



FORWARD GUIDANCE

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Outline

- Forward Guidance: A Special or Normal Policy

Sweden

- The Swedish Experience
- September 2011 Discrepancy

New Zealand

- The New Zealand experience



“Forward guidance”

a tool used by a central bank to provide some clues about future policy



1. SPECIAL OR NORMAL POLICY

- Special Policy
 - As a complement to monetary policy when the policy rate falls to lower bound
- Normal Policy
 - Forward guidance in the specific form of a published forecast for the interest rate
 - Along with “Flexible Inflation Targeting”



NORMAL POLICY: WHY INTEREST RATE?

- Transparency of inflation-targeting policy
- Effectiveness of monetary policy
- Informativeness to the market
- Justification of policy choice
- Accountability of central bank



NORMAL POLICY: NECESSARY CONDITION

- Predictability
 - Monetary policy should be so predictable that markets anticipate the new central-bank policy-rate path well.
- Creditability
 - Monetary policy should be so credible that the market policy-rate path shifts in the direction of the path and lines up well with it.



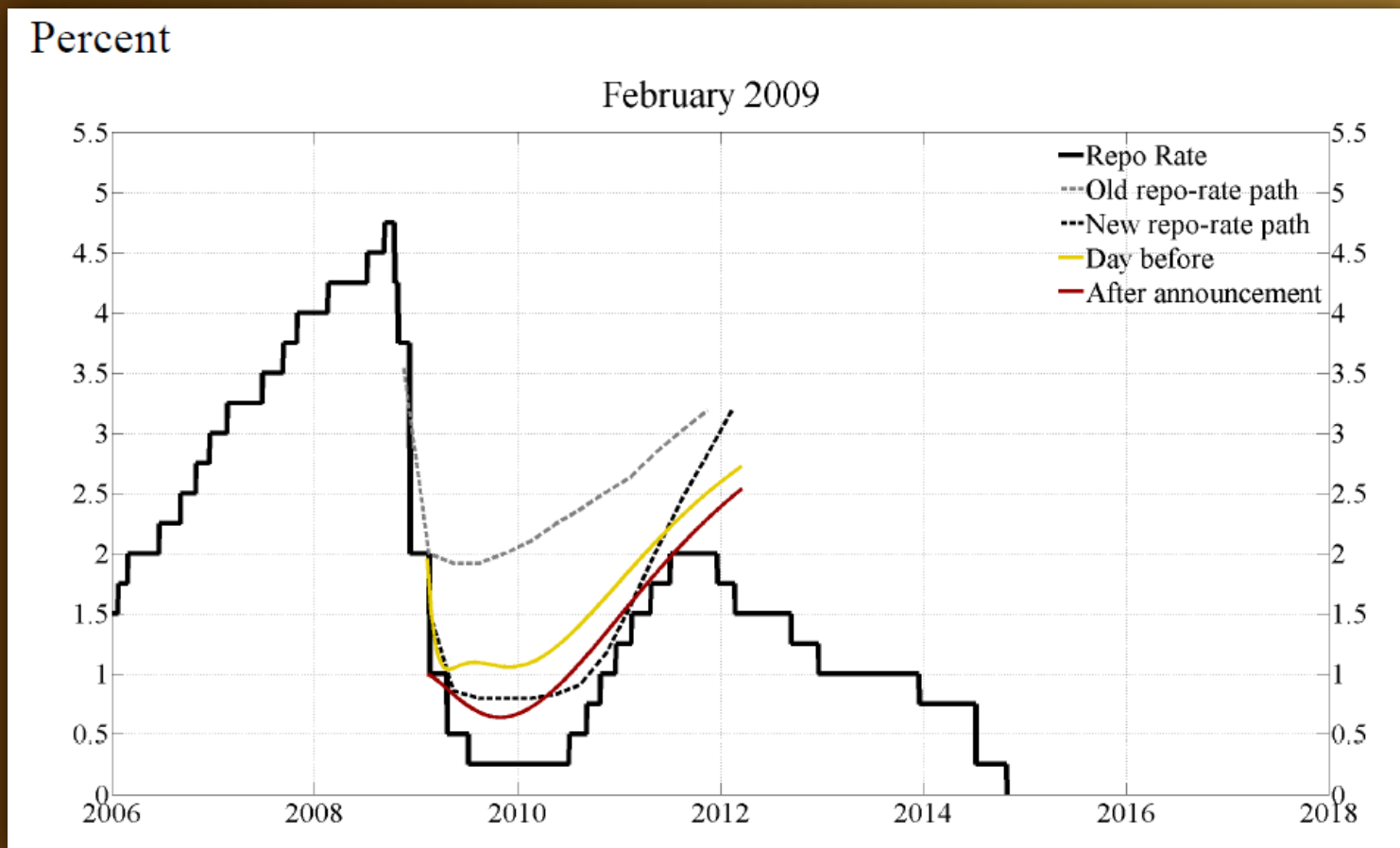
SVERIGES RIKSBANK

Sweden

- The Swedish Experience
- September 2011 Discrepancy

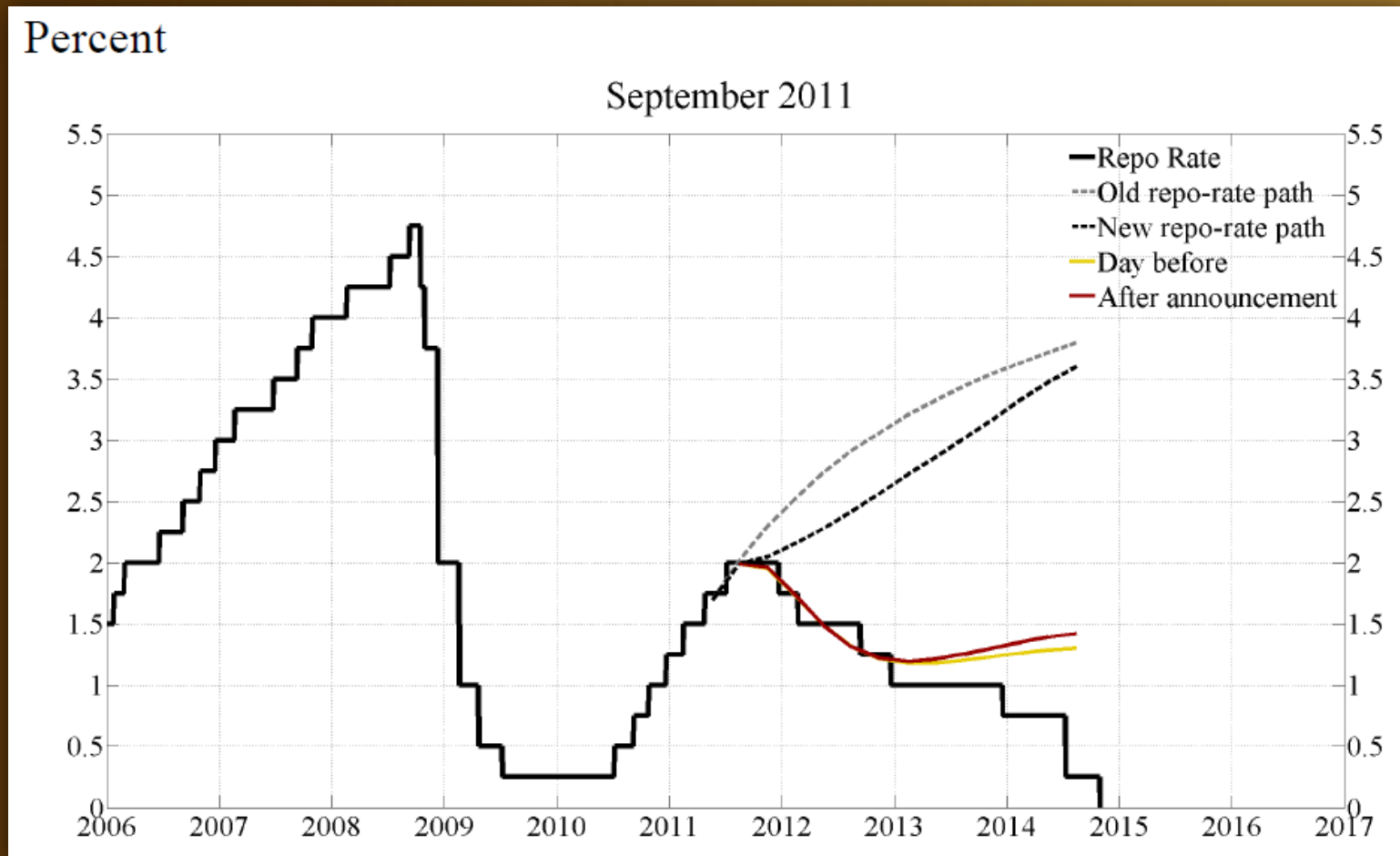


SWEDISH EXPERIENCE: GREAT SUCCESS



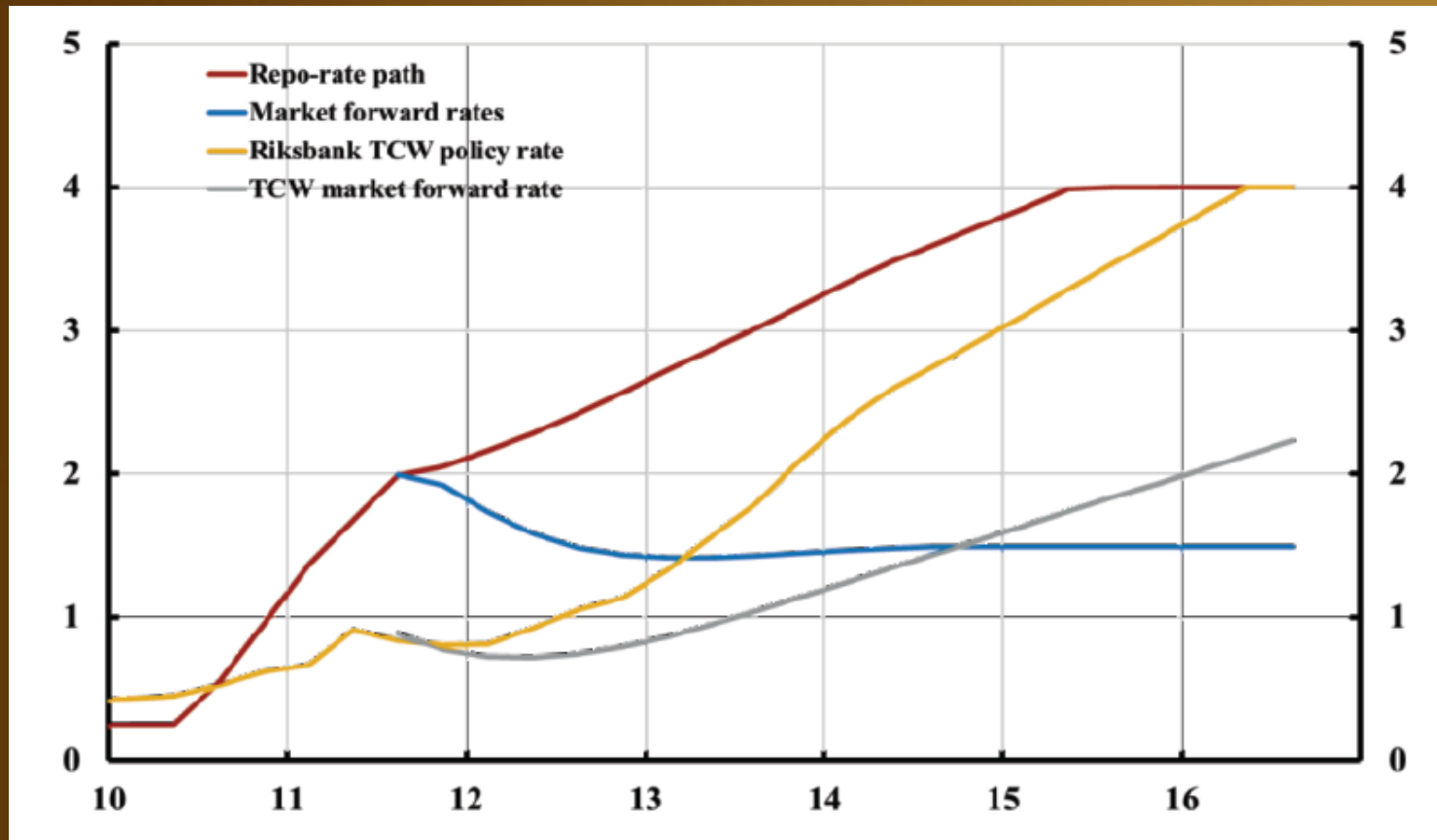


SWEDISH EXPERIENCE: GREAT FAILURE



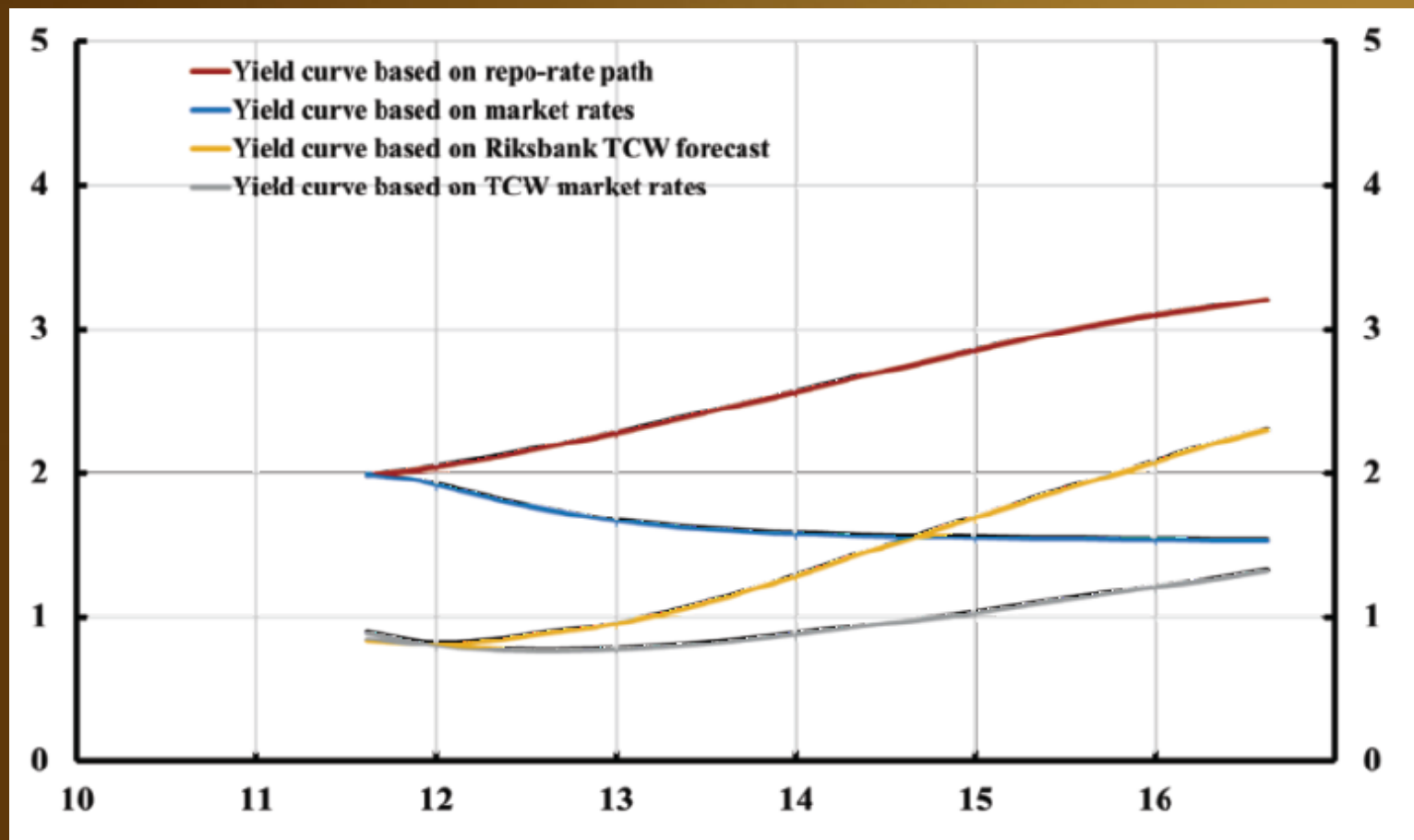


