

# The Post-pandemic Inflation in the Euro Area (and the US)

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# Great Inflation in the Euro Area (and the US)

A dominant view

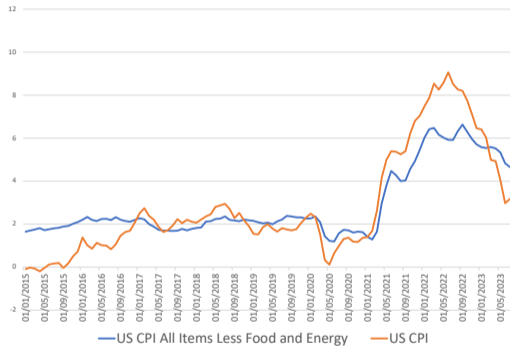
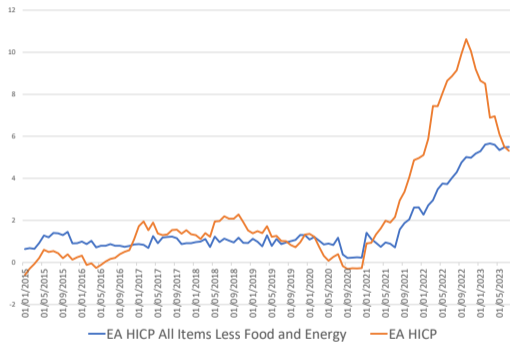
- ▶ Inflation in the US & EA has the same cause: excess demand
- ▶ Fed's and ECB's policy mistakes due to group thinking & terrible forecasts
- ▶ Lots of non-linearities (PC, MP transmission, labour market, etc)
- ▶ Risk of de-anchoring of expectations and wage-price spirals

# Great Inflation in the Euro Area (and the US)

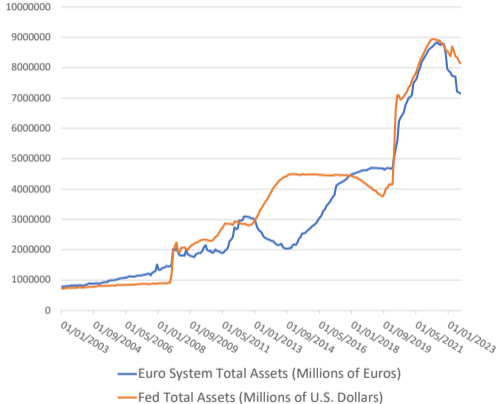
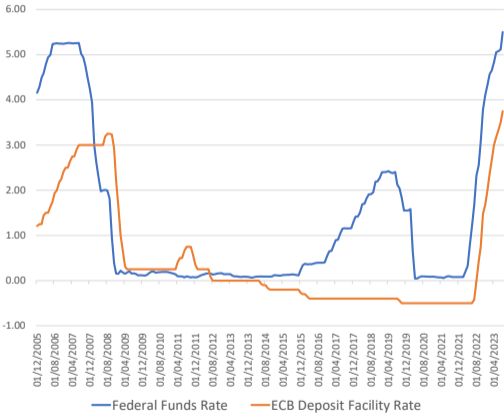
This presentation

- ▶ ~~Inflation in the US and EA have the same cause: excess demand~~  
US inflation due to demand, EA to energy supply shocks & spillovers
- ▶ ~~Fed's and ECB's slow responses due to 'group thinking', and terrible forecasts~~  
Mistakes due to 'flat Philips Curv-ists' (US) & incomplete framework (EA)
- ▶ ~~Lot of non-linearities (PC, MP transmission, labour market, etc)~~  
Very partial understanding, we shouldn't hide behind non-linearities
- ▶ ~~Risk of de-anchoring of expectations and wage-price spirals~~  
Risk of over-tightening in the Euro Area
- ▶ Future of central banking

