Banco de la República | Colombia
Somos el banco central de Colombia

State-dependent Forward Guidance and the Problem of Inconsistent Announcements

Working Paper 1035 Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Julian A. Parra-Polania

The opinions contained in this document are the sole responsibility of the author and do not commit *Banco de la República* or its Board of Directors.

Florez-Jimenez and Parra-Polania (2016) show that unconditional forward guidance (FG) performs poorly except in the most extreme zero lower-bound (ZLB) events and that for any ZLB situation it is better to resort to state-dependent (threshold-based) FG. The model of that paper is solved under the assumption that the threshold (to revert to the optimal discretionary policy) is announced in terms of an exogenous variable (the demand shock). The present paper shows that, when consistency of announcements is not considered, the solution does not change when the threshold is announced in terms of an endogenous variable (output or in?ation). However, the paper also illustrates the fact that an endogenous-variable threshold gives rise to inconsistency: the action taken may not conform to the central bank announcement. Consistency imposes limits on the policy rate that can be set since reverting to the optimal discretionary rate can be incompatible with exceeding the threshold.

Update: 22/03/2018, 10:56 a. m.

Fuente: https://www.banrep.gov.co/en/borrador-1035