low one) and then adjust the money supply when the actual inflation deviates from the target. Like nominal GDP targeting, inflation targeting insulates the economy from changes in the velocity of money. In addition, an inflation target has the political advantage that it is easy to explain to the public.

Notice that all these rules are expressed in terms of some nominal variable – the money supply, nominal GDP or the price level. One can also imagine policy rules expressed in terms of real variables. For example, the central bank might try to target the unemployment rate at 5 per cent. The problem with such a rule is that no one knows exactly what the natural rate of unemployment is. If the central bank chose a target for the unemployment rate below the natural rate, the result would be accelerating inflation. Conversely, if the central bank chose a target for the unemployment rate above the natural rate, the result would be accelerating deflation. For this reason, economists rarely advocate rules for monetary policy expressed solely in terms of real variables, even though real variables such as unemployment and real GDP are the best measures of economic performance.

The Taylor Rule of Monetary Policy

If you wanted to set interest rates to achieve stable prices, while avoiding large fluctuations in output and employment, how would you do it? This is exactly the question that central bank policy makers must ask themselves every day. As we discussed in Chapter 12, the short-term policy instrument that many central banks use is a short-term interest rate at which they will make short-term loans to the banking system – in other words, the 'official rate' or 'policy rate'. Whenever the central bank's interest rate-setting committee meets, it chooses a level for the policy rate. As we also saw in Chapter 12, the central bank's bond traders are then told to conduct open-market operations in line with the official rate. In terms of an *IS-LM* model, we can think of the central bank as choosing a point on the *IS* curve corresponding to a particular interest rate, and then expanding or contracting the money supply through open-market operations so that the *LM* curve intersects the *IS* curve at the interest rate chosen.

The hard part of the central bank's job is choosing the target for the official interest rate. Two general guidelines are clear. First, when inflation heats up, the official interest rate should rise. An increase in the interest rate will mean a smaller money supply and, eventually, lower investment, lower output, higher unemployment and reduced inflation. Second, when real economic activity slows – as reflected in real GDP or unemployment – the official interest rate should fall. A decrease in the interest rate will mean a larger money supply and, eventually, higher investment, higher output and lower unemployment.

The central bank needs to go beyond these general guidelines, however, and decide exactly how much to respond to changes in inflation and real economic activity. To help it make this decision, economist John Taylor proposed a simple rule for the official interest rate of the form:

$$\text{Nominal Official Interest Rate} = \text{Inflation} + 2.0 + 0.5\,(\text{Inflation} - 2.0) - 0.5\,(\text{GDP gap}).$$

The GDP gap is the percentage shortfall of real GDP from an estimate of its natural level.

The **Taylor rule** has the real official interest rate – the nominal rate minus inflation – responding to inflation and the GDP gap. According to this rule, the real official interest rate equals 2 per cent when inflation is 2 per cent and GDP is at its natural level. For each percentage point by which inflation rises above 2 per cent, the real official interest rate rises by 0.5 per cent. For each percentage point by which real GDP falls below its natural level, the real official interest rate falls by 0.5 per cent. If GDP rises above its natural level, so that the GDP gap is negative, the real official interest rate rises accordingly.

One way of interpreting the Taylor rule is as a complement to (or a tool of) inflation targeting, which we discuss in the next section.

15-3 Inflation Targeting: Rule or Constrained Discretion?

Since the late 1980s, many of the world's central banks – including those of Australia, Canada, Israel, New Zealand, Spain, Sweden and the United Kingdom, as well as the European Central Bank – have adopted some form of **inflation targeting**. Inflation targeting involves setting a target for inflation and changing interest rates from time to time in order to achieve that target. Clearly, it is not appropriate to change interest rates in response to *current* inflation – it is already too late to change today's prices. Instead, inflation targets are usually based on forecasts of inflation: if the central bank forecasts that inflation will rise in, say, a year or 18 months from now, because of inflationary pressures that are building up in the economy, then it may wish to raise short-term interest rates in an attempt to dampen those inflationary pressures.

Should we interpret inflation targeting as a type of pre-commitment to a policy rule? Not completely. In all the countries that have adopted inflation targeting, central banks are left with a fair amount of discretion. In particular, there is no explicit formula that dictates how much interest rates should be changed for a given deviation of inflation from its target. In addition, the central banks are sometimes allowed to adjust their targets for inflation, at least temporarily, if some exogenous event (such as an easily identified supply shock) pushes inflation outside the range that was previously announced.