SEPTEMBER 2011 : WHAT'S HAPPEN



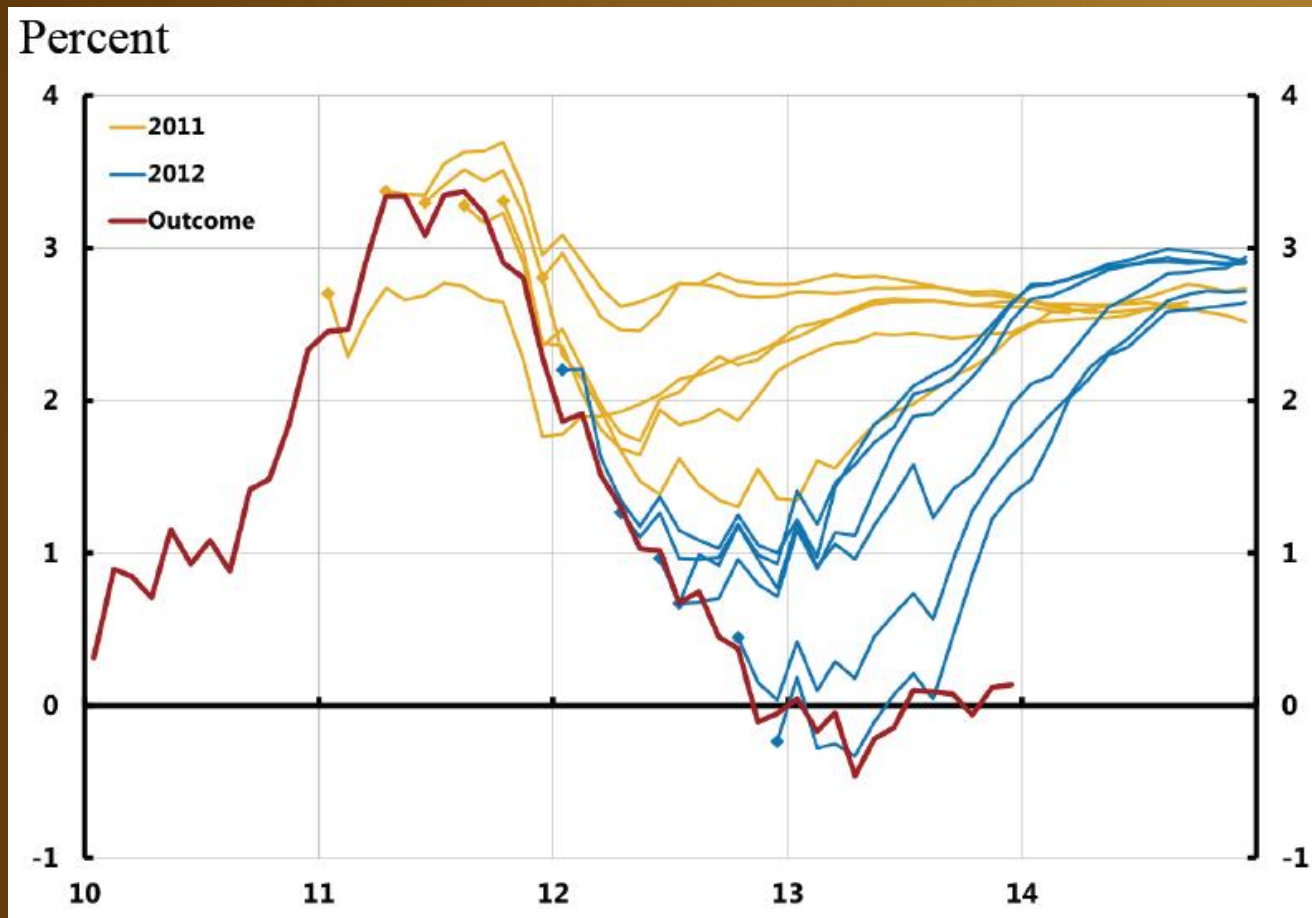


SEPTEMBER 2011 : WHAT'S HAPPEN





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RESERVE BANK OF NEW ZEALAND

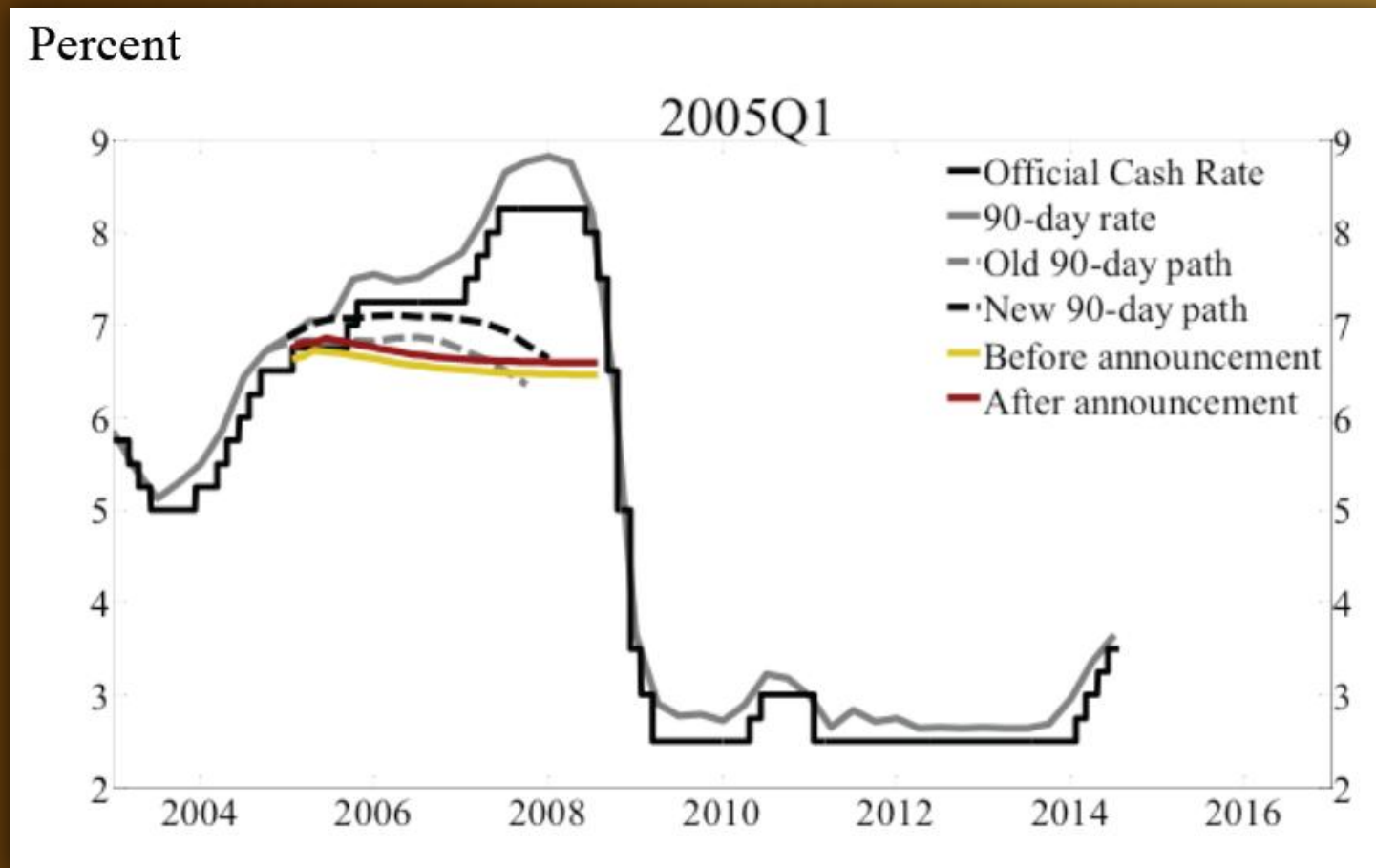


SOME CAUTIONS

- Policy Rate: Official Cash Rate
 - Market policy-rate paths is the expectations of this policy rate.
- Published Rate: RBNZ 90-day rate
 - During 1999Q1 to 2014Q3, average premium over OCR is 0.24 percentage point higher.

