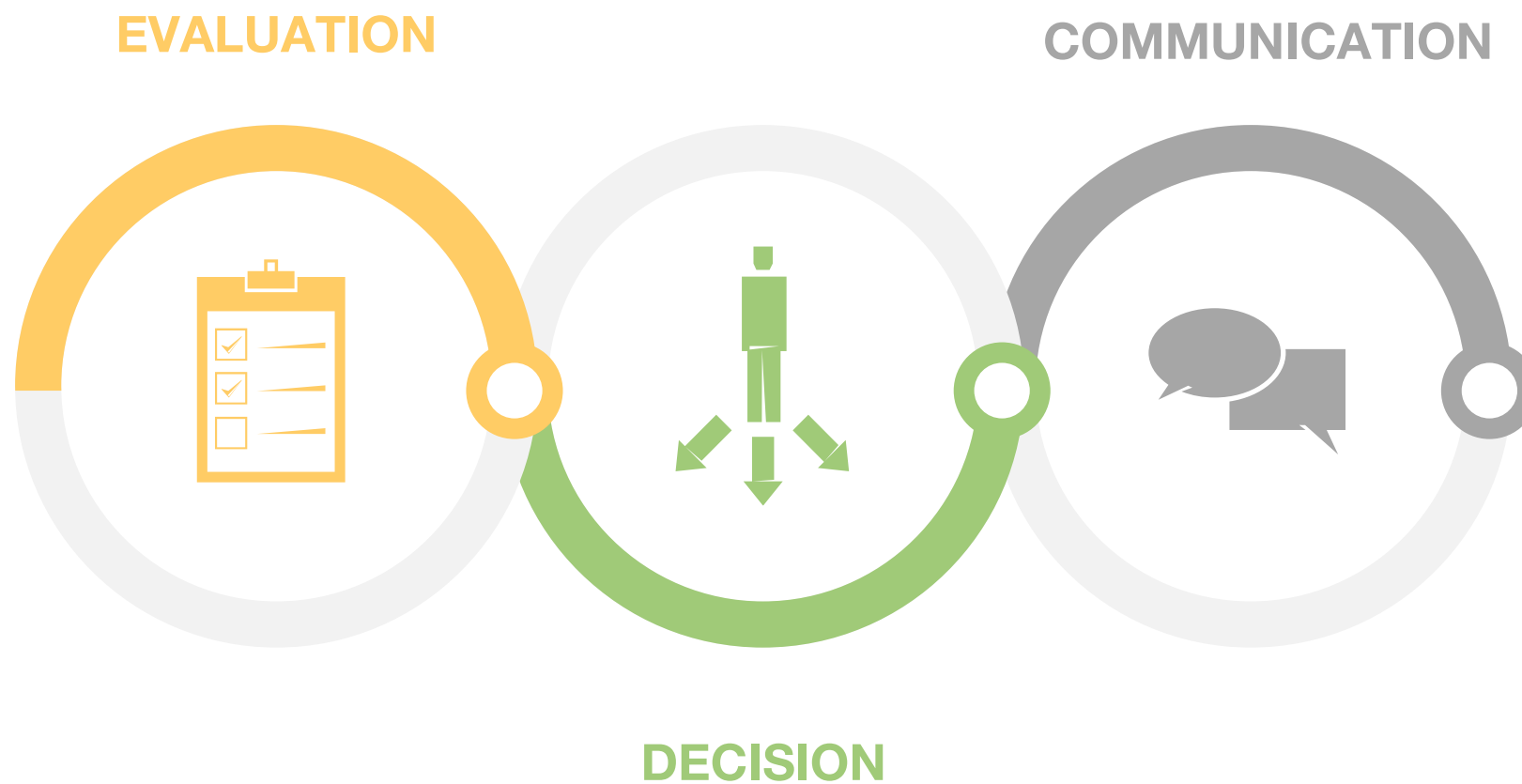
VOLUME OF PAYMENTS WITH CREDIT/DEBIT CARDS



WORKERS IN FURLOUGH REGISTERED IN SPAIN



Source: LHS Redsys. RHS Ministry of Inclusion, Social Security and Migrations.



IN THIS CONTEXT, WHILE PRESERVING A DATA-DEPENDENT AND FULL-OPTIONALITY APPROACH, MONETARY POLICY SHOULD BE CAUTIOUS BUT AGILE



FULL OPTIONALITY



READINESS

We must be attentive to all new developments and be able to make the appropriate determination.



AGILITY

Given the speed at which we see developments, the impact they have and the spillovers that we can analyse.

Forward guidance may constraint policy agility.