In light of this flexibility, what is the purpose of inflation targeting? Although inflation targeting leaves the central bank with some discretion, the policy does constrain how this discretion is used. When a central bank is told simply to 'do the right thing', it is hard to hold the central bank accountable, because people can argue for ever about what the right thing is in any specific circumstance. By contrast, when a central bank has announced a specific inflation target, or even a target range, the public can judge more easily whether the central bank is meeting its objectives. Thus, although inflation targeting does not completely tie the hands of the central bank, it does increase the transparency of monetary

policy and, by doing so, makes central bankers more accountable for their actions. In that sense, inflation targeting may be viewed as a framework for constrained discretion on the part of the central bank.

The Taylor Rule and Inflation Targeting

One way to view the Taylor rule of monetary policy, which we discussed earlier, is as a complement to inflation targeting. Inflation targeting offers a plan for the central bank in the medium run, but it does not tightly constrain its month-to-month policy decisions. The Taylor rule may be a good short-run operating procedure for hitting a medium-run inflation target. According to the Taylor rule, monetary policy responds directly to inflation – as any inflation-targeting central bank must. But it also responds to the output gap, which can be viewed as a measure of inflationary pressures.[4]

However, because inflation targeting depends on setting interest rates according to *forecasts* of inflation, it might be argued that a Taylor rule consistent with such a policy should include *forecast* rather than current inflation, resulting in a **forward-looking Taylor rule** of the form:

$$\text{Nominal Official Interest Rate} = \text{Current Inflation} + 2.0 + 0.5\,(\text{Medium-Term Inflation Forecast} - \text{Inflation Target}) - 0.5\,(\text{GDP gap}).$$

According to this forward-looking Taylor rule, the central bank should raise the short-term real interest rate if inflation is forecast to exceed its target over the medium term.

A question now arises, however, as to whether the output gap should be included in the forward-looking Taylor rule. We suggested earlier that the output gap can be interpreted as a measure of inflationary pressures. However, if the central bank has already taken into account the size of the output gap in forming its inflation forecast, and it is committed to hitting that target regardless of the output gap, then it could be argued that the output gap should not appear at all in the interest rate-setting equation of an inflation-targeting central bank.

Of course, in practice, no central bank in the world actually sets interest rates slavishly according to a Taylor rule. As we have discussed, inflation targeting is best viewed as a framework for constrained discretion, rather than a rigid policy rule, so this question is to some extent academic. However, a number of economists have estimated Taylor rules for major central banks, such as the European Central Bank and the Bank of England, by looking at the pattern of their interest rate decisions and the size of the output gap and forecasts of inflation, and estimating the weights given to the forecast deviation of inflation from its target and the output gap econometrically (instead of just assuming that they are each 0.5). In other words, they attempt to see if the central bank's interest rate-setting behaviour is tantamount to following a forward-looking Taylor rule. Invariably,

[4] John B. Taylor, 'Discretion versus Policy Rules in Practice', *Carnegie-Rochester Conference Series on Public Policy*, 1993, vol. 39, pp. 195–214.

these studies find a non-zero weight attached to the output gap in the estimated forward-looking Taylor rule, even where the central bank in question is explicitly pursuing inflation targeting.

One possible interpretation of this evidence is that the central bank does to some extent take into account the effect of its interest rate decisions on the output gap and employment, even though its primary objective is to maintain low and stable inflation. For example, for a given deviation of forecast inflation from its target, if the economy is operating well above the natural rate, with a large negative output gap, the central bank may feel happier raising interest rates sharply, compared to a situation where the output is only a small way above its natural rate.

Indeed, central banks typically have a secondary duty to maintain stability of the economy more generally, even if their primary duty is to maintain price stability. For example, in the UK, the 1998 Bank of England Act states that the monetary policy objectives of the Bank of England are: 'a) to maintain price stability, and b) subject to that, to support the economic objectives of the government in relation to growth and employment'. Similarly, the official mandate of the European Central Bank lists the maintenance of price stability in the Euro Area as its 'primary objective', but adds that, 'without prejudice to the objective of price stability', it should support the 'general economic policies' of EMU member governments, 'with a view to contributing to the achievement of a high level of employment and sustainable and non-inflationary growth'.

Supporting the economic objectives of the government in relation to growth and employment may be interpreted as keeping one eye on the size of the output gap when setting interest rates.

