

Ben Bernanke to lead Bank of England review into forecasting

Appointment of former Fed chair follows criticism of UK's central bank for failing to predict persistence of inflation



Ben Bernanke said he was delighted to be leading the work © Al Drago/Bloomberg

Delphine Strauss in London JULY 28 2023

The Bank of England has asked former US Federal Reserve chair Ben Bernanke to review its economic forecasting after it came under heavy criticism for underestimating inflation.

The BoE's governing body, the court of directors, announced [Bernanke's](#) appointment on Friday, adding that the review would seek to strengthen support for the Monetary Policy Committee's approach to "forecasting and monetary policymaking in times of uncertainty".

Andrew Bailey, BoE governor, said the review would allow the bank "to take a step back and reflect on where our processes need to adapt". It will begin this summer, with findings published in spring 2024.

Bailey conceded in May that there were "very big lessons to learn" after the [central bank](#) failed to forecast high and persistent inflation, which reached a peak of 11.1 per cent in October 2022, and the bank announced plans for the review last month.

Huw Pill, BoE chief economist, told MPs in May that it was “almost inevitable” that models based on the past 30 years would go wrong in the face of big new shocks to the economy.

But the heavyweight appointment of Bernanke, who led the Federal Reserve in its response to the 2008-09 global financial crisis, suggests the UK’s central bank wants the review to look broadly at all aspects of its communication, not just at technical improvements to its modelling.

Bernanke was chair of the Fed in 2012 when it began publishing its “dot plot” — the predictions for the path of interest rates made by each of the Federal Open Market Committee’s members based on their own research and forecasting. Most other central banks, including the BoE, prefer to publish a single forecast.

However, the BoE often struggles to explain its policy decisions at times of big moves in markets. Its central forecasts for growth and inflation are built on market expectations for the path of interest rates, and this can produce results apparently at odds with the policy stance.

“If we want people to understand what we, the MPC, think is the necessary path of interest rates to achieve the inflation target, why not just tell them?” Gertjan Vlieghe, a former external member of the committee, argued in a [speech](#) in 2019.

Tony Yates, a former senior BoE official, said the central bank needed to become more transparent about a forecasting process that was “a mystery to the outside world”.

He added that, although it published the code underlying its modelling, forecasts published by the BoE were adjusted according to the judgments of the MPC, and the process by which the committee did this was “an indecipherable black box”.

Bernanke said he was delighted to be leading the work, as it was “right to review the design and use of forecasts . . . in light of major economic shocks”.

Letter in response to this article:

[*BoE had its head in the sand on inflation*](#) / [*From Martin Hewes, Hewes & Associates, Haslemere, Surrey, UK*](#)