

# 2024 CEBRA Annual Meeting

Panel: The Value of Economic Research for Policy

Banco Central do Brasil

Diogo Guillen – Deputy Governor for Economic Policy

August 28<sup>th</sup>, 2024

# Modelling choices and Policy strategy

- Research has provided important insights
  - Modelling choices
    - State-dependent Pass through
    - Output gap
    - Neutral rates
  - Policy strategy
    - Optimal Policy
    - Counterfactual exercises
    - Decomposition

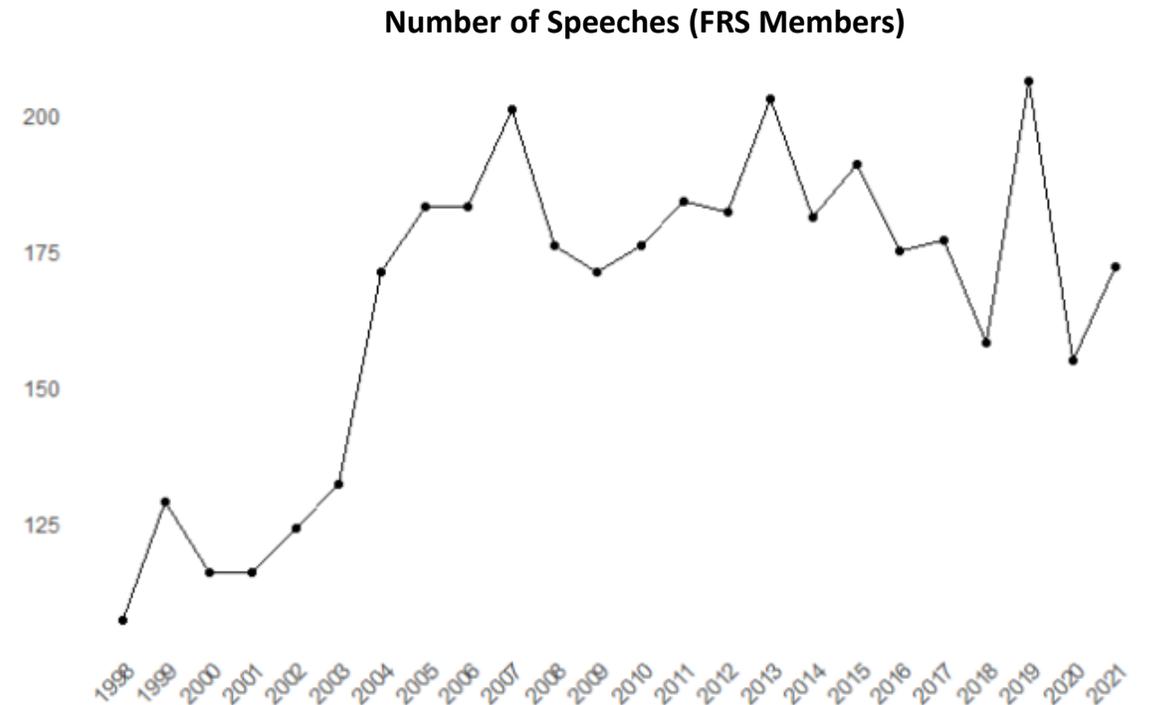
# Communication: When, how, what and why

- A more recent line of research tackles
  - When to Communicate
  - How to Communicate
  - What to communicate
  - Assessing communication

# When to Communicate

- Preset schedule for rate meetings vs ad-hoc schedule for speeches
  - Optimal stopping time problem should be dependent on the shock distribution
- Big trends and stylized facts

