

Rules in practice: Fed, ECB and SNB

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Abstract

How three central banks describe their own frameworks, how they use rules without following them, and how to compute a prescription yourself.

No major central bank follows a Taylor rule. All of them use rules as benchmarks, and their frameworks can be read as answers to the questions raised in this course: what is the target, how much weight goes on activity, and how is the stance communicated.

Federal Reserve

The FOMC's *Statement on Longer-Run Goals and Monetary Policy Strategy* sets a 2 percent inflation objective measured by the PCE price index. The August 2020 revision introduced two changes: inflation would be allowed to run moderately above 2 percent after periods below it, and policy would respond to *shortfalls* of employment from its maximum level rather than to deviations in either direction (Federal Open Market Committee, 2020). The “balanced-approach (shortfalls)” rule in Variants of the Taylor rule was added to the Monetary Policy Report to reflect that asymmetry. In August 2025 the Committee revised the statement again, returning to a flexible inflation-targeting formulation and dropping the shortfalls language, after the inflation of 2021–2023 had shown the limits of the 2020 design.

The Fed's practice with rules is transparent and non-binding: the Monetary Policy Report shows the prescriptions of five rules against the actual rate and discusses the differences (Board of Governors of the Federal Reserve System, 2024).

European Central Bank

The ECB's 2021 strategy review replaced “below, but close to, 2 percent” with a symmetric 2 percent target over the medium term, measured by the HICP, and stated that when rates are near the lower bound, forceful or persistent action may be needed to avoid inflation settling below target (European Central Bank, 2021). The ECB has never published rule prescriptions the way the Fed does; its communication runs through the staff projections and, since 2022, a “data-dependent, meeting-by-meeting” formulation that is close to inflation-forecast targeting in the sense of (Svensson, 1997).

Swiss National Bank

The SNB defines price stability as a rise in the Swiss CPI of less than 2 percent per year, communicates through a *conditional inflation forecast* over three years, and since June 2019 implements policy with the SNB policy rate (Swiss National Bank, 2024). Three episodes make it a case study for this course.

- **2011–2015:** with the policy rate at zero and the franc appreciating, the SNB set a minimum exchange rate of 1.20 francs per euro. The stance was defined by the exchange rate, not by any interest-rate rule.
- **2015–2022:** a policy rate of minus 0.75 percent, well below any Taylor-rule prescription for a small open economy with low inflation, together with foreign-exchange interventions. The shadow-rate logic of Measuring the policy stance applies: the interventions eased beyond what the rate alone shows.

- **2022–2024:** rate increases to 1.75 percent and back down to 0.25 percent within two years as inflation rose above 2 percent and fell back. A first-difference rule on Swiss inflation would have prescribed a similar path, which is a reminder that simple rules often describe behaviour they were never used to set.

Compute a prescription yourself

The exercise below computes the Taylor (1993) and balanced-approach prescriptions for the United States from FRED series and lets you vary r^* . It needs `pandas` and `pandas-datareader`; the output-gap series is the CBO's, which is itself revised, so treat the result in the spirit of Real-time data and the Taylor rule.

```
import pandas as pd
from pandas_datareader import data as pdr

start = "2000-01-01"
cpi = pdr.DataReader("PCEPILFE", "fred", start).resample("QE").mean()      # core PCE
    ↪ index
gdp = pdr.DataReader("GDPC1", "fred", start)                               # real GDP
pot = pdr.DataReader("GDPPOT", "fred", start)                             # CBO potential
ffr = pdr.DataReader("FEDFUNDS", "fred", start).resample("QE").mean()

infl = 100 * (cpi / cpi.shift(4) - 1)                                     # four-quarter
    ↪ inflation
gap = 100 * (gdp["GDPC1"] / pot["GDPPOT"] - 1)                           # percent
    ↪ output gap
df = pd.concat({"pi": infl.iloc[:, 0], "gap": gap, "ffr": ffr.iloc[:, 0]},
    ↪ axis=1).dropna()

def taylor(df, r_star=2.0, pi_star=2.0, phi_pi=0.5, phi_x=0.5):
    return r_star + df["pi"] + phi_pi * (df["pi"] - pi_star) + phi_x * df["gap"]

df["taylor93"] = taylor(df)
df["balanced"] = taylor(df, phi_x=1.0)
df["taylor93_rstar1"] = taylor(df, r_star=1.0)
print(df.tail(8).round(2))
```

Three things to check in the output. First, the sign of the gap between the actual rate and the prescriptions in 2021–2022, when every rule called for increases long before they came. Second, how much the prescription moves when r^* drops from 2 to 1: exactly one percentage point, at every date. Third, the difference between the two rules whenever the gap is large; that is the *form* choice from Variants of the Taylor rule made visible.

What to take away

- Rules discipline the conversation more than the decision: they force the assumptions about r^* , the gap and the inflation measure into the open.
- The Taylor principle from The Taylor principle and determinacy is the one element every framework shares in practice: no central bank with a credible target lets the real rate fall as inflation rises for long.
- The stance is a comparison, not a number. State what the policy rate is being compared with, and the result becomes defensible.

Board of Governors of the Federal Reserve System. (2024). *Monetary policy report*. Board of Governors of the Federal Reserve System. https://www.federalreserve.gov/monetarypolicy/mpr_default.htm

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Federal Open Market Committee. (2020). *Statement on longer-run goals and monetary policy strategy*. Amended effective 27 August 2020. <https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy.htm>

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