

# Forward Guidance and Heterogeneous Beliefs\*

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## Abstract

We analyze the effects of forward guidance when agents have heterogeneous interpretations of whether forward guidance contains a commitment on future policy actions. Using survey expectations, we document that forward guidance lowered disagreement about future short-term interest rates to historically low levels while it did not affect much disagreement about future inflation and future consumption. We introduce heterogeneous beliefs on future policy and fundamentals in an otherwise standard New-Keynesian model. We show that, because the commitment type of the central bank is unobserved, agreement on the future path of interest rates can coexist with disagreement on the length of the trap. Such heterogeneity of beliefs can strongly mitigate the effectiveness of forward guidance. It also alters the optimal policy at the zero lower bound compared to a situation where beliefs are homogenous.

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