Abstract

This thesis examines the impact of disagreement about expected inflation on the transmission of monetary policy in the Czech Republic. Our contribution includes adapting the high-frequency monetary policy shock identification approach to the Czech context. Utilizing a regime-switching local projections model, we analyze how the effectiveness of monetary policy varies between periods of high and low disagreement, indicated by the cross-sectional standard deviation in inflation expectations. Our findings reveal that during high disagreement periods, the transmission of monetary policy shocks is less effective, with muted or even positive responses of inflation and inflation expectations to contractionary policy. This suggests that central bank signals are overshadowed or misinterpreted during such periods and further highlights the need to account for expectation heterogeneity. These insights emphasize the importance of enhancing central bank communication and transparency to mitigate disagreement and improve policy efficacy. Our results have significant implications for the formulation and implementation of monetary policy in small open economies.