Central Bank Forecasts and Market Expectations in an Emerging Market:

The Case of Malaysia

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Abstract

Central banks utilise economic forecasts to influence market expectations and enhance the effectiveness of monetary policy. By sharing economic insights and providing guidance on potential economic trajectories, central banks aim to improve the understanding of the rationale behind their policy decisions among the public and financial markets. This approach seeks to align private sector activities and economic conditions with central bank policy objectives. Utilising Malaysian forecast data from the Asia Pacific Consensus Forecasts, this study examines the relationship between changes in analysts' expectations, and the initial forecast gap between Bank Negara Malaysia (BNM)'s near-term official forecasts and those of analysts. The findings indicate that BNM's short-term forecasts have a significant impact on analysts' near-term projections, particularly during periods of economic shock. However, the absence of explicit medium-term forecast guidance from BNM limits its influence on analysts' medium-term projections. This lack of a longer-term perspective may lead to herding behaviour among analysts and an increased reliance on other macroeconomic factors in forming medium-term outlooks.

Keywords: Forecast, Central bank communication, Monetary policy

JEL classification: E31, E52, E58

* Any views expressed are solely mine and should not be taken to represent those of the Central Bank of Malaysia, or the Government of Malaysia.

1. Introduction

Central banks use forecasts to influence market expectations and enhance the transmission of monetary policy.[1] By sharing economic insights and providing guidance on possible economic developments, central banks can shape market perceptions to support their policy goals. Providing these insights helps both the public and financial markets understand the rationale behind policy decisions and the central bank's response strategy. This approach aims to align private decisions and economic conditions more closely with the established policy objectives.

For policymakers, understanding the extent to which central banks influence these expectations is essential, as it enables them to assess the effectiveness of their communication strategies and tailor them to achieve desired outcomes.

To maximise the impact of their communication, central banks consider a diverse range of stakeholders, including the public, media, government, parliament, and financial market participants. By effectively communicating with these groups, central banks can strengthen the transmission mechanism of monetary policy, foster accountability, promote financial literacy, and facilitate coordination with other policymakers (Casiraghi and Pio Perez, 2022). Considering this, our study investigates the influence of the publication of BNM's forecasts on analysts' inflation and GDP growth expectations. Utilising Malaysian forecast data from the Asia Pacific Consensus Forecasts, we assess how changes in analysts' expectations are associated with the gap between BNM's and analysts' forecasts.

Our findings show that BNM's short-term forecasts significantly influence analysts' near-term projections, especially during economic shocks. However, the lack of explicit medium-term forecast guidance from BNM limits their impact on analysts' medium-term projections. This absence of a longer-term perspective may lead to herding behaviour among analysts and increased reliance on other macroeconomic factors when forming their medium-term outlook. Consequently, forecasts may align with group consensus due to reputational or financial incentives in the absence of clear directional guidance. Overall, these results suggest that while BNM's short-term forecasts can effectively shape market expectations, the effectiveness of their communication—through the publication of these forecasts—may depend on the economic context and the availability of medium-term forecast guidance.

This study contributes to the expanding literature on central bank forecasts' influence on private sector expectations. One strand of this literature examines the effects of central bank

[1] Gurkaynak, Sack, and Swanson (2005), Swanson (2006), and Orphanides and Wieland (2008) provide empirical evidence that the forecasts of Federal Reserve policymakers help predict future policy decisions while also conveying additional information and policy signals to the public.

projections on forecast dispersion among private agents (e.g., Fujiwara, 2005; Ehrmann et al., 2012), while another investigates whether private agents' forecast levels adjust following central bank forecast releases (e.g., Hubert, 2015). This study aligns with analyses conducted by Pederson (2015) and Hattori et al. (2016), which investigate changes in expectations among professional forecasters. Pederson (2015) uses Chilean data to study the impact of the Central Bank of Chile's (CBC's) forecasts on professional forecasters, showing that CBC forecasts influence short-term inflation expectations but less so for medium-term predictions. While the CBC's short-term inflation forecasts do not seem to provide additional value to professional forecasters, these forecasters do take into account the CBC's GDP growth forecasts in the latter half of the year. This is likely because of the perception that CBC possesses proprietary information, such as insights regarding future data revisions. Hattori et al. (2016) find that the Bank of Japan (BoJ) forecasts significantly influence private inflation expectations, especially for the current year, with this influence remaining stable after the adoption of an inflation target. The findings suggest that implementing inflation targeting when the targeted rate is higher than the expected inflation rate does not diminish the BoJ's influence on private forecasts.

Building on Pederson (2015) and Hattori et al. (2016), this paper introduces several innovations in examining updates to professional forecasters' expectations. This paper extends previous findings by examining how the impact from the publication of central bank forecasts—an integral aspect of central bank communication—changes according to different economic contexts, specifically distinguishing between periods of stability and economic shocks. It also considers herding behaviour among analysts. By accounting for this tendency, the study aims to isolate the actual impact of central bank projections on analysts' expectations

The remainder of the paper is organised as follows: Section 2 describes the data and methodology, Section 3 presents the results and discussion, Section 4 provides the robustness analysis, and Section 5 concludes.