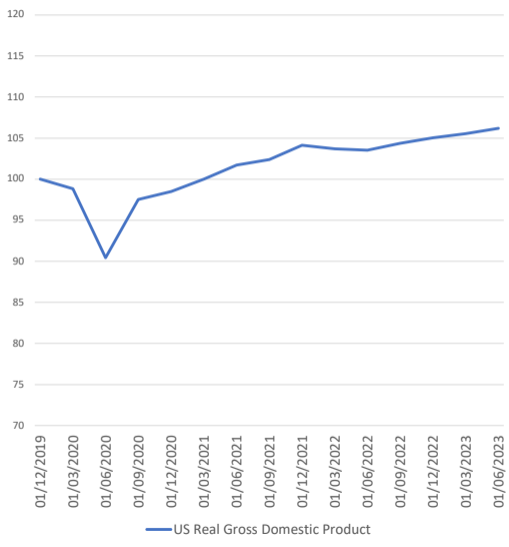
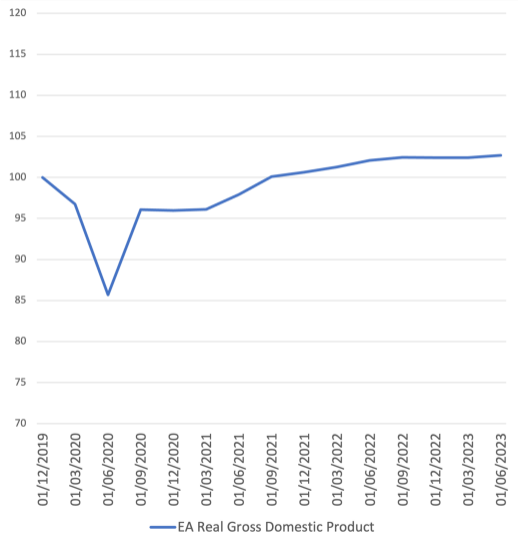
# Inflation EA vs US



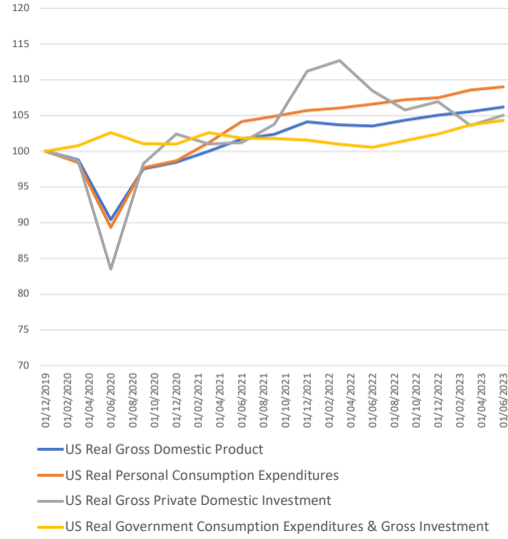
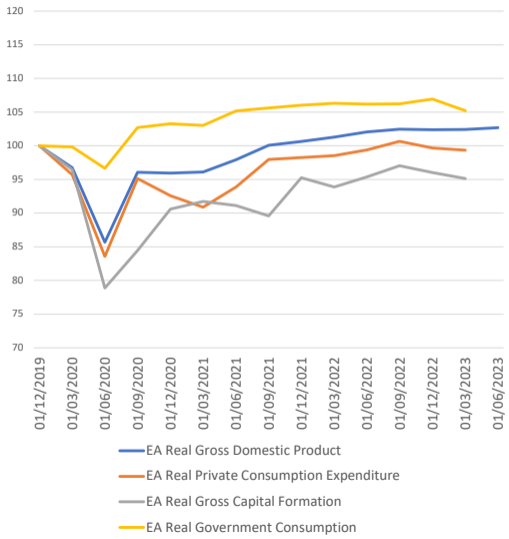
# The policy stance



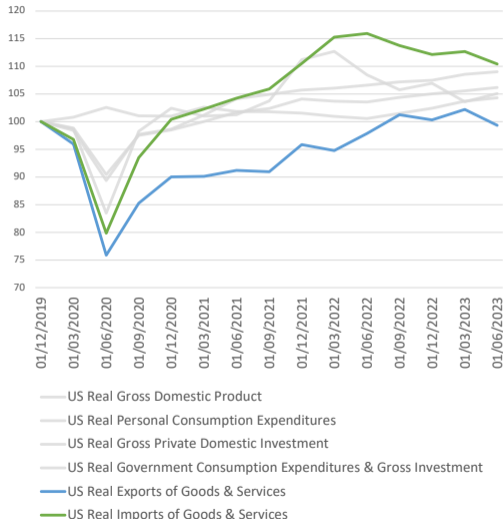
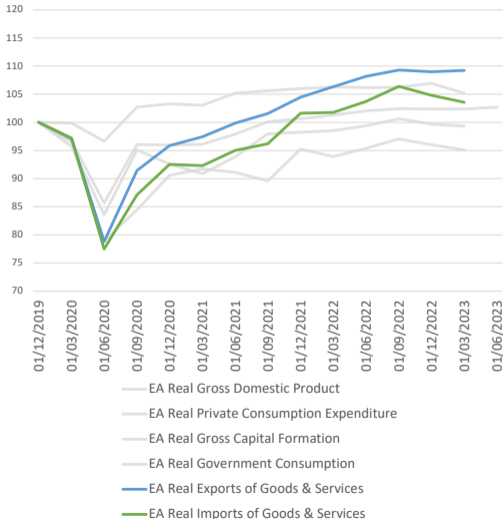
# GDP and components