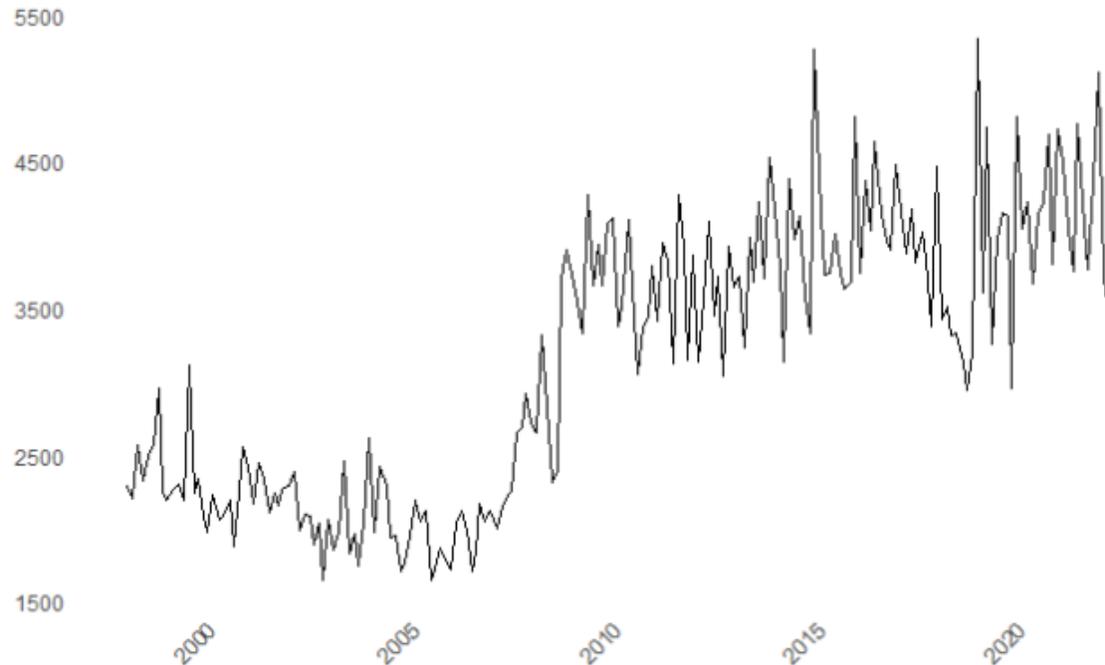
Central Bank	Monetary Policy Committee – meetings per year
United States	8
ECB	8
United Kingdom	8
Canada	8
Switzerland	4
Japan	8
Mexico	8
Chile	8



# How to Communicate

- Texts are getting longer and deeper
- Great effort on reaching all the population
- Big trends and stylized facts

Word Count in FOMC Minutes



## International economy

**Inflation remains high in many countries and the advance in the process of inflation convergence has been more moderate this year**



- Still heated up labor markets explain the persistence of core inflation.
- Some central banks have already reduced interest rates while others have not started the easing cycle yet.
- Interest rates calibration to ensure the conclusion of the disinflation process is complex.

## Economic activity

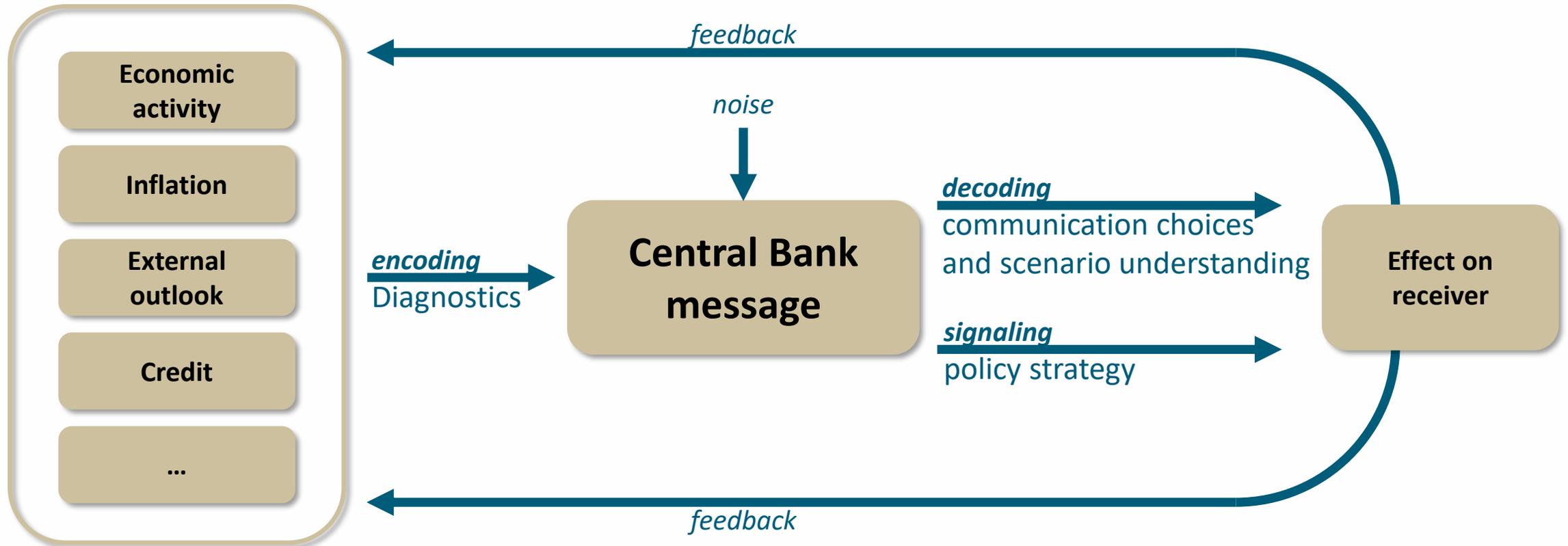
**Strong economic growth and more heated up labor market**

