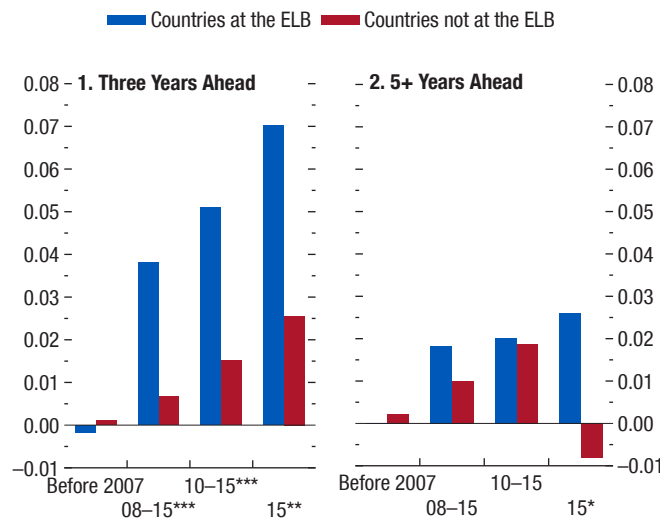


Figure 3.20. Change in Sensitivity of Inflation Expectations to Inflation Surprises

The sensitivity of medium-term inflation expectations to inflation surprises is higher in countries whose monetary policy is constrained.



Sources: Consensus Economics; Haver Analytics; and IMF staff calculations.
 Note: ELB = effective lower bound. ***, **, * denote that the differences in the change in sensitivity of inflation expectations between countries at the ELB and the rest are significant at the 1, 5, and 10 percent confidence level, respectively, using Mood's median test. The sensitivity of inflation expectations corresponds to the response of inflation expectations to a 1 percentage point unexpected increase in inflation based on time-varying coefficients from country-specific estimations using a Kalman filter. The sensitivity for 5+ years corresponds to the average of estimations using 5- and 10-year-ahead inflation expectations. The change in sensitivity is constructed as the average deviation of the median sensitivity across countries from a linear trend (an exponential trend) fitted over the period 1997–2007 for countries at the ELB (not at the ELB). Countries at the ELB are defined as those with policy rates or short-term nominal interest rates of 50 basis points or lower at some point during 2008–15 and include: Canada, the Czech Republic, Estonia, France, Germany, Hong Kong SAR, Italy, Japan, Latvia, Lithuania, the Netherlands, Singapore, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.