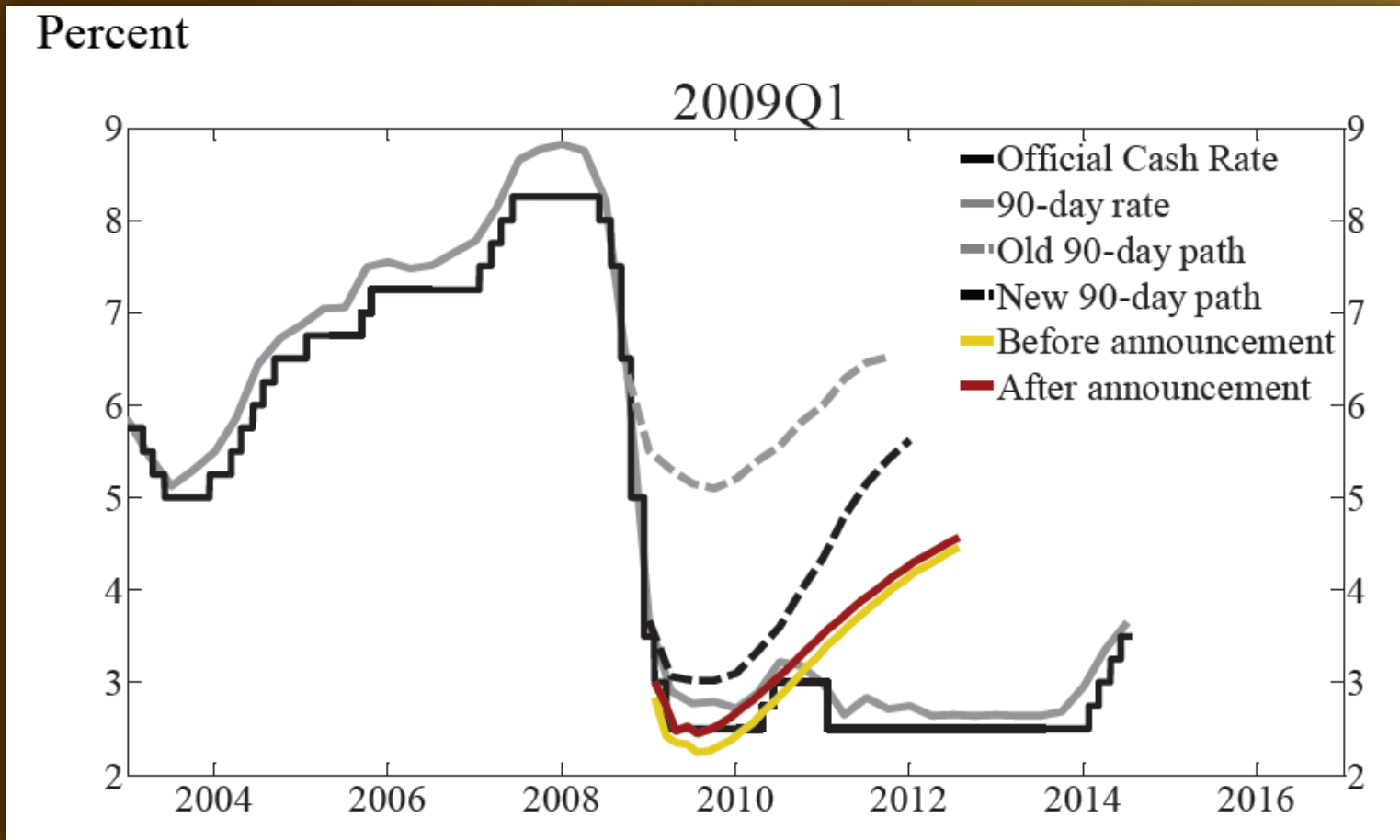


NEW ZEALAND EXPERIENCE: SUCCESS





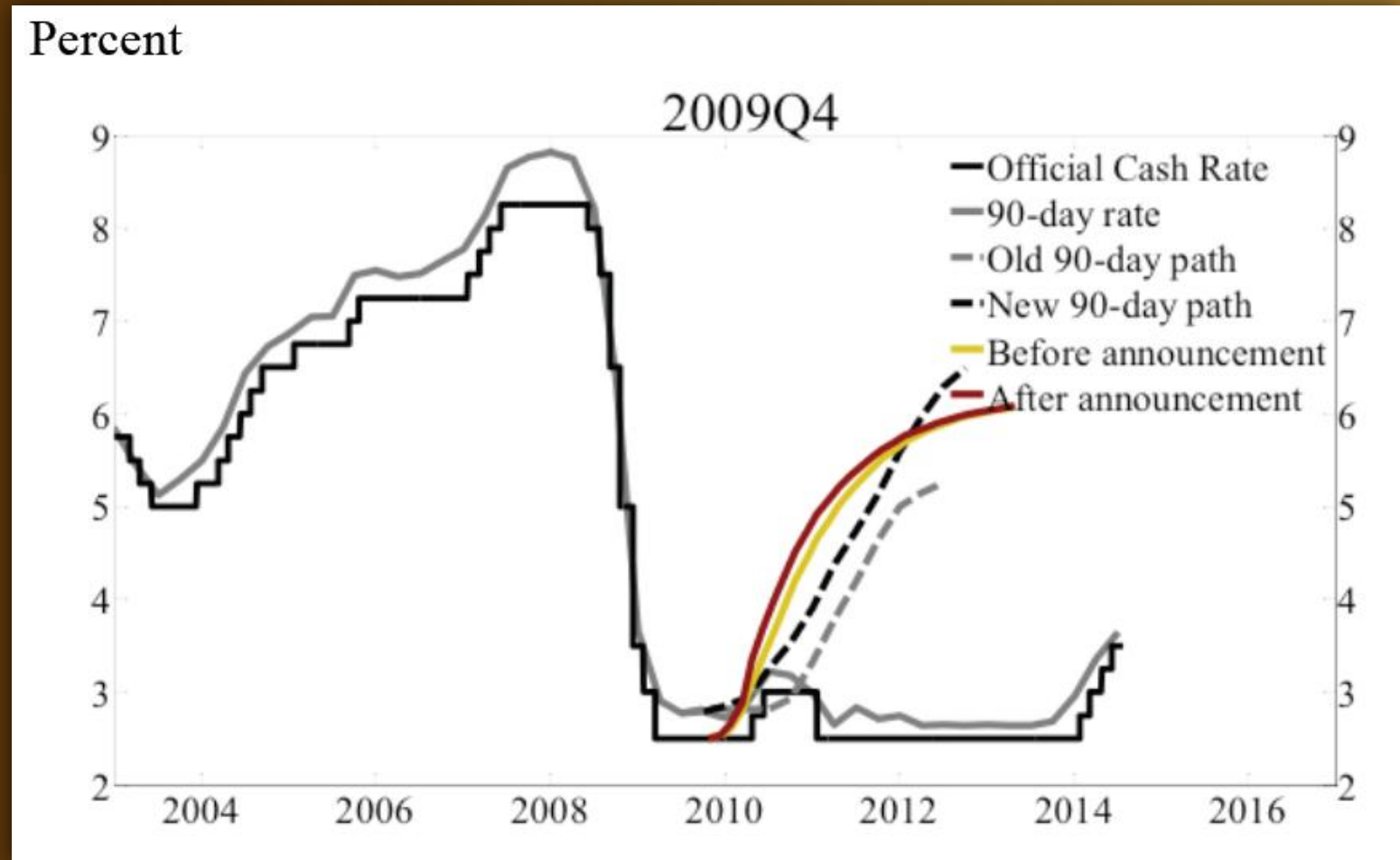