- The Brazilian economy growth was significant in 2024Q1. Household consumption and investments grew strongly.
- The labor market has heated up in the last few months – unemployment declined, and salaries increased.
- Floods in Rio Grande do Sul led to a sharp economic activity decline in this region in May, but there are already signs of recovery.
- Growth projection for the Brazilian economy in 2024 was revised upward from 1.9% to 2.3%.



# What to communicate

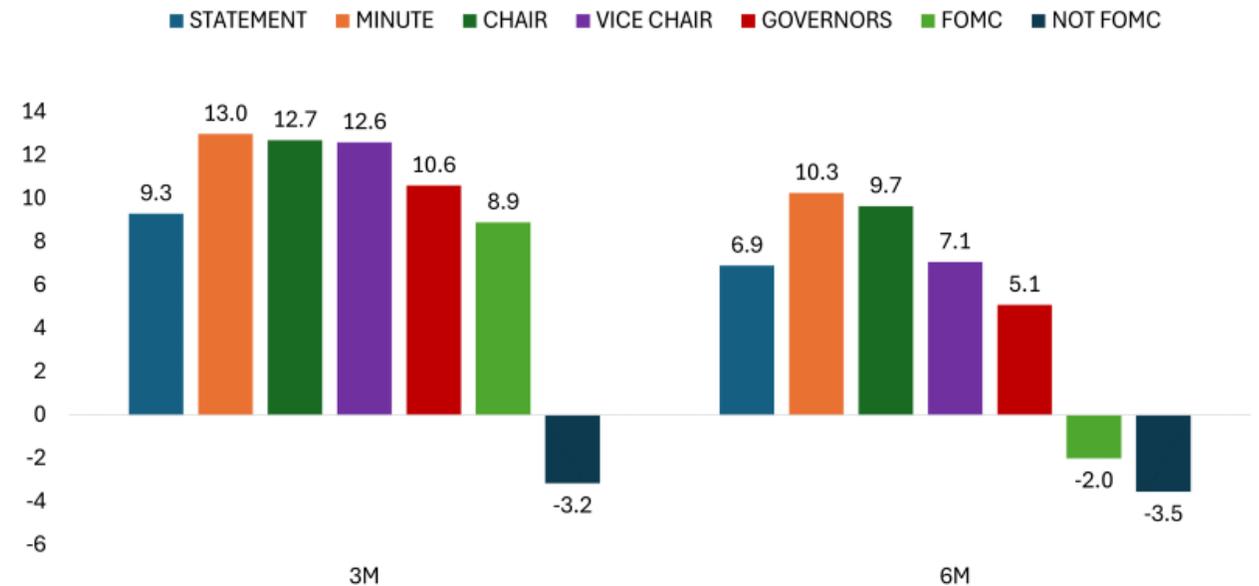
- Choosing the topics: information reaction function vs reaction to information
- Given a topic, decoding: helping to understand the economy
- Choosing, decoding, signaling policy preferences



# Assessing communication

- Using NLP:
  - Already in use for policy preparation
  - What about ex-ante evaluation?
    - What's the benchmark?
  - What about ex-post evaluation?
    - Is it worth it? Maybe not

Figure 2: Average Log-Score Difference 3-month and 6-month ahead forecasts



Note: The bars show the difference in predictive log-scores multiplied by 100, relative to the benchmark for the 3-month and 6-month ahead forecasts. Different colors represent models with increasing layers of communication.

# Final Comments

- Role of research on
  - modelling
  - policy (rate) strategy
  - communication strategy

Thank you

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