Results

• Strong cross-country variation in the degree of anchoring
• No crisis effect on the anchor
• Expectations are best anchored in the EMU with half lives of at most 4 weeks

Data: Break-Even Inflation Rates

• Fisher equation: $\pi^e_t = y^N_t - y^R_t$
• We estimate daily nominal and real Nelson-Siegel-Svensson yield curves between 2004 and 2011, following Gürkaynak et al. (2007)
• Countries: US, EMU, UK and Sweden

Methodology: ESTAR

$\pi^e_t = c + e^{-\gamma(\pi^e_{t-1}-c)}\left(\sum_{i=1}^{p} \alpha_i \pi^e_{t-i} - c\right) + X_t \beta + \epsilon_t$

• Adjustment speed $\gamma$: strength of the anchor
• Constant $c$: market-perceived inflation target
• News regression nested for $\gamma = 0$
• Appropriate to model inflation, Nobay et al. (2010)

Features of the model:
• Less persistent when further away from target
• Focus on long-run dynamics
• Lehman-dummy (LEH) for crisis effects

Literature: