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[Working Paper 1035](#)

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Florez-Jimenez and Parra-Polania (2016) show that unconditional forward guidance (FG) performs

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poorly except in the most extreme zero lower-bound (ZLB) events and that for any ZLB situation it is better to resort to state-dependent (threshold-based) FG. The model of that paper is solved under the assumption that the threshold (to revert to the optimal discretionary policy) is announced in terms of an exogenous variable (the demand shock). The present paper shows that, when consistency of announcements is not considered, the solution does not change when the threshold is announced in terms of an endogenous variable (output or inflation). However, the paper also illustrates the fact that an endogenous-variable threshold gives rise to inconsistency: the action taken may not conform to the central bank announcement. Consistency imposes limits on the policy rate that can be set since reverting to the optimal discretionary rate can be incompatible with exceeding the threshold.

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