Blinder, Goodhart, Hildebrand, Lipton and Wyplosz,
"How Do Central Banks Talk?"
Discussion by Lars E.O. Svensson
www.iies.su.se/leosven/

- Great paper
- Modern macroeconomics
- Theory and practice of monetary policy and central banking
- Growing literature on transparency

- Strong case for central-bank transparency
  - Case for creative ambiguity gets fair hearing, is dismissed
  - Transparency enhances efficiency of monetary policy
    - Larger impact on expectations, term structure, asset prices
    - Objectives and intentions clearer and more credible, larger impact on price and wage setting
    - Reduces cost of unanticipated policy changes

- **Add**
  - Transparency improves discipline and commitment to objectives and process
    - Clear objectives
    - Stronger commitment to objectives
  - Transparency improves public understanding of monetary policy and support for the monetary-policy regime

- Price stability
  - Explicit inflation target (point or range)
- Lags
  - Inflation-forecast targeting
- Set instrument so forecasts of target variables consistent with objectives
- Forecasts crucial for practical monetary policy
- Transparency about forecasts crucial

- Forecasts conditional on instrument *path*
- Unchanged policy (constant nominal/real interest rate)

  For:
  - Easy, default
  - Direction of desirable instrument change

  Against:
  - Bad forecast, not expected, not compare w/ outcome
  - Inconsistent forecasts

- Best forecast of future instrument

  For:
  - Most transparent
  - Consistent forecasts
  - Best forecasts, compare w/ outcome

  Against:
  - Difficult to agree on?
    - Necessary for efficient policy
    - Aggregation possible
    - Majority forecast (minority dissent if needed)
  - Commitment?
    - Good (optimal inertia, Woodford)
    - No principle difference to other forecasts
    - Works fine in NZ!