2. Data and Methodology

2.1 Data

The analysts' forecasts for inflation and GDP growth in Malaysia are sourced from the Asia Pacific Consensus Forecasts by Consensus Economics, covering a monthly period from 2005 to 2024. The dataset includes approximately 20 analysts who provide projections for the average annual rate of inflation and GDP growth for both the current and subsequent calendar years, resulting in fixed-event forecasts. For BNM's forecasts, we use projections published in its annual reports, typically released at the end of March each year. Notably, BNM only provides forecasts for the current calendar year and does not release projections for the subsequent year.

To ensure stability in our analysis, we employ quarterly data, derived by averaging the monthly data. This approach aligns with the availability of GDP growth data, which is reported on a quarterly basis. In assessing the influence of BNM's forecasts, the dependent variable is the forecast revisions made by the analysts in the second quarter, which are compared to projections from the first quarter. This period is relevant as BNM's forecasts are released at the end of March. The key independent variable utilised in this analysis is the mid-point of BNM's forecast range, which serves as a proxy for its point forecast, given that BNM publishes forecasts in a range format.

From 2005 to 2024, we identify 2008, 2014, 2015, 2018, 2020, and 2021 as periods of economic shock, while categorising the remaining years as stable. We distinguish between stable economic conditions and economic shocks given the different economic dynamics and to observe differences in the influence of BNM's forecasts between these periods. Below is a brief description of these shock periods:

- 2008: Elevated global commodity prices and the onset of the global financial crisis.
- 2014: A crash in global oil prices, accompanied by the depreciation of the USD/MYR exchange rate.
- 2015: Implementation of the Goods and Services Tax (GST).
- 2018: Introduction of the domestic fuel price ceiling, and the repeal of the GST, replaced by the Sales and Service Tax (SST).
- 2020: The COVID-19 pandemic.
- 2022: A surge in global commodity prices amid the Russia-Ukraine conflict.

These shock periods are primarily driven by supply shocks, except for the COVID-19 pandemic in 2020, which is characterised by both supply and demand shocks to the economy.

Table 1 presents the summary statistics for inflation and GDP growth forecast data, comparing average values and standard deviations across stable and shock periods. In particular, higher forecast variability, indicated by higher standard deviations, is observed for both inflation and GDP growth forecasts during shock periods, regardless of whether they pertain to the current-year or the next-year. This suggests that economic shocks introduce greater uncertainty into forecasting.

Table 1: Summary statistics of inflation and GDP growth forecast data

	Inflation			
Period	**Current-year**		**Next-year**	
	Average	Standard Deviation	Average	Standard Deviation
Stable	2.36	0.30	2.44	0.50
Shock	2.30	0.70	2.80	0.65

Source: Asia Pacific Consensus Forecast and author's estimates.

	GDP Growth			
Period	**Current-year**		**Next-year**	
	Average	Standard Deviation	Average	Standard Deviation
Stable	4.56	0.48	5.00	0.61
Shock	4.13	1.21	4.97	0.91

Source: Asia Pacific Consensus Forecast and author's estimates.

2.2 Methodology

To evaluate the influence of BNM's forecast on analysts' projections, we employ a quarterly general panel econometric model adapted from Peterson (2015), specified as follows:

$$\Delta X_{i,t+1} = \alpha_i + \beta\,(Y_{t*} - X_{i,t}) + \omega\,(C_{t*} - X_{i,t}) + \gamma Z_t + \varphi\, 1_{econ\ shock} + \lambda\, 1_{econ\ shock} * (Y_{t*} - X_{i,t}) + \mu\, 1_{econ\ shock} * (C_{t*} - X_{i,t}) + \varepsilon_{i,t} \quad (1)$$

where:

- $\Delta X_{i,t+1}$: the difference between an individual forecaster's annual forecast produced in the second quarter and the first quarter
- $Y_{t*} - X_{i,t}$: The difference between BNM's annual forecast (calculated as the midpoint of the forecast range released) and an individual forecaster's annual forecast in the

first quarter, as adapted from Peterson (2015), serves as a key component to capture the influence of BNM's forecast.

- C_{t*} - $X_{i,t}$: The difference between the average consensus forecast and an individual forecaster's annual forecast produced in the first quarter, as adapted from Peterson (2015), serves as a key component to capture herding behaviour among analysts.
- Z_t : Outturn of related variables that may cause changes in the annual forecast produced in the second quarter, which include the year-on-year change of first quarter of variable of interest, Brent, USD/MYR, and the level of average weighted overnight interest rate[2]
- $1_{econ\ shock}$: dummy variable controls for periods of economic shocks, with 1 indicating an economic shock period and 0 otherwise
- $1_{econ\ shock}$*(Y_{t*} - $X_{i,t}$), $1_{econ\ shock}$*(C_{t*} - $X_{i,t}$): interaction between dummy variables and components capturing the influence of the BNM's forecast and herding behaviour respectively during periods of economic shocks
- $\varepsilon_{i,t}$: variations in the forecast that cannot be explained by the variables included in the model