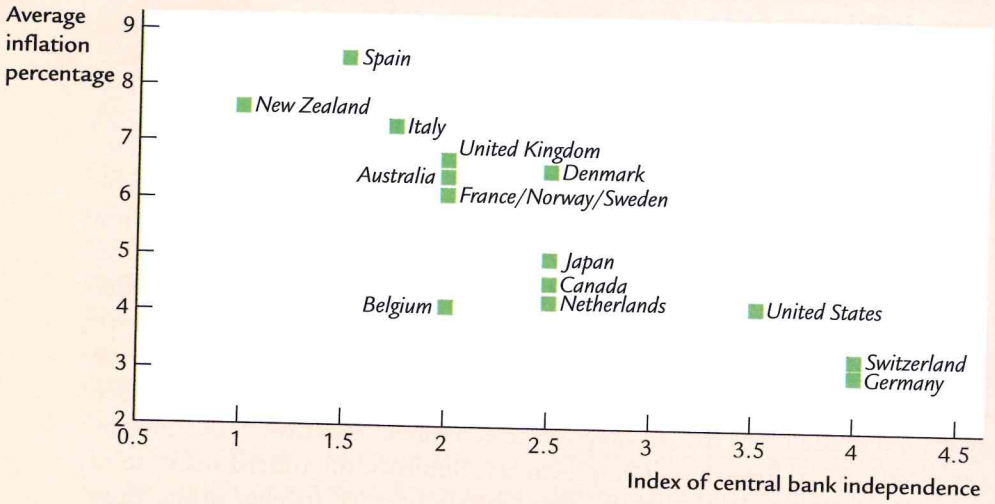
15-4 Central Bank Independence

Suppose you were put in charge of writing the constitution and laws for a country. Would you give the government of the country authority over the policies of the central bank? Or would you allow the central bank to make decisions free from such political influence? In other words, assuming that monetary policy is made by discretion rather than by rule, who should exercise that discretion?

Countries vary greatly in how they choose to answer this question. In some countries, the central bank is a branch of the government; in others, the central bank is largely independent. Many researchers have investigated the effects of constitutional design on monetary policy. They have examined the laws of different countries to construct an index of central bank independence. This index is based on various characteristics, such as the length of bankers' terms, the role of government officials on the interest rate-setting committee, and the frequency of contact between the government and the central bank. The researchers then examined the correlation between central bank independence and macroeconomic performance.

The results of these studies are striking: more independent central banks are strongly associated with lower and more stable inflation. Figure 15-3 shows a

FIGURE 15-3



Inflation and Central Bank Independence This scatterplot presents the international experience with central bank independence. The evidence shows that more independent central banks tend to produce lower rates of inflation.

Source: Figure 1a, p. 155, of Alberto Alesina and Lawrence H. Summers, 'Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence', *Journal of Money, Credit, and Banking*, May 1993, vol. 25, pp. 151–162. Average inflation is for the period 1955–1988.

scatterplot of central bank independence and average inflation for the period 1955 to 1988. Countries that had an independent central bank, such as Germany, Switzerland and the United States, tended to have low average inflation. Countries that had central banks with less independence, such as New Zealand and Spain, tended to have higher average inflation.

Researchers have also found there is no relationship between central bank independence and real economic activity. In particular, central bank independence is not correlated with average unemployment, the volatility of unemployment, the average growth of real GDP or the volatility of real GDP. Central bank independence appears to offer countries a free lunch: it has the benefit of lower inflation without any apparent cost. This finding has led some countries, such as the UK in 1997 and Sweden in 1999, to rewrite their laws to give their central banks greater independence.[5]

[5] For a more complete presentation of these findings and references to the large literature on central bank independence, see Alberto Alesina and Lawrence H. Summers, 'Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence', *Journal of Money, Credit, and Banking*, May 1993, vol. 25, pp. 151–162. For a study that questions the link between inflation and central bank independence, see Marta Campillo and Jeffrey A. Miron, 'Why Does Inflation Differ Across Countries?' in Christina D. Romer and David H. Romer, eds, *Reducing Inflation: Motivation and Strategy*, Chicago: University of Chicago Press, 1997, pp. 335–362.

15-5 Inflation Targeting and Central Bank Independence

In recent years, a number of countries have given their central banks greater independence in the setting of interest rates, as well as instructing them to pursue an explicit policy of inflation targeting. Four important central banks that have done this are the European Central Bank, the Bank of England, the Riksbank (Sweden's central bank) and the Norges Bank (Norway's central bank). The US Federal Reserve has always enjoyed independence in setting interest rates, although it has not explicitly adopted inflation targeting until recently (January 2012). Let's take a closer look at each of these central banks and how they set monetary policy.

