

Inflation is back on South America? Exogenous shocks, expectations, and credibility of monetary policy

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ABSTRACT

Inflation expectations have reacted in several ways to the rise of Latin America inflation until mid-2008, driven by food and oil prices increases. This paper exposes two economic models that explain the determinants of inflations expectations and their relationship with the distinction between monetary and supply shocks, revealing that the monetary policy credibility is critical in anchoring inflation expectations. Then, it analyses inflation expectations survey in seven Latin American countries with econometric models, where is clear that larger increases were observed in countries with previous persistent deviations of inflation targets.

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