The estimation strategy focuses on forecast revisions from the second quarter relative to the first, using these revisions as the dependent variable. The core variable of interest, capturing the influence of BNM's forecast, is the gap between BNM's annual forecast and individual forecasters' annual forecasts from the first quarter, represented by the coefficient β. The coefficient λ, representing the interaction between an economic shock dummy and the gap with BNM's forecast, helps assess whether BNM's influence strengthens or weakens during economic shocks compared to stable periods. Additionally, to analyse herding behaviour, we examine coefficient ω, which indicates how the gap between the average consensus forecast and an individual analyst's forecast from the prior quarter affects current-quarter adjustments. Finally, the coefficient μ, which interacts with the economic shock dummy with the consensus gap, reveals the extent of herding behaviour under economic shock relative to stable conditions.

[2] The outturn of quarterly inflation and GDP growth are sourced from the Department of Statistics, Malaysia (DOSM). Brent and USD/MYR data are sourced from Bloomberg. The average weighted overnight interest rate is sourced from Bank Negara Malaysia.

3. Results and Discussion

This section explores analysts' alignment with BNM's forecasts, using scatter plots to visualise key variables of interest. These visual analyses are then complemented by the discussion of empirical findings, examining the influence of BNM's projections on analysts' expectations.

3.1 Visualising Analysts' Alignment with BNM's Forecasts

Current-year forecasts: A positive correlation exists between analysts' forecast revisions (Q1 to Q2) and the initial gap between their forecasts and BNM's in Q1.

Next-year forecasts: A negative correlation exists between analysts' forecast revisions and the initial gap for next year's forecasts based on the BNM's current-year forecast.

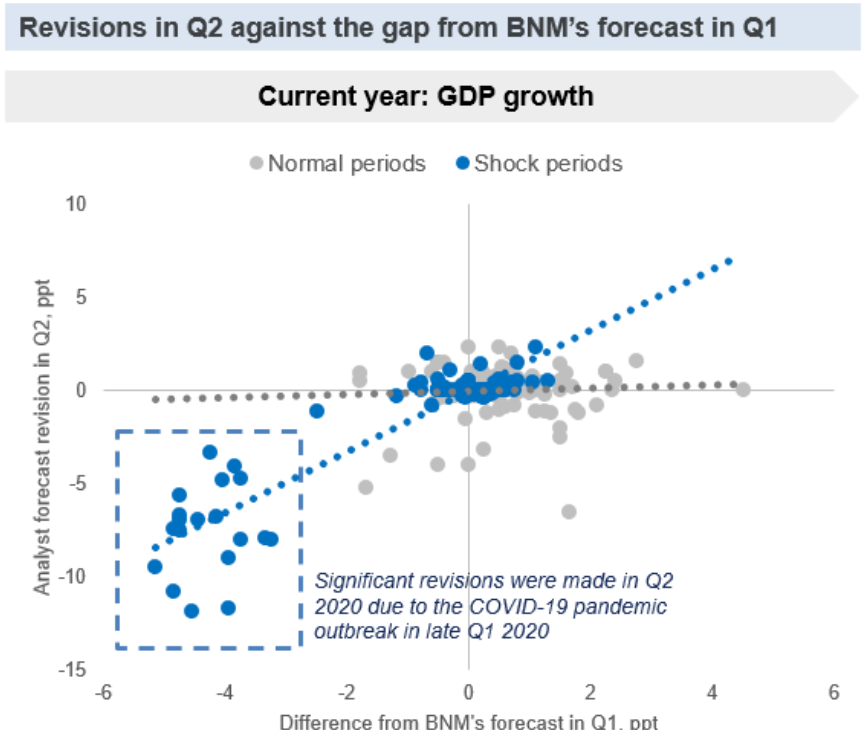
Findings for current-year forecasts (Chart 1):

