Chortareas, G.ª, Jitmaneeroj, B.ª, Wood, A.ª
Forecast rationality and monetary policy frameworks: Evidence from UK interest rate forecasts

ª Department of Economics, University of Athens, 8 Pesmazoglou Street, Athens 10559, Greece
ª Business School, University of the Thai Chamber of Commerce, Bangkok 10400, Thailand
ª Essex Business School, University of Essex, Wivenhoe Park, Colchester CO4 3SQ, United Kingdom

Abstract
We find evidence of heterogeneity and irrationality among professional forecasts for three-month inter-bank rates and ten-year gilt yields at both short and long forecast horizons over the period 1989-2006. The majority of biased forecasts overestimate the future spot rate, consistent with slow adjustment to the declining trend in inflation and interest rates. Furthermore, we produce evidence indicating that both monetary policy actions and elements of communication policy have information content regarding the rationality of forecasts. Changes in official bank rates and disagreement among the Monetary Policy Committee influence the rationality of forecasts. The publication of inflation reports has no effect. © 2011 Elsevier B.V.

Author Keywords
Heterogeneity; Monetary policy frameworks; Rational Expectations; Survey forecasts; Term structure

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