

ARTICLES

THE ECB'S FORWARD GUIDANCE



Since July 2013 the Governing Council of the European Central Bank (ECB) has been providing forward guidance on the future path of the ECB's policy interest rates conditional on the outlook for price stability. This article reviews the main rationale for forward guidance and the different types of forward policy communication adopted by central banks, before explaining the forward guidance provided by the ECB and assessing its impact. Overall, the ECB's forward guidance is aimed at clarifying the Governing Council's assessment of the inflation outlook in the euro area and its monetary policy strategy based on that assessment. The evidence suggests that forward guidance has so far served the ECB's intentions well by providing greater clarity on the Governing Council's conditional monetary policy orientation.

I INTRODUCTION

Following its meeting on 4 July 2013 the Governing Council of the ECB communicated that it “expects the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation is based on the overall subdued outlook for inflation extending into the medium term, given the broad-based weakness of the economy and subdued monetary dynamics.” Such conditional statements about the future path of the policy interest rates are frequently referred to as forward guidance. The ECB has maintained its forward guidance since then, and the Governing Council “firmly reiterated” its forward guidance in January and February 2014. On 6 March 2014 the Governing Council reinforced the guidance formulation by spelling out more precisely the conditions for a low interest rate policy.

Providing forward guidance has been a material shift in the ECB's communication on monetary policy. It has implied communicating not only how the ECB's Governing Council assesses current economic conditions and the risks to price stability over the medium term, but also what this assessment implies for its future monetary policy orientation.

In dealing with the macroeconomic consequences of the global financial crisis, like the ECB, a number of central banks have provided explicit statements on the future path of policy. The use of forward guidance by a growing number of central banks since the onset of the crisis gives rise to several questions. What was the rationale for the implementation of forward guidance? How has it been provided in practice? What motivated the ECB to introduce forward guidance and what form did it take? Finally, has the ECB's forward guidance served its intentions well?

In order to answer these questions, this article first reviews the motivations for providing forward guidance and the various approaches adopted by different central banks (Section 2), before discussing more specifically the rationale for the ECB's forward guidance and its effectiveness (Section 3). Section 4 concludes.

2 FORWARD GUIDANCE – GENERAL CONSIDERATIONS

The effects of monetary policy on the economy do not only depend on the very short-term interest rates that monetary policy can control with some precision, but also on the expectations formed by the public of how those rates will evolve in the future. Expectations of future interest rates matter because they affect important economic decisions such as investment and durable consumption and

thus, indirectly, employment, production and price-setting.¹ Therefore, by influencing expectations of future short-term interest rates and – through that channel – the maturity spectrum of interest rates over intermediate to medium-term horizons, a central bank can ensure that its policy stance is transmitted to the broader economy.²

2.1 THE ROLE OF CENTRAL BANK COMMUNICATION

There are two important ingredients for the effective steering by a central bank of expectations about future monetary policy: clarity regarding the central bank’s objective, and clarity about the monetary policy strategy it adopts to achieve that objective. The reasons for this are twofold. First, ensuring clarity with regard to the central bank’s objective and strategy serves the purpose of making its reaction function more transparent and explicit. This promotes a wider and deeper understanding of how the central bank can be expected to respond to future economic conditions and risks to price stability as these evolve. In conjunction with the issuing of statements and regular publication of the economic projections by the central bank, a better understanding of the reaction function enhances the overall predictability of monetary policy and makes the central bank more effective in fulfilling its mandate.³ Second, the inflation objective acts as an anchor for the public’s longer-term inflation expectations. These expectations are an important component of agents’ real interest rate expectations, which, in turn, are key parameters in economic decision-making.