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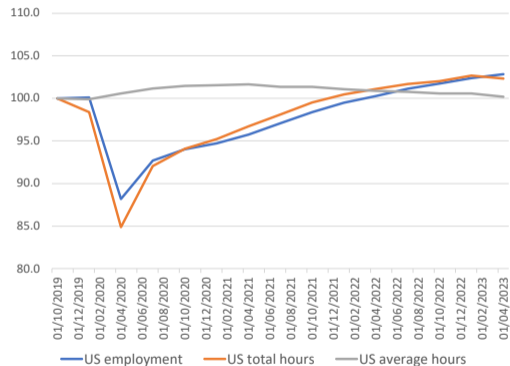
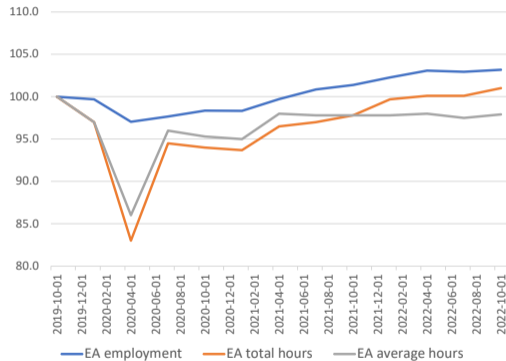


# GDP and components





# Labour market



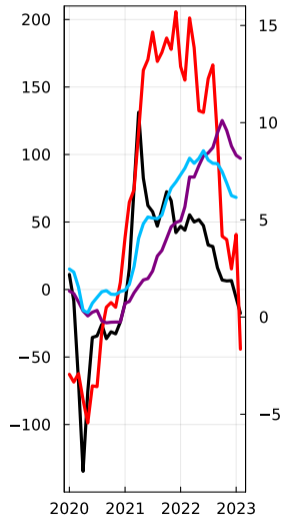
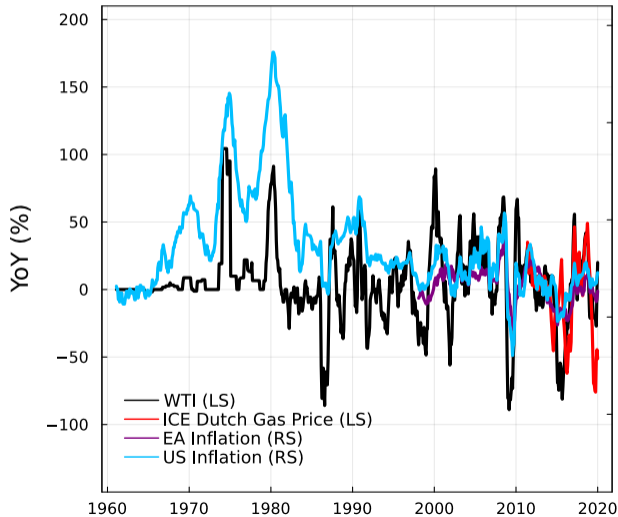
## The policy problem in the Euro Area

# The policy problem

- ▶ Single mandate: price stability
- ▶ One central bank, many fiscal policymakers
- ▶ Not a single yield curve: OIS vs country yield curves
- ▶ Uneven transmission of the policy stance...  
... and potential fragmentation risks...  
or self-fulfilling crises
- ▶ Delayed response due to the need of an agreement on the TPI