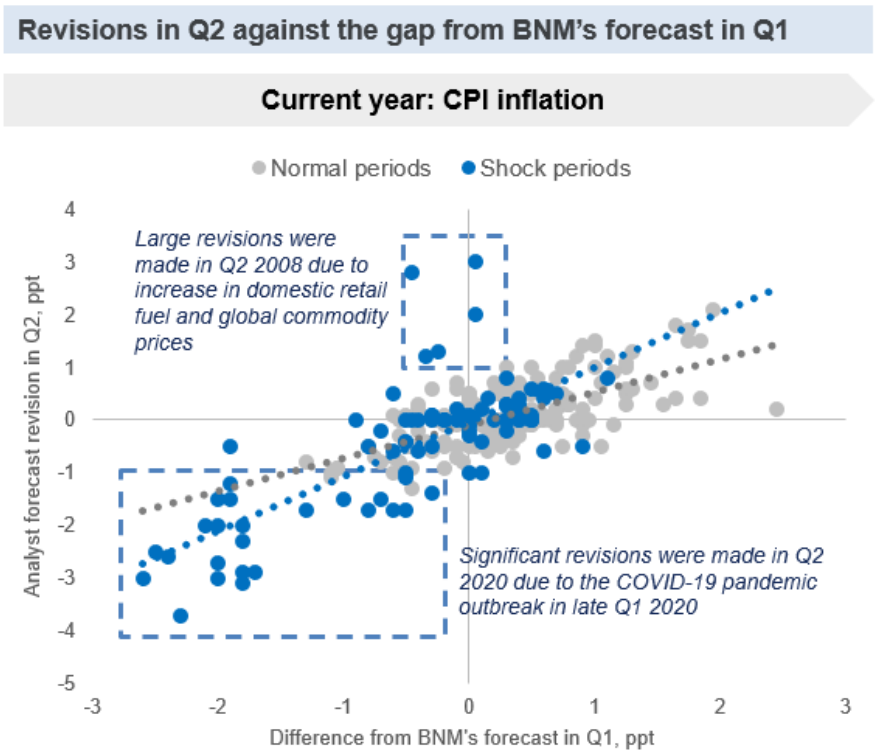
The scatter plots reveal an upward sloping trendline, suggesting that analysts made larger adjustments to current-year inflation and GDP growth forecasts when their initial forecasts deviate more from BNM's forecasts. Notably, this more pronounced during periods of economic shocks. For GDP growth, the correlation is particularly strong, suggesting that BNM's projections could be a key reference point for analysts in turbulent times. However, the deviations during shocks may also reflect other factors, such as the magnitude and complexity of the shocks, which are not accounted for in this simple correlation analysis.

Findings for next-year forecasts (Chart 2):

A downward-sloping trendline suggests that analysts made adjustments to next-year inflation and GDP growth forecasts in the opposite direction from the observed gap between their current-year projections and BNM's. This pattern may also reflect analysts' considerations of a wider range of independent factors when making projections for the following year, which are not necessarily influenced by the BNM's short-term forecasts.

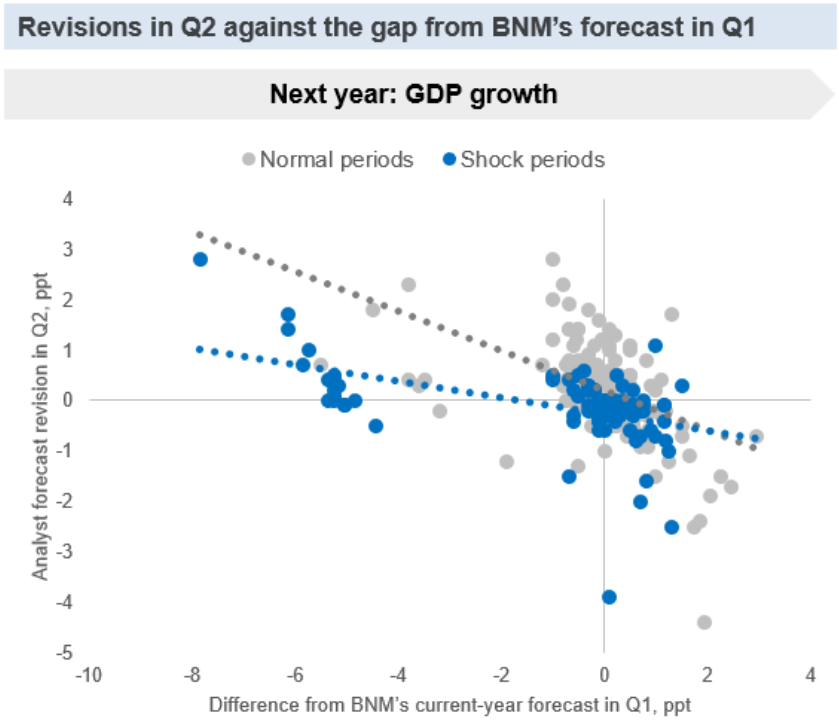
Chart 1: Current-year forecasts: Revisions in Q2 against the gap from BNM's forecasts in Q1



