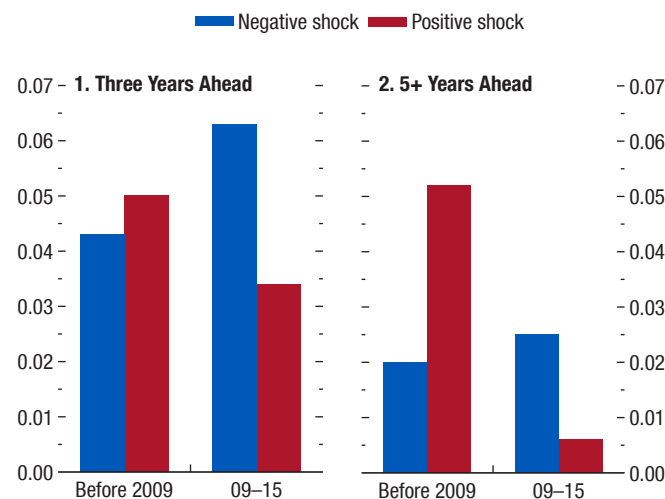


**Figure 3.21. Average Sensitivity of Inflation Expectations to Inflation Surprises in Countries at the Effective Lower Bound**

In countries whose monetary policy is constrained, medium-term inflation expectations are more sensitive to negative than to positive inflation surprises.



Sources: Consensus Economics; Haver Analytics; and IMF staff calculations.

Note: The figure shows the response of inflation expectations at various horizons to a 1 percentage point unexpected positive or negative change in inflation based on coefficients from country-specific time-varying estimation. The sensitivity for 5+ years corresponds to the average of estimations using 5- and 10-year-ahead inflation expectations. Countries at the Effective Lower Bound (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. Japan is excluded from the analysis, because it reached the ELB much earlier than 2009.