In normal times, by explaining the various factors underlying a given decision, central banks generally provide sufficient information for the public to be in a position to anticipate near-term monetary policy decisions accurately, taking into account the evolving economic environment and its likely impact on the policy decision. In normal conditions, the public is able to infer the central bank’s policy orientation by drawing upon historical regularities, so that a systematic pattern can be identified in the way the central bank responds to economic developments in order to achieve its objective.⁴ Nevertheless, the option of providing more direct signals about the short-term future evolution of the policy rate has long been in the monetary policy toolkit, and was used occasionally prior to the financial crisis. However, its use was limited in scope and it was mainly confined to situations in which the central bank wanted to minimise the impact of an imminent monetary policy decision on financial markets. One exception to this was the practice inaugurated by several central banks long before the crisis of regularly publishing their projection of the future path of the policy rate. In particular, the Reserve Bank of New Zealand adopted this practice in 1997, followed later by Norges Bank and Sveriges Riksbank. While it has much in common with the type of forward

1 On the role of expectations for monetary policy, see Woodford, M., *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton University Press, 2003. For evidence on the role of the future path of policy, see Gürkaynak, R.S., Sack, B. and Swanson, E., “Do Actions Speak Louder Than Words? The Response of Asset Prices to Monetary Policy Actions and Statements”, *International Journal of Central Banking*, Vol. 1(1), May 2005, pp. 52-93.

2 The monetary policy control over term interest rates is limited in that, at longer horizons, real interest rates are primarily driven by real factors, in particular the rate of potential economic growth. See Bernanke, B., “Long-Term Interest Rates”, speech given at the Annual Monetary/Macroeconomics Conference at the Federal Reserve Bank of San Francisco on 1 March 2013.

3 In this context, predictability refers to the longer term and not to the upcoming policy decisions; see the article entitled “The predictability of the ECB’s monetary policy”, *Monthly Bulletin*, ECB, Frankfurt am Main, January 2006.

4 The so-called Taylor rule is an example of where the policy rate expectation is based on the systematic reaction to inflation and the output gap; see Taylor, J.B., “Discretion versus policy rules in practice”, *Carnegie-Rochester Conference Series on Public Policy*, Vol. 39, 1993, pp. 195-214.

guidance adopted by central banks during the crisis, it was in fact an exercise in increased openness and transparency regarding the central bank's internal analysis and policy assessment.⁵

The financial crisis, with its profound financial and economic dislocations, turned central bank conditional communication on the path of the policy rate into an additional instrument for crisis management. At times of heightened uncertainty about the economic outlook, such communication can help investors orientate their portfolio decisions and thus ensure a smoother transmission of the monetary policy stimulus through financial prices.⁶ There is increased scope for communication about the policy rate amidst severe financial crisis, since such situations are rare and the space for actual policy action is limited – as the level of the policy rate is already very low – and because economic actors may find it harder to infer the likely future path of policy rates from past regularities. Unless addressed by more specific communication, such uncertainty could lead to a broad re-pricing of assets, revisions of economic decisions and a negative impact on economic prospects.

2.2 MAIN MOTIVATIONS FOR AND CONSIDERATIONS UNDERLYING FORWARD GUIDANCE

More specific and systematic verbal communication about the policy inclinations of the central bank going forward – or forward guidance – has been used increasingly during the crisis. This is because a number of central banks have steered their policy rate to very low levels and have needed to provide additional monetary stimulus or intended to preserve the existing degree of accommodation in the face of heightened financial volatility.⁷

Forward guidance can serve two purposes. First, the aim of forward guidance may be to introduce greater monetary policy accommodation when the policy rate reaches the interest rate lower bound and cannot be reduced further, by providing assurance that the central bank intends to keep the policy rate low for some time, and for a longer period than the public initially expected.⁸ The information provided by the central bank that the policy rate is very unlikely to be raised for some time influences investors' expectations regarding future short-term rates and, through that channel, puts downward pressure on longer-term interest rates. In fact, it contributes to extracting duration risk from the market by reassuring investors that the interest rate risk implicit in holding long-dated fixed-income securities is reduced. This awareness encourages portfolio shifts into longer maturity assets and a compression of long-term yields.