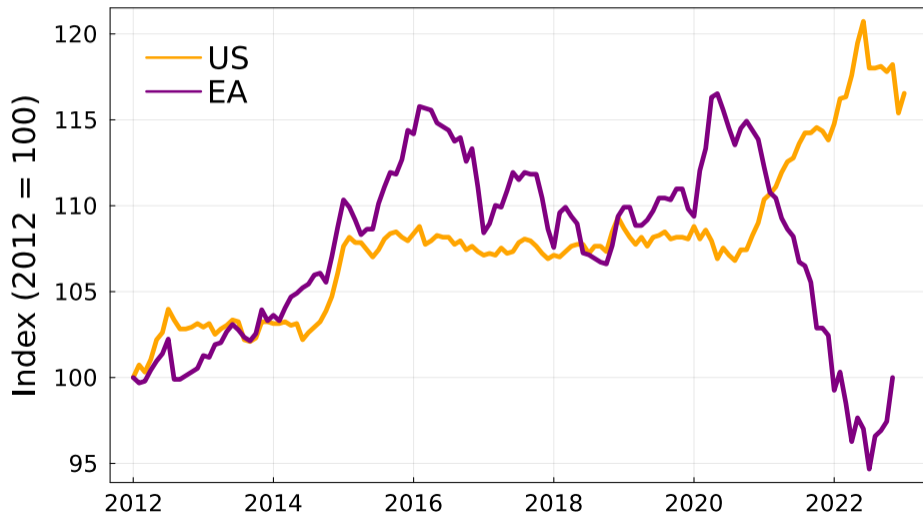
# Energy price shock

source: Guerrieri et al 2023, Geneva Report



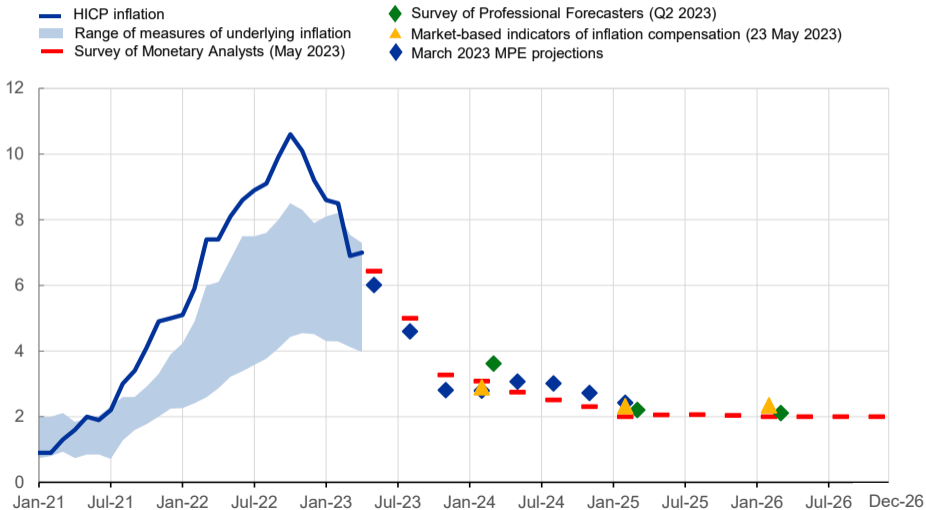
# Terms of trade

source: Guerrieri et al 2023, Geneva Report



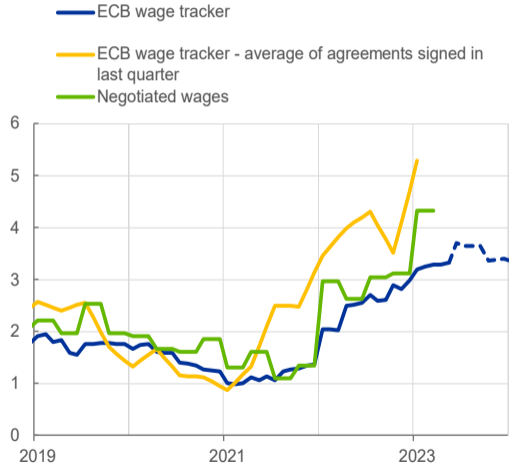
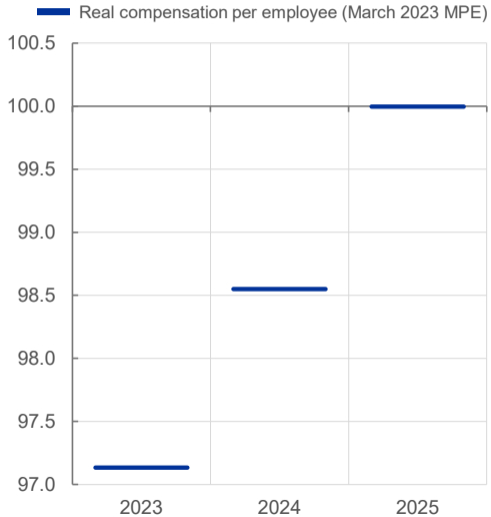
# De-anchoring of expectations?