The European Central Bank

The European Central Bank (ECB), located in Frankfurt, Germany, was officially created on 1 June 1998, as a number of European countries had decided that they wished to enter European monetary union and have the same currency – the euro – circulating among them. We will discuss the pros and cons of monetary union in Chapter 17. For now, though, we just note that if a group of countries has the same currency, then the countries in the group must have a common monetary policy, and the ECB was set up for precisely this purpose. The primary objective of the ECB is to promote price stability throughout the Euro Area, and to design and implement monetary policy that is consistent with this objective. Monetary policy at the ECB is both designed and set by its Governing Council. The Governing Council, which meets every two weeks in Frankfurt and includes a representative of each of the 17 member countries, as well as other ECB officials, is the most important decision-making body of the ECB, and decides, for example, on the level of the ECB's official interest rate, the refinancing rate. The Governing Council also decides how to interpret its duty to achieve price stability.

Formally, the ECB follows a 'two-pillar strategy' of monetary policy, where the first pillar is based on monitoring the growth rate of the money supply, while the second pillar is based on maintaining stable inflation over the medium term.[6] However, a number of economists have argued that, in practice, the ECB appears to have concentrated on the 'second pillar' and has effectively pursued inflation targeting.

In October 1998, the ECB agreed that price stability should be defined as a year-on-year increase in prices of less than 2 per cent, as measured by the annual change in a Harmonized Index of Consumer Prices throughout the Euro Area. A problem with this definition of price stability, however, is that 'less than 2 per cent' is a little vague – an annual inflation rate of 1 per cent and an annual

[6] See ECB, *The Monetary Policy of the ECB*, 2nd edn, Frankfurt: European Central Bank, 2004.

inflation rate of 0 per cent are both less than 2 per cent. In fact, some people were worried that the ECB might even aim for falling prices or negative inflation in order to achieve its target of less than 2 per cent. As we discuss more fully in the coming chapters, this would tend to reduce sharply output and employment in the economy, especially in the short to medium run. In May 2003, therefore, the Governing Council confirmed its official definition of price stability as less than 2 per cent per annum, but clarified that it would seek to maintain inflation rates close to 2 per cent over the medium term.

An important feature of the ECB is its independence. In setting monetary policy, the ECB is not allowed to seek or take instructions from any external body, including any member governments or any European Union institutions. The members of the Governing Council are all appointed for non-renewable terms of office, ranging from five to eight years, so that their decisions cannot be influenced by a desire to be reappointed.

The Bank of England

The Bank of England was founded in 1694, although it is not the oldest European central bank (the Swedish Riksbank was founded in 1668). Despite its name, the Bank of England is in fact the central bank for the whole of the United Kingdom. Arguably the most significant event in the Bank's 300-year history was when the UK government granted it independence in the setting of interest rates in 1997, which was formalized in an Act of Parliament in 1998. The important body within the Bank that makes the decision on the level at which to set the Bank's key interest rate, the Official Bank Rate (previously the repo rate), is the Monetary Policy Committee (MPC). The MPC consists of the Governor and two Deputy Governors of the Bank of England, each of whom is appointed by the Chancellor of the Exchequer (the UK Finance Minister), two other members appointed by the Bank after consultation with the Chancellor, and four other members appointed by the Chancellor. The Governor and the two Deputy Governors serve five-year renewable terms of office, while other MPC members serve three-year renewable terms. The MPC meets monthly and its interest-rate decision is announced immediately after the meeting.

Like the ECB, one of the Bank of England's primary duties is to deliver price stability. Also in common with the ECB, it enjoys independence in the setting of monetary policy – and in particular interest rates – in order to achieve the objective of price stability. *Unlike* the ECB, however, the Bank of England does not have the freedom to define for itself precisely what 'price stability' means in this context. This is done by the UK government and, in particular, by the Chancellor of the Exchequer. In fact, the 1998 Bank of England Act requires that the Chancellor write to the Governor of the Bank of England once a year to specify what price stability is to be defined as. Currently, the inflation target of 2 per cent is expressed in terms of an annual rate of inflation based on the consumer price index (CPI). If the target is missed by more than 1 percentage point on either side (i.e. if the annual rate of CPI inflation is more than 3 per cent or less than 1 per cent) the Governor of the Bank of England must write an

open letter to the Chancellor explaining the reasons why inflation has increased or fallen to such an extent, and what the Bank proposes to do to ensure that inflation comes back to the target.