Second, the provision of forward guidance, i.e. of more explicit information on the future path of policy interest rates conditional on the state of the economy, may be aimed at preventing market volatility – in particular interest rate volatility – from influencing the monetary policy stance in

5 For example, Sveriges Riksbank explained that the aim of publishing a policy path was to enhance openness and transparency, and to promote effectiveness, credibility and accountability. See the website of Sveriges Riksbank for more details on the rationale for its communication (<http://www.riksbank.se/en/Monetary-policy/Forecasts-and-interest-rate-decisions/Communication/>). See also <http://www.norges-bank.no/en/price-stability/monetary-policy-in-norway/communication-of-the-interest-rate-decision/> and http://www.rbnz.govt.nz/monetary_policy/monetary_policy_statement/

6 On the importance of communication for monetary policy, see Woodford, M., "Central-Bank Communication and Policy Effectiveness", paper presented at the FRB Kansas City Symposium on "The Greenspan Era: Lessons for the Future", August 2005. See also Issing, O., "Communication, transparency, accountability: monetary policy in the twenty-first century", *Federal Reserve Bank of St. Louis Review*, Vol. 87(2, part 1), 2005, pp. 65-83.

7 The interest rate lower bound, also referred to as the effective lower bound, is typically defined as the zero policy rate, although it is well recognised that the technical lower bound may be a somewhat negative rate.

8 See Eggertsson, G.B. and Woodford, M., "The Zero Bound on Interest Rates and Optimal Monetary Policy," *Brookings Papers on Economic Activity*, Vol. 34(1), 2003. See also Bernanke, B., Reinhart, V.R. and Sack, B.P., "Monetary Policy Alternatives at the Zero Lower Bound: An Empirical Assessment", *Brookings Papers on Economic Activity*, Vol. 35(2), 2004.

undesired directions and hampering the transmission of the existing amount of accommodation. In turn, reduced interest rate uncertainty will improve the planning of private economic agents with respect to their current and future economic decisions.

2.3 FORMS OF FORWARD GUIDANCE

In practice, different central banks have adopted different forms of forward guidance.⁹ Conditionality is an important feature of forward guidance, since it enhances the credibility of the central bank's orientation. In theory, in the modelling of forward guidance envisaged in the academic literature, the central bank makes a commitment to keep interest rates low for some time.¹⁰ In practice, rather than unconditionally committing to a specific path of policy interest rates, central banks typically emphasise how the interest rate path will evolve depending on the state of the economy. Conditionality also reflects the uncertainty faced by the central bank with respect to the economic outlook. In constructing its forward guidance statement, the central bank has to strike a balance between the need to give a clear and simple message and the need to adequately convey the complexity of its underlying monetary policy assessment.

The following four categories of forward guidance can be distinguished.

- (1) **Pure qualitative forward guidance** has no explicit end-date or numerical thresholds that provide information about the likely evolution of policy interest rates in the future and no explicit reference to a configuration of underlying conditions, including regarding the objectives of policy, which would justify this evolution. Examples include the forward guidance provided by the Federal Reserve System in 2003, when it stated that “policy accommodation can be maintained for a considerable period”; the Federal Reserve used similar statements at the start of the crisis in 2008-2009.
- (2) **Qualitative forward guidance conditional on a narrative** provides qualitative statements about the likely evolution of policy interest rates complemented by a description of a combination of macroeconomic conditions under which the monetary policy orientation is expected to prevail. An example of this is the ECB's formulation adopted on 4 July 2013, which has been reiterated consistently since then. This type of forward guidance was also used before the crisis, in particular by the Bank of Japan in April 1999, when it declared that it was committed to a near-zero interest rate policy “until deflationary concerns would be dispelled”.¹¹
- (3) **Calendar-based forward guidance** entails making a conditional commitment based on the explicit date after which the stance of monetary policy is expected to change. For example, the Bank of Canada introduced calendar-based guidance in April 2009 with its statement that “conditional on the outlook for inflation, the target overnight rate can be expected to remain at its current level until the end of the second quarter of 2010”. The Federal Reserve also applied calendar-based guidance in 2011.

9 For an overview of forward guidance elements, see Contessi, S. and Li, L., “Forward Guidance 101B: A Roadmap of the International Experience”, *Economic Synopses*, Federal Reserve Bank of St. Louis, Vol. 28, 2013. See also Contessi, S. and Li, L., “Forward Guidance 101A: A Roadmap of the US Experience”, *Economic Synopses*, Federal Reserve Bank of St. Louis, Vol. 25, 2013.