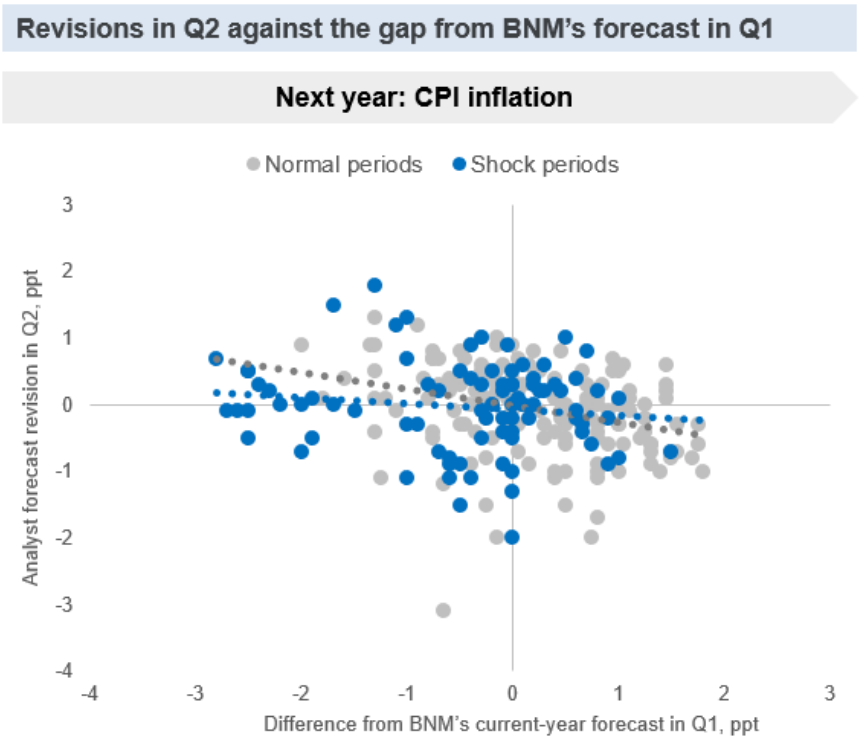


Source: Asia Pacific Consensus Forecast and author's estimates

Chart 2: Next-year forecasts: Revisions in Q2 against the gap from BNM's forecasts in Q1



Source: Asia Pacific Consensus Forecast and author's estimates



Source: Asia Pacific Consensus Forecast and author's estimates

3.2 Empirical Results

Short-term forecast (current-year)

Table 2 illustrates the impact of BNM's projections on analysts' forecasts for current-year inflation and GDP growth. On average, a 0.10 percentage point (ppt) divergence[3] between BNM's and analysts' forecasts in the first quarter is associated with upward forecast revisions in analysts' forecasts of 0.07 ppt for inflation and 0.05 ppt for GDP growth in the second quarter. During periods of economic shock, the influence of BNM's forecasts is notably stronger, resulting in additional upward forecast revisions of 0.07 ppt for inflation and 0.11 ppt for GDP growth compared to stable conditions. This effect is evident from the significant interaction terms between the shock dummy and the discrepancy between BNM's annual forecast and analysts' first-quarter forecasts.

Beyond BNM's influence on the revision of analysts' expectations for the second quarter, herding behaviour (C_{t*} - $X_{i,t}$) does not appear to significantly contribute to the revisions of analysts' current-year inflation and GDP growth forecasts in the second quarter, likely due in part to the strong influence of BNM's projections. Additionally, adjustments to inflation forecasts are associated with year-on-year Brent crude oil prices from the previous quarter. In contrast, growth forecast revisions are linked to all relevant macroeconomic variables from the previous quarter.

These findings underscore the influential role BNM plays in shaping analysts' expectations, which can have wider implications for economic stability and policy effectiveness. By providing clear and timely forecasts, particularly during periods of economic shocks, BNM helps guide market expectations, reducing uncertainty and encouraging more aligned economic forecasting across the board. This alignment is essential in ensuring that businesses, investors, and consumers make well-informed decisions based on a shared understanding of future economic conditions. Moreover, this influence can contribute to smoother policy transmission, as analysts' forecasts aligned with BNM's outlook can lead to consistent messages reaching the public, enhancing BNM's credibility and reinforcing the effectiveness of its policy signals. Ultimately, BNM's ability to influence expectations may help prevent destabilising market behaviour, underscoring the strategic importance of clear and credible central bank communication.

[3] The differences between the mid-point of BNM's projections and analysts' forecasts have varied over time; however, a 0.1 percentage point (ppt) difference aligns with the average difference observed across the entire sample.

Medium-term forecast (next-year)

Table 3 shows the estimated impact of BNM's forecasts on next year's inflation and GDP growth. The evidence suggests that medium-term forecasts for inflation and GDP growth are only weakly influenced by BNM's current-year predictions, indicating the limited relevance of the current year's outlook for the following year. Consequently, the current-year's forecasts have minimal impact on predictions for the next year. Moreover, the current-year shock dummy and its interaction with key variables capturing the effect of BNM's projections during shock periods are statistically insignificant at the 5% level. This implies that the limited influence of BNM's forecasts on medium-term inflation and GDP growth forecast revisions in the second quarter, or the lack thereof, remain consistent across both shock and stable periods.

Nevertheless, the results indicate that herding behaviour and macroeconomic variables significantly drive revisions in medium-term inflation and GDP growth projections during the second quarter. This suggests that medium-term forecasts are primarily shaped by these factors, with herding behaviour exerting a greater influence.

The limited influence of BNM's forecasts on medium-term predictions, likely due to the absence of publicly available projections beyond the current year, highlights a potential information gap that could affect market expectations and potentially lead to herding behaviour among analysts.[4] This raises the question of whether BNM should consider publishing longer-term forecasts, even if less precise.

While such forecasts could provide additional guidance and help anchor expectations more effectively, several factors must be carefully weighed. For instance, publishing longer-term projections might inadvertently signal policy targets, particularly if misinterpreted as commitments rather than indicative scenarios. Additionally, central banks must balance the benefits of greater transparency against the risk of introducing uncertainty or amplifying forecast errors, particularly in the face of economic shocks or volatile conditions.