NEW ZEALAND EXPERIENCE: SUCCESS





2002	2002 %
J	- 23.15
F	- 17.23
M	- 27.27
A	- 23.66
MAY	- 2.71

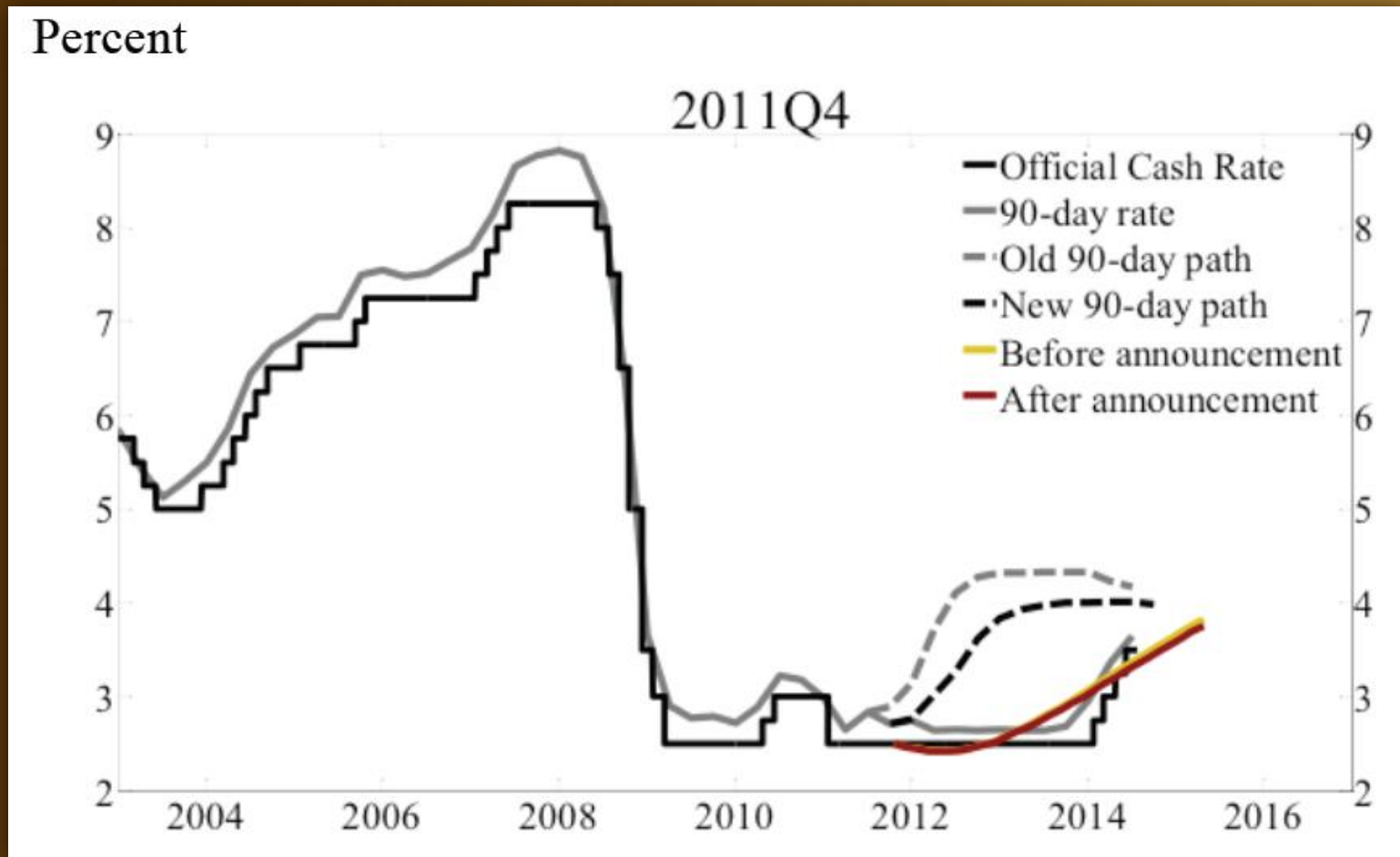