10 See Eggertsson, G.B. and Woodford, M., “The Zero Bound on Interest Rates and Optimal Monetary Policy,” *Brookings Papers on Economic Activity*, Vol. 34(1), 2003, pp. 139-235. See also Woodford, M. “Methods of Policy Accommodation at the Interest-Rate Lower Bound”, presented at the Jackson Hole symposium, August 2012.

11 See Bernanke, B., Reinhart, V.R. and Sack, B.P., “Monetary Policy Alternatives at the Zero Lower Bound: An Empirical Assessment”, *Brookings Papers on Economic Activity*, Vol. 35(2), 2004.

- (4) **Outcome-based forward guidance** with explicit numerical conditions or thresholds that link central bank actions to a selected set of observed or projected economic variables. The Federal Reserve, after applying pure qualitative and calendar-based guidance, has moved to a form of outcome-based guidance with numerical thresholds on unemployment and inflation since the end of 2012. The Bank of England also introduced outcome-based guidance in August 2013 based on an explicit numerical threshold on unemployment. Overall, the decision to move to this form of forward guidance appears to reflect the desire to clarify how future policy will be affected by changes in the economic outlook, and the view that this could be achieved by linking forward guidance more directly to the central bank's economic objectives.¹²

3 THE ECB'S FORWARD GUIDANCE

3.1 THE DECISION TO ADOPT FORWARD GUIDANCE – MAIN OBJECTIVES

On 4 July 2013 the Governing Council of the ECB introduced forward guidance by announcing that it expected “the key ECB interest rates to remain at present or lower levels for an extended period of time”.¹³ Forward guidance has been maintained since then. In November 2013 the Governing Council reduced the key ECB interest rates further, which was fully in line with previous guidance. In January and February 2014 the Governing Council “firmly reiterated” its forward guidance. On 6 March 2014 the Governing Council explained that “this expectation is based on an overall subdued outlook for inflation extending into the medium term, given the broad-based weakness of the economy, the high degree of unutilised capacity, and subdued money and credit creation.”

The Governing Council's decision to introduce forward guidance came at a time when euro area money market interest rates had been rising and had become more volatile. Money market rates play a crucial role in determining the effective monetary policy stance as the money market is the very first stage of transmission of monetary policy decisions to the broad economy. The increased volatility of money market rates reflected how expectations of future key ECB interest rates had become overly sensitive to shocks disconnected from euro area economic conditions, most notably stemming from developments in financial market conditions and related uncertainties. Overall, rising money market rates and their increased volatility had caused an effective tightening of the monetary policy stance – compared with the stance warranted by the assessment of the outlook for price stability – and a withdrawal of the monetary accommodation introduced through previous policy actions, in particular the decision in May 2013 to reduce the policy rates.

Against this backdrop, in providing forward guidance, the ECB aims to provide greater clarity about the Governing Council's monetary policy orientation based on its assessment of the outlook for price stability, thereby enhancing the effectiveness of the ECB's monetary policy in the current circumstances. In particular, the Governing Council's decision to provide forward guidance was driven by the need to anchor market expectations of the future evolution of key ECB interest rates more firmly around a path warranted by the Governing Council's policy assessment of the outlook for price stability over the medium term. Achieving a firmer anchoring of market expectations was

12 See Bernanke, B., “Communication and Monetary Policy”, Speech given at the National Economists Club Annual Dinner, Herbert Stein Memorial Lecture, Washington D.C., 19 November 2013.

13 See also Praet, P., “Forward Guidance and the ECB,” available at VoxEU.org, 6 August 2013.

especially important at a time when markets were tending to react with excessive sensitivity to economic news unrelated to euro area fundamentals or to news that only confirmed the Governing Council's assessment of risks to price stability.

3.2 THE ECB'S FORWARD GUIDANCE – MAIN DESIGN FEATURES

The ECB's forward guidance has been designed around the following elements, taking into account the objective and the strategic framework of its monetary policy.

