Comments on:

Anchoring of Inflation Expectations: Do Inflation Target Formulations Matter?

Author: Christoph Grosse-Steffen

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Jerusalem, July 2021

Research Question
and motivation

- Do inflation target formulations matter for expectations anchoring?

- An *empirical* question

- Motivation:

  - Formulation differs across space and time
  - Conflicting theoretical predictions WRT expectations anchoring
  - Empirical evidence?

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- Very impressive and useful data collection

- Insightful econometric analysis

- Some possible evidence suggesting that:

    1. Numerical point target increases anchoring
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Structure of the paper

- Theoretical model justifying exploration of the entire predictive *distribution* of π.

- Data:

  1. Classification of $\pi-$targeting regimes
  2. Construction of (parametric) predictive distributions and related measures

- **The empirical analysis**:

  - What drives anchoring probability ($prob\,T_{it}^h$)?
  - Variable of interest: $IT-$formulation
  - Controls (including interactions) AE/EME, statistical properties of historical π...

- Robustness and conclusions

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The paper
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Alternative view
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Asymmetric risks
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Anchoring concept
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Conclusion
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Questioning the main conclusion
Is it the IT regime per se, or the regime in general?

- The dummy variable d^{EME} *(once included)* seems to have an important contribution

- But is d^{EME} enough to capture institutional heterogeneity?

- Most heterogeneity takes place *within* the EMEs group (as reflected by the next chart)

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Pure range is typically higher and wider
and possibly correlated with the degree of development

(b) EME sample
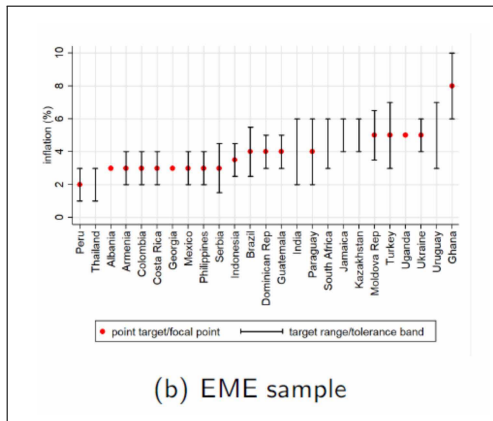
Quantitative targets as of April 2020. Source: Grosse-Stefen 2021.

And higher inflation is typically more volatile inflation

- If $\pi_i^{tar} > \pi_{us}^{tar} \implies$ the currency of i has a depreciation trend (WRT the US).

- The FX is a nominal anchor, for EME in particular. But with higher IT it is not...

- A channel through which higher IT may cause more volatile, less anchored π.

- If (higher and wider) IT ranges systematically characterizes *less developed economies*, dis-anchoring may reflect institutions, not IT formulation!

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Within the AEs, do we really have (a random) heterogeneity?

Pure numerical target characterizes very developed economies...

(a) AE sample
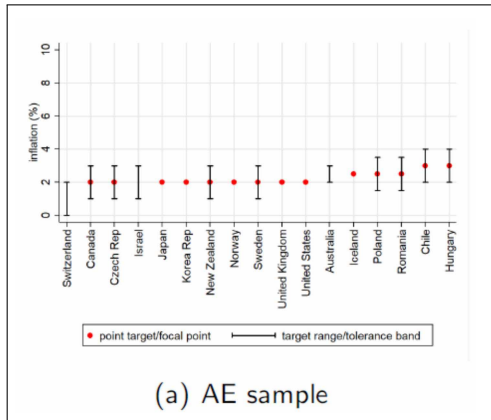
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Challenging the main conclusion
Is it the IT per se, or other economic and institutional characteristics

- The only control for the *general* regime is d^{EME} (with significant and quantitatively important coefficient!).

- There is a possible omitted-variable bias, assuming that

  - d^{EME} is not enough to capture institutional variability across space and time
  - IT formulation is correlated with other, "soft" regime characteristics

- In most regressions d^{EME} is not even included

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Can the specifics of the IT formulation make the difference?

Central Bank Independence, Political
Influence and Macroeconomic Performances:
A Survey of Recent Developments

Alex Cukierman (1993)

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A challenging view
which the evidence does not necessarily reject

- IT regime is just a component of the entire regime

- Stability of the currency (π, FX) related, among other things, to institutions:
    - to their legacy and transparency
    - to separation of powers (also affecting monetary/fiscal dominance)
    - regardless the specifics of its formulation

- So, it may be the "soft" characteristics of the regime as a whole, not specifically the IT regime.

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Interpreting results related to asymmetry
treating the IT-formulation just as a control...

- In short horizons, dis-anchoring due to low inflation seems a higher risk

- In the long run it is dis-anchoring due to high inflation

- possible explanation—while the ELB may affect short term risks, other concerns affect longer-terms risks

- important questions for policy:
    - what are these other concerns (recall Cukierman...)?
    - how to address them?

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Anchoring Agreement or Anchoring Certainty?

- Estimated distributions reflect Disagreement $\neq$ Uncertainty

- Anchoring is relevant for both

- But if the two concepts are negatively correlated (herd behavior...), should conclusions be reversed?

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Concluding remarks

- Some more control, and related discussions, in order to be sure that it is the specifics of the IT formulations that really make the difference.

- Some insights for policy, based on the asymmetry-related results (at the expense of the theoretical model).

- Very impressive data collection and analysis.

- Creative econometric approach.

Thank you!