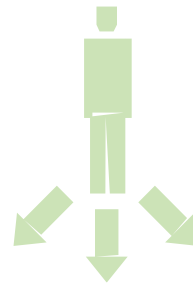
EVALUATION



COMMUNICATION

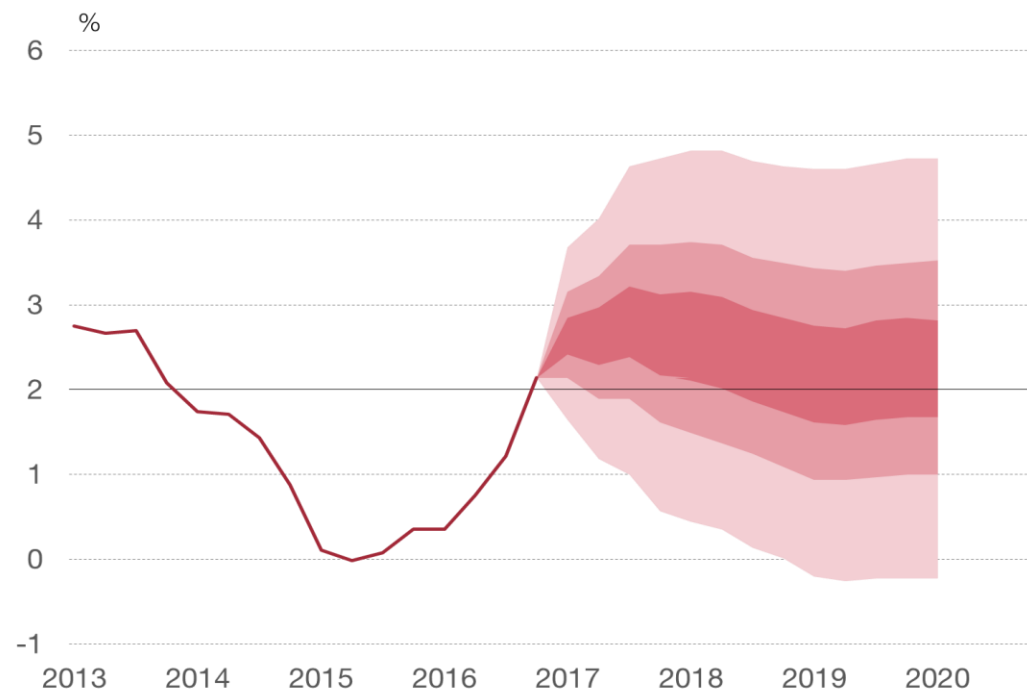


DECISION



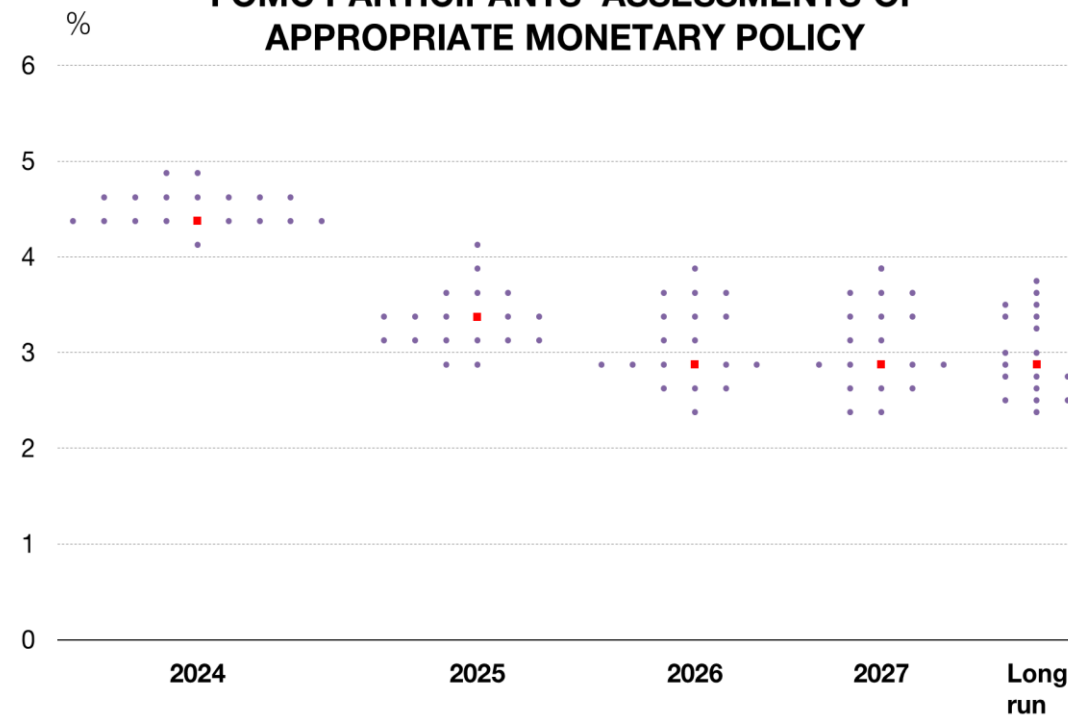
COMMUNICATING THE RESPONSE TO RISK AND UNCERTAINTY: THE TRADITIONAL FAN CHART OPTION AND THE DOT PLOTS

UK OBSERVED AND EXPECTED INFLATION



Source: Bank of England. Inflation report – August 2017. The strongest bands include a 30% probability that inflation will take that value in each time period, the intermediate bands a 60% probability, and the lightest bands a 90% probability.

FOMC PARTICIPANTS' ASSESSMENTS OF APPROPRIATE MONETARY POLICY



Source: US Federal Reserve. The blue dots indicate the (rounded) value of each FOMC participant's judgment on the appropriate value of the federal funds rate. September 2024. The red squares indicate the median of the estimates.



FOR:

- Transparency
- Conveys additional information on the central bank reaction function



AGAINST:

- Complexity
- Difficulty to communicate alongside the baseline scenario
- Risk of misinterpretation as state-contingent commitments

“It is evident that we have been, and are creating, societies that are unique in comparison to anything in the past. [...] To know the future, we have to know today what we will know tomorrow”

Douglas North, “Understanding the Process of Economic Change”

“What does not yet exist cannot be known”

George Shackle, “Imagination and the Nature of Choice”

THANK YOU FOR YOUR ATTENTION