First, the Governing Council's expectation about key interest rates is based on the subdued outlook for inflation extending into the medium term, which is fully consistent with the ECB's primary objective of maintaining price stability in the euro area and with the Governing Council's aim to keep inflation below, but close to, 2% over the medium term. In addition, the quantitative definition of price stability provides a clear metric against which expectations regarding key ECB interest rates can be formed.

Second, the ECB's reference to an "extended period of time" in its forward guidance formulation constitutes a flexible horizon, which neither has a pre-determined end-date, nor relates to explicit quantitative thresholds. Instead, the length of the extended period of time is determined by the Governing Council's assessment of the outlook for price stability over the relevant horizon, namely the medium term.

Third, the ECB's forward guidance is complemented by the description of the underlying conditions upon which the Governing Council's expectation about key ECB interest rates is based. These conditions reflect the ECB's strategic approach to assessing risks to price stability. The ECB's monetary policy strategy does not single out specific indicators, but rests on a diversified, comprehensive and robust analytical framework, with the Governing Council's assessment of the outlook for price stability taking into account a host of economic and monetary variables. On 6 March 2014 the Governing Council explained in its statement that its expectation was based on the "high degree of unutilised capacity", with the aim of further clarifying that, despite the improvement in the economic outlook, key ECB interest rates would remain at current or lower levels in the face of the large amount of slack in the economy.

Compared with the forms of forward guidance described in Section 2.3, the ECB's approach can be classified as a form of qualitative guidance conditional on a narrative, since it communicates the likely policy orientation through a qualitative statement without explicit relation to an end-date or numerical thresholds. In addition, the ECB's guidance is complemented by a statement describing the macroeconomic conditions under which the monetary policy orientation is expected to prevail. This statement is an important element of the ECB's guidance, as – compared with pure qualitative guidance – it provides additional clarification regarding the monetary policy reaction function going forward.

It is also worth noting the following two additional distinctive features of the ECB's forward guidance. First, the ECB's forward guidance is provided in relation to a multiple set of interest rates rather than a single interest rate. This feature derives from the specificities of the operational framework of the ECB, which offers two standing facilities to its counterparties: the marginal lending facility and the deposit facility. Within this operational framework, guidance on the full set of policy rates is needed to better align market expectations of the future stance of monetary

policy with the desired orientation. In addition, forward guidance by the ECB is not provided directly in relation to market interest rates. Money market rates reflect the influence of various determinants, of which policy rates are an important element.¹⁴

Second, the ECB started to provide forward guidance prior to exhausting the room for further rate cuts. This contrasts with the practice of using forward guidance at the effective lower bound, since there are greater merits to using forward guidance than at the lower bound. The ECB's forward guidance acknowledges the possibility that key ECB interest rates may be reduced further depending on the outlook for price stability. This "easing bias" in the forward guidance formulation is an important element, since it reinforces the coherence of forward guidance with the monetary policy strategy. In this regard, the Governing Council's decision of 7 November 2013 to lower key ECB interest rates was fully consistent with the established forward guidance framework.

3.3 IMPACT OF THE ECB'S FORWARD GUIDANCE

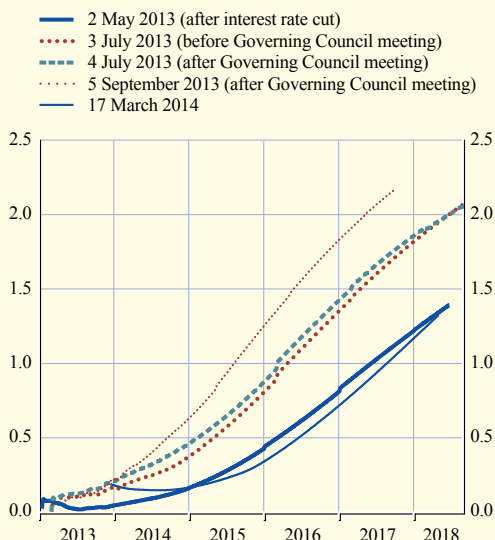
A natural starting point for assessing the effectiveness of forward guidance is to verify if the announcement led to an immediate market reaction that would reflect a change in financial market expectations. If the forward guidance contains information that is new and relevant to markets, a reaction can be expected (assuming that the announcement was not anticipated).