NEW ZEALAND EXPERIENCE: FAILURE





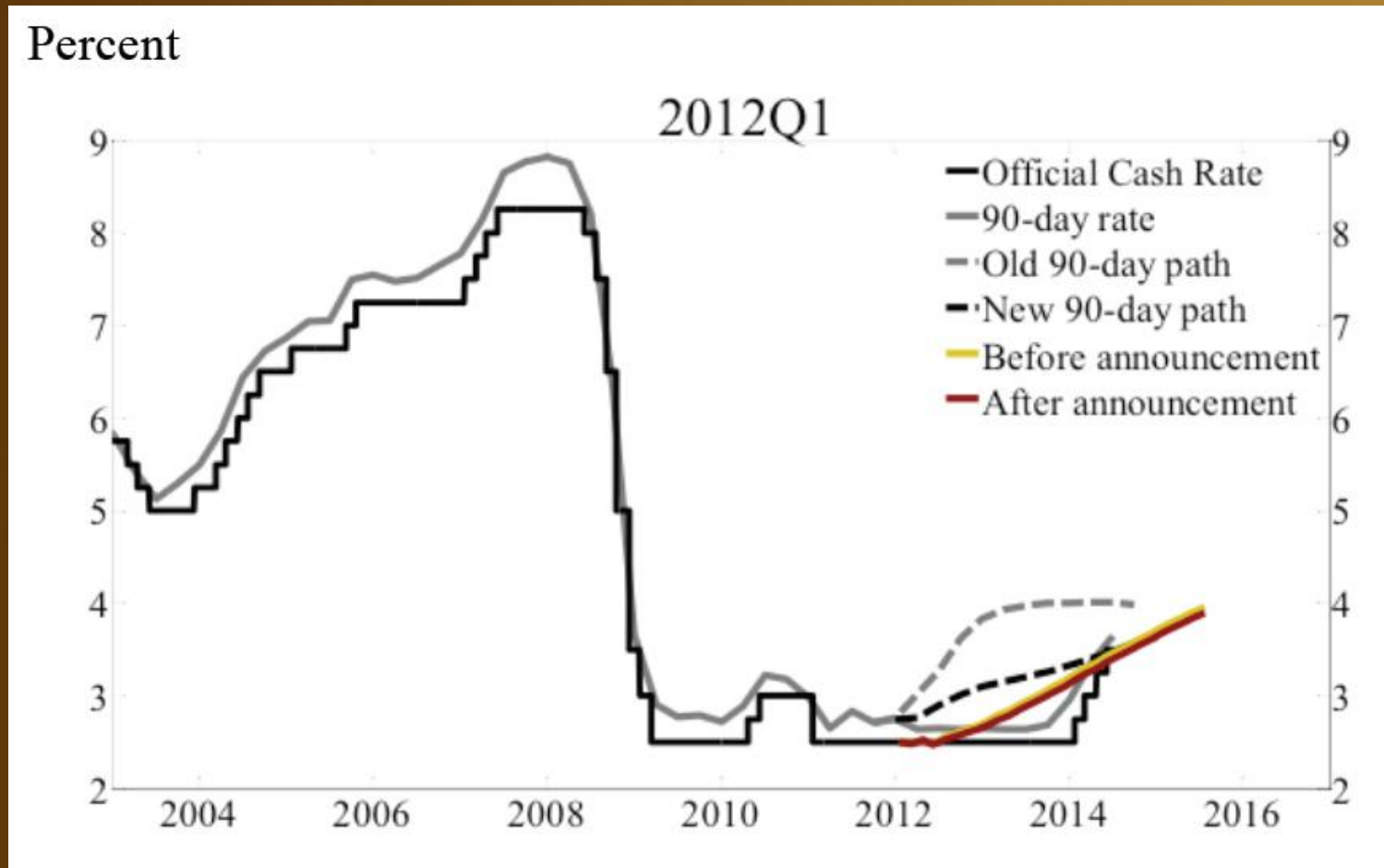
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