Figure 3.18. Sensitivity of Inflation Expectations to Inflation Surprises before and after Adoption of Inflation Targeting

Inflation targeting is associated with lower sensitivity of medium- and long-term inflation expectations to inflation surprises.

Sources: Consensus Economics; Haver Analytics; World Economic Outlook (2011, Chapter 3); and IMF staff calculations.

Note: The figure shows the response of inflation expectations at various horizons to a 1 percentage point unexpected increase in inflation based on coefficients from country-specific static regressions. The sensitivity for 5+ years corresponds to the average of estimations using 5- and 10-year-ahead inflation expectations.