Beyond the initial market reaction, the impact of forward guidance can also be assessed over time based on the degree to which market interest rate expectations are in line with the central bank's policy intentions. This can be measured, in particular, in terms of the effect that forward guidance may exert on the uncertainty surrounding future policy rates and the volatility of current forward money market rates. Ultimately, forward guidance would need to be assessed against the macroeconomic impact resulting from the adjustments in expectations and market prices that it may have triggered. However, the lack of a counterfactual makes such assessments difficult in practice, which explains why empirical studies tend to concentrate on market reactions.¹⁵

Turning to the impact of the ECB's forward guidance, the announcement of 4 July 2013 triggered an immediate flattening of the money market curve (see Chart 1), with forward rates declining by

Chart 1 EONIA forward curves on selected dates

(percentages)



Sources: Thomson Reuters and ECB calculations.

Note: The bootstrapping method adopted is described in Annex 2.1.2 of Brousseau, V. and Durré, A., "Interest rate volatility: a consol rate-based measure", *Working Paper Series*, ECB, No 1505, January 2013.

¹⁴ For example, in current conditions, market rates are influenced by the extent of excess liquidity prevailing in the market. See the article entitled "Recent developments in excess liquidity and money market rates", *Monthly Bulletin*, ECB, Frankfurt am Main, January 2014.

¹⁵ See for example Gilchrist S., Lopez-Salido, D. and Zakrajsek, E., "Monetary policy and real borrowing costs at the zero lower bound", *Finance and Economics Discussion Series*, Vol. 3, Federal Reserve Board, 2014. See also Femia, K., Friedman, S. and Sack, B., "The Effects of Policy Guidance on Perceptions of the Fed's Reaction Function", *Federal Reserve Bank of New York Staff Report*, No. 652, 2013.

around five basis points at maturities over six months. In the months following the introduction of forward guidance, the forward curve started to steepen, reflecting positive economic releases from within and outside the euro area. The slope of the forward curve reached a new high in September 2013, before flattening in a sustained manner, in particular as a consequence of the November 2013 monetary policy decisions. More recently, despite some volatility, the forward curve has overall remained close to the level reached after the May 2013 decision for maturities of up to two years. This may signal that forward guidance has remained effective in steering market expectations at the maturities most relevant for monetary policy.

Besides the immediate market reaction, the ECB's forward guidance also led to a lasting decline in market uncertainty about the path of future short-term interest rates. Implied densities extracted from EURIBOR options and used to gauge expectations of the forward OIS rate show that the dispersion of short-term rate expectations has declined from the elevated levels observed in June 2013 to a level closer to that observed in early May 2013 (see Chart 2). On 2 May 2013, after the Governing Council had reduced the key ECB interest rates, market expectations

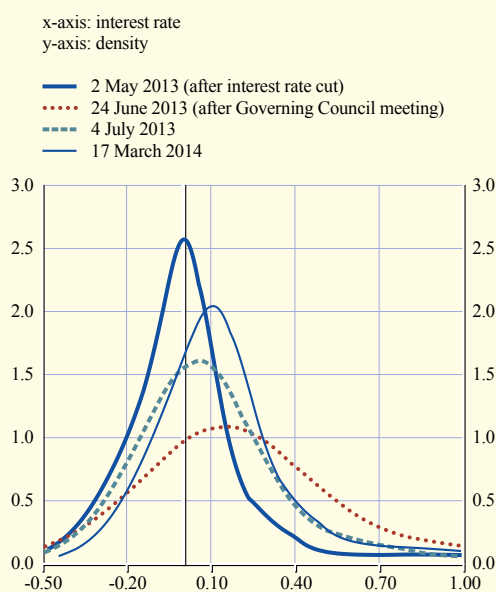
of future interest rates one year ahead were concentrated around low levels. Thereafter, uncertainty about future money market rates – measured by the width of the distribution – increased, reaching a peak on 24 June 2013. Forward guidance resulted in the narrowing of the dispersion with market expectations re-focused towards lower interest rate levels, accompanied by a downward shift in the mean expectation.