A deeper exploration of these trade-offs is necessary to determine whether providing longer-term forecasts would meaningfully enhance market stability or reduce risks associated with forecast misalignment.

[4] Forecasts influenced by herding behaviour or central bank's forecast release can be perceived as neutral in their implications. The effects of these influences on forecast accuracy are not addressed in this paper; however, it is important to consider that, in an environment characterised by imperfect information, analysts may benefit from incorporating central bank projections into their forecasts, provided that these projections offer supplementary, non-overlapping information.

Table 2: Results of the influence of BNM's projection estimations for the current-year forecast

	current-year CPI inflation forecast	current-year GDP growth forecast
$(Y_{t*}$ - $X_{i,t}$)	**0.67***** (0.08)	**0.48***** (0.14)
$(C_{t*}$ - $X_{i,t}$)	0.08 (0.09)	0.06 (0.12)
CPI_t / GDP_t	0.02 (0.03)	**0.21***** (0.03)
$Brent_t$	**0.01***** (0.001)	**0.01***** (0.002)
USD/MYR_t	0.005 (0.01)	**0.03***** (0.01)
$AOIR_t$	0.002 (0.002)	**-0.01*** (0.003)
$1_{econ\ shock}$	0.10 (0.08)	**-0.14*** (0.08)
$1_{econ\ shock}$ *$(Y_{t*}$ - $X_{i,t}$)	**0.68***** (0.08)	**1.05***** (0.21)
$1_{econ\ shock}$ *$(C_{t*}$ - $X_{i,t}$)	**-0.93***** (0.23)	**-1.30***** (0.29)
constant	**-0.25***** (0.07)	**-1.20***** (0.18)

Note:
1/ *indicates statistical significance at the 10% confidence level; **indicates statistical significance at the 5% confidence level; ***indicates statistical significance at the 1% confidence level.
2/ The heteroskedasticity and autocorrelation (HAC) consistent standard errors are reported in parentheses.
Source: Asia Pacific Consensus Forecast and author's estimates.

Table 3: Results of the influence of BNM's projection estimations for the next-year forecast

	next-year CPI inflation forecast	next-year GDP growth forecast
$(Y_{t*}$ - $X_{i,t}$)	-0.06 (0.06)	-0.004 (0.07)
$(C_{t*}$ - $X_{i,t}$)	**0.47***** (0.09)	**0.24*** (0.13)
CPI_t / GDP_t	0.03 (0.03)	0.03 (0.02)
$Brent_t$	**0.004***** (0.001)	**-0.002**** (0.001)
USD/MYR_t	**0.02***** (0.01)	**-0.01**** (0.005)
$AOIR_t$	**0.004***** (0.001)	**-0.003*** (0.002)
$1_{econ\ shock}$	**0.12***** (0.06)	**-0.16**** (0.06)
$1_{econ\ shock}$ *$(Y_{t*}$ - $X_{i,t}$)	-0.06 (0.09)	**-0.15*** (0.09)
$1_{econ\ shock}$ *$(C_{t*}$ - $X_{i,t}$)	-0.03 (0.18)	**0.64***** (0.21)
constant	**-0.14**** (0.06)	-0.04 (0.09)

Note:
1/ *indicates statistical significance at the 10% confidence level; **indicates statistical significance at the 5% confidence level; ***indicates statistical significance at the 1% confidence level.
2/ The heteroskedasticity and autocorrelation (HAC) consistent standard errors are reported in parentheses.
Source: Asia Pacific Consensus Forecast and author's estimates.

4. Robustness and sensitivity analyses

This section conducts robustness analyses to assess the sensitivity of our findings to alternative assumptions about the forecast gap and the time frame over which BNM's forecasts influence analyst expectations. We find that our main results are robust to these variations.

4.1 Standardised forecast gap

Standardising the forecast gap, typically done by dividing the gap by its standard deviation, provides several benefits in statistical analysis and interpretation. By standardising the gap, we ensure it is measured on a consistent scale, independent of the original units of measurement. This consistency enables direct comparisons of the forecast gap across different periods, even when the levels of volatility vary.

Tables 4 and 5 demonstrate the estimation findings using a standardised forecast gap. By and large, using the standardised forecast gap does not significantly alter the baseline estimates of the influence of the BNM's forecast. A more pronounced influence of the BNM's projections is observed during periods of economic shock for both inflation and GDP growth in the short term. Conversely, a weaker influence of the BNM's forecast is observed in the medium term.

