



BANQUE DU CANADA  
BANK OF CANADA

# Recherche mensuelle à la Banque du Canada

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octobre 2020

Ce bulletin mensuel présente les publications les plus récentes des économistes de la Banque. Le rapport inclut des études parues dans des publications externes et les documents de travail du personnel publiés sur le site Web de la Banque du Canada.

## PUBLICATIONS

### Dans la presse

Jain, Monica & Sutherland, Christopher, "How Do Central Bank Projections and Forward Guidance Influence Private-Sector Forecasts?", International Journal of Central Banking, Vol 16(5): 179-218, October 2020

### À paraître

Benedict, Craig & Landry, Anthony & Crucini, Mario, "On What States Do Prices Depend? Answers From Ecuador", Journal of Money, Credit and Banking

## DOCUMENTS DE TRAVAIL DU PERSONNEL

Hipp, Ruben, "On Causal Networks of Financial Firms: Structural Identification via Non-parametric Heteroskedasticity", Document de travail du personnel de la Banque du Canada 2020-42

## RÉSUMÉS

### *How Do Central Bank Projections and Forward Guidance Influence Private-Sector Forecasts?*

We construct a 23-country panel data set to consider the effect of central bank projections and forward guidance on private-sector forecasts. Despite the strong arguments in the literature in favor of releasing central bank policy rate projections, we find that the provision of these projections reduces neither private-sector forecast dispersion nor forecast error. Further, the policy rate assumption that central banks use in their macroeconomic projections has not appeared to matter much for private-sector forecasts. We also find that forward guidance tends to reduce the dispersion and error of interest rate forecasts but less so for macroeconomic forecasts. This is consistent with the idea in the literature that forward guidance can lower interest rate forecast disagreement without reducing macroeconomic forecast disagreement because forward guidance can be interpreted by forecasters as either Delphic or Odyssean.

### *On What States Do Prices Depend? Answers From Ecuador*

The frequency of retail price adjustment differs across goods, both in low inflationary environments, such as the United States, and in high inflationary environments typical of less developed countries. We develop a multishock menu cost model in which retailers intermediate trade between producers and consumers. Since the cost share of intermediate inputs varies across goods, the model produces a cross-sectional distribution of frequency of price adjustment even though firms face a common menu cost. The model is evaluated using a rich micropanel of retail prices in Ecuador in a period spanning a financial crisis and subsequent dollarization.

### *On Causal Networks of Financial Firms: Structural Identification via Non-parametric Heteroskedasticity*

We investigate the causal structure of financial systems by accounting for contemporaneous relationships. To identify structural parameters, we introduce a novel non-parametric approach that exploits the fact that most financial data empirically exhibit heteroskedasticity. The identification works locally and, thus, allows structural matrices to vary smoothly with time. With this causality in hand, we derive a new measure for systemic relevance. An application on volatility spillovers in the US financial market demonstrates the importance of structural parameters in spillover

analyses. Finally, we highlight that the COVID-19 period is mostly an aggregate crisis, with financial firms' spillovers edging slightly higher.

## ÉVÉNEMENTS À VENIR

**\*Toutes conférences et activités qui devaient être tenues sur place sont suspendues jusqu'à nouvel ordre. Tous les événements ci-dessous auront lieu en ligne.**

Robert Clark (Queen's University)

Organisateur: Série Conférencier FMD / FSD EFR

Date: 29 octobre 2020

2020 Bank of Canada's Annual Economic Conference - The Future of Money and Payments: Implications for Central Banking

Organisateurs: Jonathan Chiu, Mohammad Davoodalhosseini et Kim Huynh

Dates: 5 novembre 2020 – 7 novembre 2020

Leonardo Melosi (Chicago Fed)

Organisateur: Série Conférencier CEA/INT EFR

Date: 6 novembre 2020