

Abstract

We examine some of the most basic devices that major central banks in Asia and the Pacific use to communicate with markets. First, we consider gradualism and reversal aversion in the setting of policy rates. We argue that in a world of uncertainty these patterns of behavior help market participants form expectations of future policy rates. Second, we analyse the statements released at the time of policy decisions and suggest that it is not so much the length of the statement that matters but the extent to which it focuses on forward-looking information. We then propose two tests for the effectiveness of central bank communication. The first is a version of the expectations hypothesis of the term structure of interest rates, which is a joint test of the effectiveness of communication and the informational efficiency of the domestic fixed-income market. The second is a surprises test, which compares the reaction of longer term interest rates to policy announcements with the reaction to macroeconomic news.