Table 4: Standardised forecast gap - Robustness results of the influence of BNM's projection estimations for the current-year forecast

	current-year CPI inflation forecast	current-year GDP growth forecast
$(Y_{t*}$ - $X_{i,t}$) / $\sigma_{(Y_{t*} - X_{i,t})}$	**0.29***** (0.04)	0.08 (0.07)
$(C_{t*}$ - $X_{i,t}$) / $\sigma_{(C_{t*} - X_{i,t})}$	0.02 (0.03)	**0.14*** (0.07)
CPI_t / GDP_t	0.03 (0.03)	**0.17***** (0.03)
$Brent_t$	**0.01***** (0.001)	**0.01***** (0.001)
USD/MYR_t	0.004 (0.005)	**0.04***** (0.01)
$AOIR_t$	0.001 (0.002)	-0.004 (0.003)
$1_{econ\ shock}$	0.07 (0.08)	**-0.33***** (0.09)
$1_{econ\ shock}$* [$(Y_{t*}$ - $X_{i,t}$) / $\sigma_{(Y_{t*} - X_{i,t})}$]	**0.07**** (0.03)	**0.75****** (0.09)
$1_{econ\ shock}$ * [$(C_{t*}$ - $X_{i,t}$) / $\sigma_{(C_{t*} - X_{i,t})}$]	**-0.15**** (0.06)	**-0.81***** (0.12)
constant	**-0.24***** (0.08)	**-0.91***** (0.15)

Note:
1/ *indicates statistical significance at the 10% confidence level; **indicates statistical significance at the 5% confidence level; ***indicates statistical significance at the 1% confidence level.
2/ The heteroskedasticity and autocorrelation (HAC) consistent standard errors are reported in parentheses.
Source: Asia Pacific Consensus Forecast and author's estimates.

Table 5: Standardised forecast gap - Robustness results of the influence of BNM's projection estimations for the next-year forecast

	next-year CPI inflation forecast	next-year GDP growth forecast
$(Y_{t*}$ - $X_{i,t}$) / $\sigma_{(Y_{t*} - X_{i,t})}$	-0.06 (0.03)	0.01 (0.05)
$(C_{t*}$ - $X_{i,t}$) / $\sigma_{(C_{t*} - X_{i,t})}$	**0.26***** (0.04)	**0.12*** (0.06)
CPI_t / GDP_t	**0.05*** (0.03)	0.03 (0.02)
$Brent_t$	**0.01****** (0.001)	**-0.003**** (0.001)
USD/MYR_t	**0.02****** (0.01)	**-0.01**** (0.01)
$AOIR_t$	**0.004**** (0.001)	**-0.004*** (0.002)
$1_{econ\ shock}$	0.09 (0.06)	**-0.11*** (0.06)
$1_{econ\ shock}$* [$(Y_{t*}$ - $X_{i,t}$) / $\sigma_{(Y_{t*} - X_{i,t})}$]	0.004 (0.03)	**-0.12**** (0.06)
$1_{econ\ shock}$ * [$(C_{t*}$ - $X_{i,t}$) / $\sigma_{(C_{t*} - X_{i,t})}$]	-0.02 (0.09)	0.20 (0.08)
constant	**-0.19****** (0.06)	-0.02 (0.08)

Note:
1/ *indicates statistical significance at the 10% confidence level; **indicates statistical significance at the 5% confidence level; ***indicates statistical significance at the 1% confidence level.
2/ The heteroskedasticity and autocorrelation (HAC) consistent standard errors are reported in parentheses.
Source: Asia Pacific Consensus Forecast and author's estimates.

4.2 Monthly time frame

To establish the effect of BNM's forecast more precisely, a shorter monthly timeframe is utilised. Specifically, March (when BNM publishes its forecast) and April (the month following the forecast announcement) are examined. As a result, the dependent variable in the regression is the monthly change, and other macroeconomic control variables are also measured on a monthly basis.

Overall, the key findings are consistent with the baseline results, with a noted stronger effect of BNM's forecast during shock periods for the next year's forecast. This indicates a more sustained influence of BNM's projections on analysts' expectations in such times.

This stronger effect during shock periods can be attributed to heightened uncertainty, which increases analysts' reliance on BNM's forecasts as an anchor for their projections. In times of economic volatility, the credibility and accessibility of central bank forecasts become particularly important as analysts seek reliable reference points to navigate through limited or conflicting market signals.

However, this sustained influence also raises important considerations. It may reflect analysts' tendency to adopt a cautious or herding behaviour during shocks, prioritising alignment with central bank projections to mitigate reputational risks or forecast errors. This behaviour could either enhance the role of BNM's guidance in stabilising market expectations or potentially create over-reliance, leading to less independent analysis.

Table 6: Monthly time frame - Robustness results of the influence of BNM's projection estimations for the current-year forecast

	current-year CPI inflation forecast	current-year GDP growth forecast
$(Y_{t*}$ - $X_{i,t}$)	**0.50***** (0.07)	-0.16 (0.11)
$(C_{t*}$ - $X_{i,t}$)	-0.02 (0.09)	**0.50**** (0.22)
CPI_t / GDP_t	**-0.08***** (0.02)	**0.05**** (0.02)
$Brent_t$	**-0.002**** (0.001)	**0.01***** (0.002)
USD/MYR_t	**0.02***** (0.003)	**-0.01***** (0.004)
$AOIR_t$	0.002 (0.001)	**0.01**** (0.004)
$1_{econ\ shock}$	**0.21***** (0.05)	-0.01 (0.05)
$1_{econ\ shock}$* [$(Y_{t*}$ - $X_{i,t}$)]	**0.34***** (0.12)	**1.15***** (0.16)
$1_{econ\ shock}$ * [$(C_{t*}$ - $X_{i,t}$)]	**-0.51***** (0.18)	**-1.34***** (0.26)
constant	0.05 (0.04)	**-0.34**** (0.13)

Note:
1/ *indicates statistical significance at the 10% confidence level; **indicates statistical significance at the 5% confidence level; ***indicates statistical significance at the 1% confidence level.
2/ The heteroskedasticity and autocorrelation (HAC) consistent standard errors are reported in parentheses.
Source: Asia Pacific Consensus Forecast and author's estimates.

