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Abstract

We bring together the largest meta-analysis ever conducted in the macroeconomic literature to investigate the effects of central bank credibility on monetary policy. With nearly 1,200 surveyed effects, we first confirm that: (i) conventional policy significantly affects inflation and output, and (ii) unconventional policy significantly affects capital flows and the exchange rate. We next evaluate if different measures of credibility amplify these effects. Our findings indicate that central bank transparency has the largest payoff, as it increases policy effectiveness by 69% when dealing with foreign exchange intervention, by 59% when dealing with capital inflows, and by 14% when dealing with conventional policy. An alternative measure, medium and long-term anchoring in inflation expectations, is the runner up, increasing effectiveness by 31%, 9%, and 10%, respectively. Other measures, such as central bank independence and short-term anchoring in inflation expectations have lower and in some cases null effects.