

## Changing Roles: Board and Staff under FPAS Mark II

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Hello everyone, I'm **Susanna Grigoryan**, an economist at the **Central Bank of Armenia** and a **Level One student at the Global Forecasting School**. Welcome back to the CBA Academy Learning Hub. In this session, we'll explore how the roles of the Board and staff evolve under FPAS Mark II — the Prudent Risk Management Approach to Price Stability.

Under FPAS Mark I, most central banks relied on a single baseline forecast. The process was deterministic — everything revolved around one expected path for inflation and output. But as uncertainty in the global economy grew, that approach became too rigid. FPAS Mark II replaces the deterministic baseline with structured, scenario-based analysis. The focus shifts from forecasting the future to managing risks across possible futures.

In this new environment, Board members are decision-makers under uncertainty. Their task is not to approve a single forecast, but to weigh alternative scenarios and assess how each might unfold depending on global shocks, transmission mechanisms, and behavioral responses. They deliberate on the least-regrets policy path — the one that minimizes potential losses if the world turns out differently than expected.

At the same time, the roles of staff have changed profoundly. Instead of defending a baseline, staff now act as facilitators of structured analysis. Their responsibility is to design coherent scenarios, quantify them with appropriate models, and clearly communicate the key uncertainties and trade-offs. FPAS Mark II makes staff the architects of the analytical framework, not the advocates of a single view.

Models continue to play a critical role in this system, but not all models are equally useful. Those that help us answer three fundamental questions stand at the heart of the framework. Where is the economy today? What are the driving forces behind its current trajectory? And what must we do with our instruments to achieve our objectives? Models that rely on massive judgmental adjustments or produce spurious statistical inputs have

little value in policy work. The focus is on models that strengthen human capital and institutional learning, not on mechanical forecasting exercises.

The relationship between the Board and the staff is now collaborative and dynamic. Board members bring judgment, experience, and policy perspective. Staff bring structure, quantification, and clarity. Together, they build a shared language for understanding risk and uncertainty. Regular interaction through policy rounds, workshops, and scenario briefings ensures that analysis and judgment evolve together.

This redistribution of roles under FPAS Mark II emerged from the realization that modern central banking requires institutions to adapt to structural uncertainty. The framework was developed in response to global disruptions — pandemics, geopolitical shocks, and nonlinear responses in the world economy. By integrating risk-based policymaking within a structured scenario framework, FPAS Mark II allows decision-makers to compare alternative worlds rather than rely on deterministic forecasts.

For Board members, this means assessing the full distribution of risks around the inflation target. Their goal is to interpret the policy-relevant scenarios prepared by staff using a least-regrets criterion that emphasizes prudence when uncertainty is high. This approach ensures that policy credibility is sustained even when outcomes deviate from expectations.

For staff, the analytical role centers on constructing the taxonomy of scenarios following the 3R principle — Related, Relevant, and Realistic. They quantify these scenarios using nonlinear models that include endogenous credibility and convex Phillips curve properties. They then present the implications clearly in the Executive Briefing before each policy round. Their ultimate goal is to help the Board understand trade-offs, not to dictate a single view.

FPAS Mark II also transforms the forecasting process into an ongoing feedback loop that builds institutional learning and human capital. As noted in the Prudent Risk Management Approach to Price Stability, each policy round strengthens internal accountability. Forecast errors and past assessments are treated as sources of insight — not as failures — allowing the institution to refine its models, processes, and communications. This continuous learning culture is what builds credibility over time.

The evolution in roles under FPAS Mark II ensures that decision-making becomes more transparent, by distinguishing analysis from judgment. It becomes more adaptive, by explicitly managing uncertainty. And it becomes more credible, by embedding prudence in every policy round.

In summary, FPAS Mark II transforms the institution. Board members decide under uncertainty. Staff facilitate structured learning and analysis. Models support, but never replace, informed human judgment. That is the essence of the Prudent Risk Management Approach to Price Stability — a living framework where every policy discussion strengthens institutional credibility.

Thank you for watching, and I would like to acknowledge **Douglas Laxton, Jared Laxton, Asya Kostanyan, and Sophio Mkervolidze** at the **Global Forecasting School** for their guidance and support in producing this video.

**See you there.**

### **Literature & Further Reading**

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