

# News Release

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## **COMMUNICATING A POLICY PATH: THE NEXT FRONTIER IN CENTRAL BANK TRANSPARENCY?**

Central banks have taken a variety of steps to increase the transparency of monetary policy. Should they go even further? One area of considerable interest is the outlook for the future path of the policy rate, the short-term interest rate central bankers use to adjust the stance of monetary policy. While central banks typically announce changes in the policy rate when they occur, few banks currently provide an explicit description of where the policy rate is likely to be set in the future.

Federal Reserve Bank of Kansas City Vice President and Economist George Kahn explores the issue in “Communicating a Policy Path: The Next Frontier in Central Bank Transparency?” The article appears in the first quarter edition of the Bank’s Economic Review.

In his survey of current central bank practices, Kahn finds that though some central banks provide qualitative information about expected future policy rates, most stop short of communicating an explicit numerical path.

Among the pros of formulating and communicating a policy path, he finds, is enhanced monetary policy transparency that allows the public to judge whether a central bank’s goals are aligned with the public’s interests and whether the central bank’s actions are consistent with its goals. Among the cons is the concern that financial markets and the public will view an explicit policy path as an unconditional commitment rather than as a plan subject to change.

Kahn identifies some of the conceptual and practical issues that may limit a central bank’s ability and willingness to provide more information about the policy path. For instance, monetary policy committees may find it difficult to reach consensus on a policy path, especially when they comprise a large number of members with diverse views on the objectives of monetary policy, models and economic forecasts. This diversity may be a strength of monetary policy committees that offsets some or all of the benefits associated with forging a consensus on an explicit policy path.