Since the ECB is free to choose its own objectives in its interpretation of price stability (e.g. an inflation target of 2 per cent), as well as the instruments it wishes to use in order to achieve those objectives (e.g. the setting of short-term interest rates), the ECB is said to have *objective independence* as well as *instrument independence*. In contrast, while the Bank of England is free to choose its instruments of monetary policy (and it chooses to set short-term interest rates), its objectives (e.g. a 2 per cent inflation target) are set by the UK Chancellor of the Exchequer, so that the Bank has *instrument independence* but not *objective independence*. Observers have also argued that the Bank of England is less independent of government than the ECB because the UK Chancellor directly appoints or is consulted on the appointment of the MPC members.

The Riksbank

In November 1992, the Swedish central bank, the Riksbank, abandoned its policy of pegging the value of the Swedish krona following speculative attacks on this and other European currencies (as we discussed in a case study in Chapter 13). After a brief period, the Riksbank declared, in January 1993, that the new flexible exchange rate policy would be combined with an explicit target for inflation. This decision was based partly on the recent positive experiences of inflation targeting in other countries. Sweden thus became the fourth country to introduce a formal inflation targeting regime (New Zealand had been the first, followed by Canada and the UK), and announced a CPI annual inflation target of 2 per cent.

It was decided, however, to have a transitional period, 1993–1994, because large initial inflationary impulses were expected from the depreciation of the krona and increases in indirect taxes that would have made the 2 per cent target infeasible in the short term.

Although it took several years, the Riksbank's independence and legal mandate to maintain price stability was put into law in 1999. Interest rate decisions at the Riksbank are taken by its Executive Board, which is composed of six members, who are also full-time employees of the Riksbank – the Governor and five Deputy Governors. These are appointed by a General Council, which in turn is elected by the Swedish Parliament and consists of 11 members. The six members of the Executive Board are appointed for six-year terms, with overlapping mandates, so that normally one appointment is made each year.

Like the ECB, the Riksbank, as well as being free to set the official interest rate, is also free to interpret its legal objective to maintain price stability and to set its inflation target. It thus has objective independence as well as instrument independence.

The Riksbank Executive Board meets to discuss and set monetary policy around eight times a year. These monetary policy meetings, at which interest rate decisions are taken and released to the press shortly afterwards, are announced

four to six months in advance, and edited minutes of the meetings are published with a delay of around two weeks.

The Norges Bank

Norway adopted inflation targeting in 2001, and its government gave the Norwegian central bank, the Norges Bank, instrument independence in setting its official rate to achieve a target of CPI inflation of 2.5 per cent over time. The Norges Bank's Executive Board sets the official rate at regular times, normally every eighth week, and the interest rate decision is published shortly afterwards. The dates of monetary policy meetings are announced in advance, although the minutes of the meetings are not published. The Executive Board consists of two internal members – the Governor and Deputy Governor – and five external members drawn from the private sector and academia (at the time of writing this chapter, the Executive Board included two professors of economics).

The US Federal Reserve System

The US Federal Reserve System, commonly referred to as 'the Fed', was created in 1914. The Fed is run by its Board of Governors, which has seven members appointed by the US President. Six of the governors have 14-year terms to give them independence from short-term political pressures when they formulate monetary policy, although the Chairman has a four-year term. The Federal Reserve System is made up of the Federal Reserve Board in Washington, DC, and 12 regional Federal Reserve Banks located in major cities around the US.

At the Federal Reserve, monetary policy is made by the Federal Open Market Committee (FOMC). The FOMC meets about every six weeks in Washington, DC, to discuss the condition of the economy and consider changes in monetary policy, including the setting of its official interest rate, the discount rate. It is made up of the seven members of the Board of Governors and five of the twelve regional bank presidents.

The US Federal Reserve up until 2012 had not adopted an explicit policy of inflation targeting (although some commentators had suggested that it was, implicitly, targeting inflation between 1.7 and 2 per cent). However, in a historic shift, the Federal Reserve in January 2012 formally announced the setting of an inflation target at 2 per cent. For many this was regarded as a personal victory for the Chairman of the Federal Reserve and former professor of economics Ben Bernanke, who has been a very prominent advocate of inflation targeting.[7]

[7] See Ben S. Bernanke and Frederic S. Mishkin, 'Inflation Targeting: A New Framework for Monetary Policy?' *Journal of Economic Perspectives*, spring 1997, vol. 11, pp. 97–116.

