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## Federal Reserve Transparency and Financial Market Forecasts of Short-Term Interest Rates

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### Abstract

The 1990s and early 2000s witnessed an unprecedented increase in central bank transparency around the world, yet there has been little empirical work that convincingly demonstrates any economic benefits of increased central bank transparency. This paper shows that, since the late 1980s, U.S. financial markets and private sector forecasters have become: 1) better able to forecast the federal funds rate at horizons out to several months, 2) less surprised by Federal Reserve announcements, 3) more certain of their interest rate forecasts ex ante, as measured by interest rate options, and 4) less diverse in the cross-sectional variety of their interest rate forecasts. We also show that increases in Federal Reserve transparency are likely to have played a role: for example, private sector forecasts of GDP and inflation have not experienced similar improvements over the same period, indicating that the improvement in interest rate forecasts has been special.

**Keywords:** Transparency, monetary policy, forecasts**JEL Classification:** E52, E58, E43, E44[Suggested Citation](#) >[Show Contact Information](#) > Download This Paper (Delivery.cfm/SSRN\_ID515862\_code358088.pdf?abstractid=515862&mirid=1)

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