

Understanding De-anchoring of Inflation Expectations: Evidence from Chile

Michael Pedersen

Central Bank of Chile

Abstract

Anchoring of inflation expectations is an important factor for central banks to reach an inflation target and, indeed, several scholars have studied the extent to which they are anchored in different economies. Some of them discuss the impact of structural factors, such as the adoption of inflation targeting and central bank transparency, and others if short-term economic news affect long-term inflation expectations. The present paper, on the other hand, applies Chilean survey data to investigate determinants of de-anchored expectations.

Two complementary exercises are conducted with panel estimations. The first one aims at finding idiosyncratic and common shocks that may explain de-anchored expectations. It turns out that different factors explain negative and positive de-anchoring. Particularly, the central bank's published forecasts affect the positively de-anchored ones, while expectations to the future monetary policy seem to affect those below the target. The second exercise consists of four illustrative estimations, which are conditional on whether inflation expectations were anchored or not the previous period. The output gap and food prices may trigger a de-anchoring and positively de-anchored expectations may be re-anchored by surprise changes in the policy rate and a negative change in the business sentiment. The results suggest that the central bank may have some effect on reducing de-anchored long-term inflation expectations, while increasing them seems to be more difficult. Hence, when evaluating policy options and communication, a higher weight should be appointed to the risk of negative de-anchoring compared to the positive one.

JEL Classification: C33, E31, E52, E58

Keywords: (De-)Anchoring, individual survey responses, inflation expectations