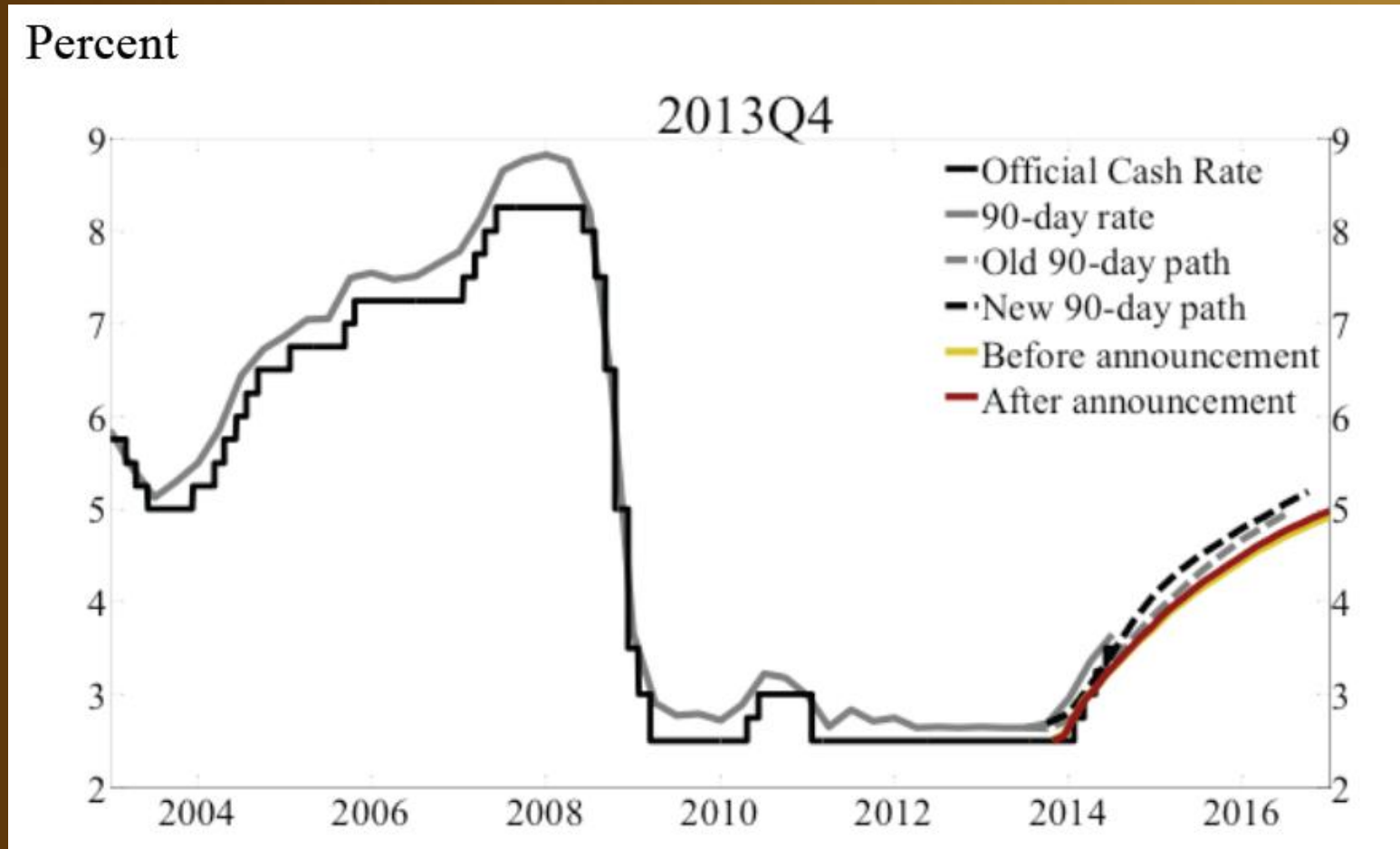


NEW ZEALAND EXPERIENCE: FAILURE





NEW ZEALAND EXPERIENCE: SUCCESS





Q & A