Finally, another way to assess the influence of forward guidance on money market rates is to measure changes in the responsiveness of money market rates to “news” that has a bearing on the outlook for price stability, for example to macroeconomic data releases. The sensitivity to news is especially relevant for forms of forward guidance – such as the one adopted by the ECB – that are motivated by the need to clarify the central bank's reaction function, rather than change it. If such guidance is effective, market forward interest rates would not be expected to react with excessive sensitivity to the type of news that has no bearing on the central bank's objective or to news that only confirms the central bank's assessment. In particular, in the presence of a subdued outlook for inflation, positive news should not lead to the anticipation of future rate hikes being brought forward, or at least not to an excessive degree compared to normal behaviour.

As previously noted, in the period prior to the ECB's announcement of forward guidance, markets had shown a tendency to react with excessive sensitivity to economic news unrelated to euro area

Chart 2 Uncertainty about future short-term money market rates

(Option-implied density of 3-months OIS rate in 12 months' time on selected dates)



Sources: NYSE Liffe and ECB calculations.

Note: The option-implied density of 3-months EURIBOR in 12 months' time is applied to the 3-months OIS rate in 12 months' time by shifting the option-implied density of 3-months EURIBOR in 12 months' time along the x-axis by the amount of the spread between the density mean and the forward 3-months OIS rate in 12 months' time. Densities are derived as in Puigvert-Gutiérrez, J.M. and de Vincent-Humphreys, R., "A Quantitative Mirror on the Euribor Market Using Implied Probability Density Functions", *Eurasian Economic Review*, Vol. 2(1), 2012, pp.1-31.

fundamentals or to data releases that were merely confirming the outlook already embedded in the Governing Council's assessment of the outlook. On the contrary, since the announcement of forward guidance, the sensitivity of money market forward rates to macroeconomic data releases has declined and has become more consistent with historical averages.

Overall, this evidence suggests that forward guidance has helped to provide greater clarity and transparency on the Governing Council's monetary policy orientation with respect to the future path of key ECB interest rates, conditional on the outlook for price stability. Forward guidance also appears to have contributed to more stable money market conditions and to have anchored expectations more firmly. Therefore, forward guidance has successfully supported the ECB in the pursuit of its mandate to maintain price stability in the euro area over the medium term.

4 CONCLUSION

This article examines forward guidance – a policy consisting of providing explicit statements on the conditional orientation of monetary policy with respect to the future path of policy interest rates – with a view to better aligning the expectations of economic actors with the central bank's intended policy rate path.

While some forms of forward guidance had been applied prior to the recent global financial crisis, it has been used more widely and intensively during this crisis as central banks have reached or have been close to the lower bound on their policy interest rate. In such a context, forward guidance is an effective tool to manage market expectations of future short-term interest rates more tightly around the desired monetary policy stance of the central bank, particularly in the face of heightened financial volatility. Central banks around the world have resorted to various forms of forward guidance, attaching different types of conditionality to their forward guidance, depending on the respective prevailing economic conditions and central bank mandates.

Against the background of the risk that more pronounced volatility in financial conditions would blur the desired monetary policy stance, the ECB adopted forward guidance in the form of explicit communication on the Governing Council's conditional orientation of monetary policy with respect to the future path of the key ECB interest rates. The ECB's forward guidance has aimed to clarify the Governing Council's assessment of the inflation outlook in the euro area and its monetary policy reaction to that assessment.

The evidence suggests that forward guidance has served the ECB's intentions well by providing greater clarity and transparency on the Governing Council's monetary policy orientation with respect to the future path of key ECB interest rates, conditional on the outlook for price stability. Forward guidance has measurably improved control over money market rates, contributing to more stable money market conditions and anchoring policy rates expectations more firmly. Therefore, forward guidance has successfully supported the ECB in the pursuit of its mandate to maintain price stability in the euro area over the medium term.