Table 7: Monthly time frame - Robustness results of the influence of BNM's projection estimations for the next-year forecast

	next-year CPI inflation forecast	next-year GDP growth forecast
$(Y_{t*}$ - $X_{i,t}$)	-0.01 (0.04)	-0.05 (0.04)
$(C_{t*}$ - $X_{i,t}$)	**0.19***** (0.07)	**0.20**** (0.09)
CPI_t / GDP_t	0.05 (0.02)	**0.02*** (0.01)
$Brent_t$	**-0.004***** (0.001)	**0.001*** (0.0005)
USD/MYR_t	**0.01***** (0.002)	0.002 (0.003)
$AOIR_t$	**-0.01***** (0.002)	**0.003***** (0.001)
$1_{econ\ shock}$	0.03 (0.03)	0.04 (0.03)
$1_{econ\ shock}$* [$(Y_{t*}$ - $X_{i,t}$)]	**0.24***** (0.06)	**-0.21***** (0.06)
$1_{econ\ shock}$ * [$(C_{t*}$ - $X_{i,t}$)]	-0.17 (0.10)	-0.21 (0.23)
constant	0.02 (0.04)	-0.09 (0.06)

Note:
1/ *indicates statistical significance at the 10% confidence level; **indicates statistical significance at the 5% confidence level; ***indicates statistical significance at the 1% confidence level.
2/ The heteroskedasticity and autocorrelation (HAC) consistent standard errors are reported in parentheses.
Source: Asia Pacific Consensus Forecast and author's estimates.

5. Conclusion

This paper examines the extent to which BNM's forecasts influence analysts' forecasts for inflation and GDP growth in Malaysia. Our findings indicate that BNM's short-term forecasts significantly impact analysts' short-term projections, particularly during periods of economic shock. However, the absence of explicit medium-term forecast guidance from BNM limits their impact on analysts' medium-term projections. This lack of a longer-term perspective may contribute to herding behaviour among analysts and increased reliance on other macroeconomic factors in forming their medium-term outlook.

From a policy perspective, these findings highlight BNM's significant role in shaping analysts' short-term expectations, which supports economic stability and effective policy transmission. Clear and timely forecasts from BNM, especially during economic instability, play a critical role in aligning market expectations, reducing uncertainty, and promoting informed decisions by

businesses, investors, and consumers. This alignment strengthens BNM's credibility and amplifies its policy signals. However, BNM's influence on longer-term expectations remains limited, potentially reflecting the absence of publicly available longer-term forecasts.

This raises important considerations for central banks regarding the publication of longer-term forecasts. On one hand, providing such forecasts could enhance transparency and offer additional guidance, fostering a more informed and certain market environment. On the other hand, several challenges must be addressed. For example, longer-term forecasts, if misunderstood or perceived as policy targets, could lead to unintended market behaviour, particularly given that BNM does not follow an inflation-targeting framework. Additionally, the inherent uncertainty of longer-term projections could risk undermining the credibility of central bank communication if forecasts deviate significantly from actual outcomes.

Future research could explore these trade-offs further, examining how central banks can strike a balance between enhancing transparency and maintaining flexibility in their forward guidance. Such research might also investigate how different communication strategies influence market perceptions and analysts' adjustments, particularly during periods of economic volatility. For example, studies such as Ehrmann et al. (2012) and Blinder et al. (2008) emphasize the role of clear communication strategies—such as regular press conferences, detailed forward guidance, and transparent policy frameworks—in enhancing market responses to policy signals. These insights highlight the importance of a consistent and well-calibrated communication approach to effectively shape market expectations.

In this context, it is important to consider how BNM's communication strategy has evolved over the years. For instance, the introduction of enhanced publication of economic reports and efforts to clarify the rationale behind policy decisions through different platforms have likely contributed to shaping market behaviour. Such efforts may explain some of the observed changes in the impact of BNM's communications on analysts' forecasts, particularly during periods of economic shocks. However, further analysis is needed to quantify the effects of these changes and understand how BNM's evolving communication framework has influenced the market's reliance on central bank signals.

Ultimately, a proactive and adaptive communication strategy can strengthen BNM's credibility and effectiveness in achieving policy objectives. By shaping market expectations and fostering a stable economic environment, BNM's efforts in refining its communication practices remain critical in navigating the challenges of an increasingly complex economic landscape.

6. References

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