15-6 Conclusion: Making Policy in an Uncertain World

In this chapter we have examined whether policy should take an active or passive role in responding to economic fluctuations, and whether policy should be conducted by rule or by discretion. There are many arguments on both sides of these questions. Perhaps the only clear conclusion is that there is no simple and compelling case for any particular view of macroeconomic policy. In the end, you must weigh the various arguments, both economic and political, and decide for yourself what kind of role the government should play in trying to stabilize the economy.

For better or worse, economists play a key role in the formulation of economic policy. Because the economy is complex, this role is often difficult. Yet it is also inevitable. Economists cannot sit back and wait until our knowledge of the economy has been perfected before giving advice. In the meantime, someone must advise economic policy makers. That job, difficult as it sometimes is, falls to economists.

The role of economists in the policy making process goes beyond giving advice to policy makers. Even economists cloistered in academia influence policy indirectly through their research and writing. In the conclusion of *The General Theory*, John Maynard Keynes wrote that

> the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

This is as true today as it was when Keynes wrote it in 1936.

Summary

1. Advocates of active policy view the economy as subject to frequent shocks that will lead to unnecessary fluctuations in output and employment unless monetary or fiscal policy responds. Many believe that economic policy has been successful in stabilizing the economy.
2. Advocates of passive policy argue that because monetary and fiscal policies work with long and variable lags, attempts to stabilize the economy are likely to end up being destabilizing. In addition, they believe that our present understanding of the economy is too limited to be useful in formulating successful stabilization policy and that inept policy is a frequent source of economic fluctuations.
3. Advocates of discretionary policy argue that discretion gives more flexibility to policy makers in responding to various unforeseen situations.

4. Advocates of policy rules argue that the political process cannot be trusted. They believe that politicians make frequent mistakes in conducting economic policy and sometimes use economic policy for their own political ends. In addition, advocates of policy rules argue that a commitment to a fixed policy rule is necessary to solve the problem of time inconsistency.
5. Since the late 1980s, many of the world's central banks have adopted inflation targeting. Inflation targeting involves setting a target for inflation and changing interest rates from time to time in order to achieve that target over the medium term of one to two years.

KEY CONCEPTS

Inside and outside lags
Automatic stabilizers
Lucas critique
Political business cycle
Time inconsistency
Monetarists
Taylor rule
Inflation targeting
Forward-looking Taylor rule

QUESTIONS FOR REVIEW

1. What are the inside lag and the outside lag? Which has the longer inside lag – monetary or fiscal policy? Which has the longer outside lag? Why?
2. Why would more accurate economic forecasting make it easier for policy makers to stabilize the economy? Describe two ways economists try to forecast developments in the economy.
3. Describe the Lucas critique.
4. How does a person's interpretation of macroeconomic history affect his or her view of macroeconomic policy?
5. What is meant by the 'time inconsistency' of economic policy? Why might policy makers be tempted to renege on an announcement they made earlier? In this situation, what is the advantage of a policy rule?
6. List three policy rules that the central bank might follow. Which of these would you advocate? Why?
7. Should a policy of inflation targeting be viewed as a policy rule or as a framework for constrained discretion on the part of the central bank?

PROBLEMS AND APPLICATIONS

1. Suppose that the trade-off between unemployment and inflation is determined by the Phillips curve:

$$u = u^n - \alpha (\pi - \pi^e),$$

where u denotes the unemployment rate, u^n the natural rate, π the rate of inflation and π^e the expected rate of inflation. In addition, suppose that one political party always follows a policy of high money growth and the other political party (assume that there are only two) always follows a policy of low money growth. What 'political business cycle' pattern of inflation and unemployment would you predict under the following conditions?

a. Every four years, one of the parties takes control based on a random flip of a coin.

(*Hint:* What will expected inflation be prior to the election?)

b. The two parties take turns.

2. When cities pass laws limiting the rent landlords can charge on apartments, the laws usually apply to existing buildings and exempt any buildings not yet built. Advocates of rent control argue that this exemption ensures that rent control does not discourage the construction of new housing. Evaluate this argument in light of the time-inconsistency problem.

3. Go to the website of the European Central Bank (www.ecb.int) and find and download the press release of the President of the ECB, explaining the last three monetary policy decisions. What kind of economic considerations underlay each of these decisions. What do you think of the ECB's policy?

4. Go to the website of the Bank of England (www.bankofengland.co.uk). Follow the link to 'Monetary Policy' and then download the Bank's latest *Inflation Report*. Summarize what it says. What is the outlook for inflation over the next two years? How did the Monetary Policy Committee respond to this outlook at its last meeting?