source: ECB



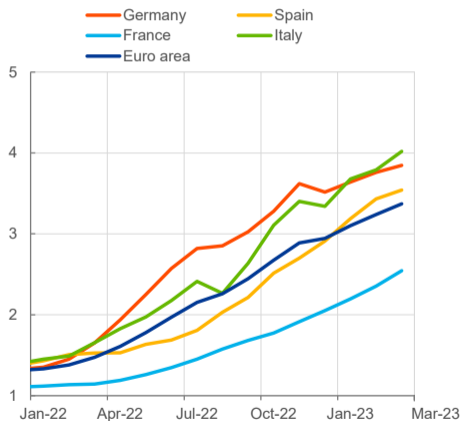
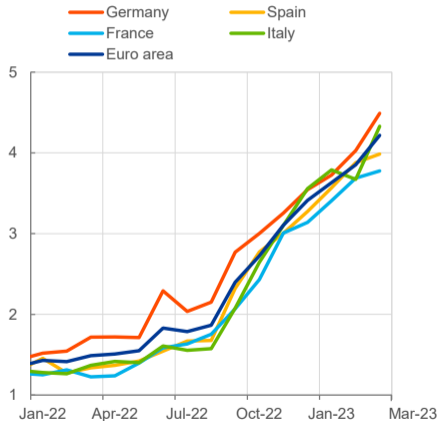
# Price-wage spiral?

source: ECB



# Bank lending rates

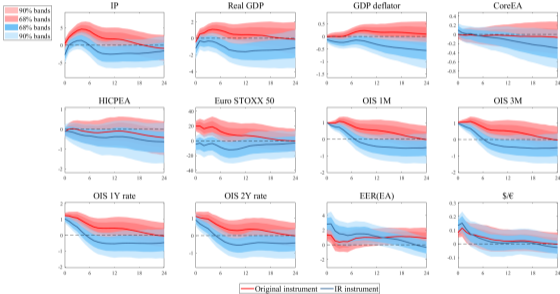
Firms (left), households for house purchase (right), source: ECB





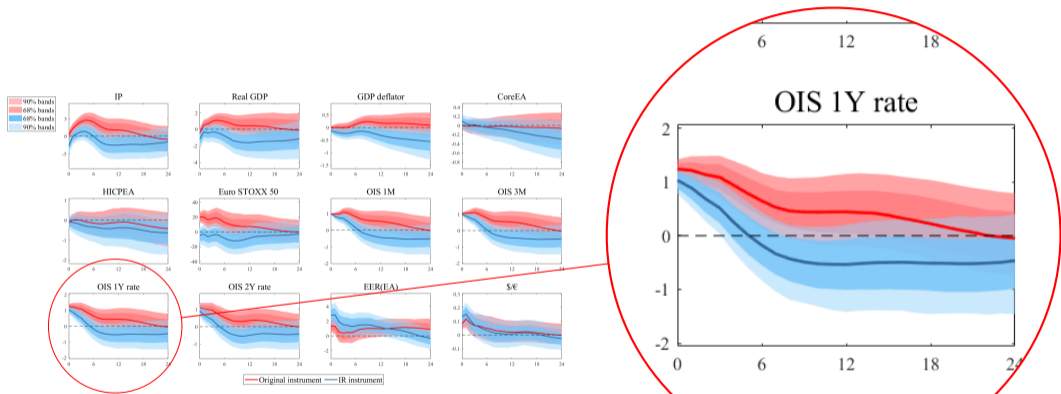
# The transmission of conventional MP in the EA

source: Reichlin, Ricco, Savini, Tuteja (2023)



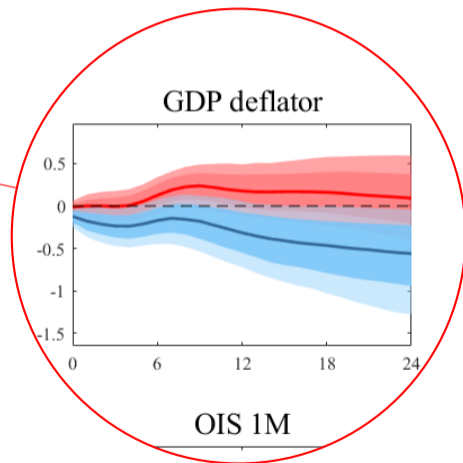
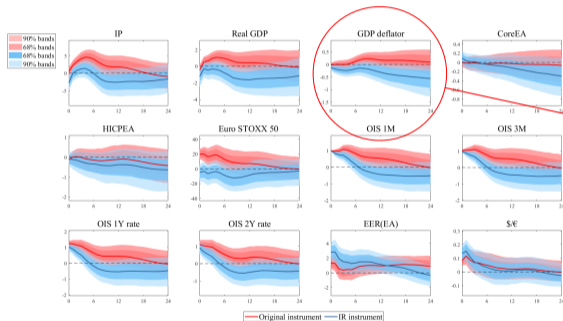
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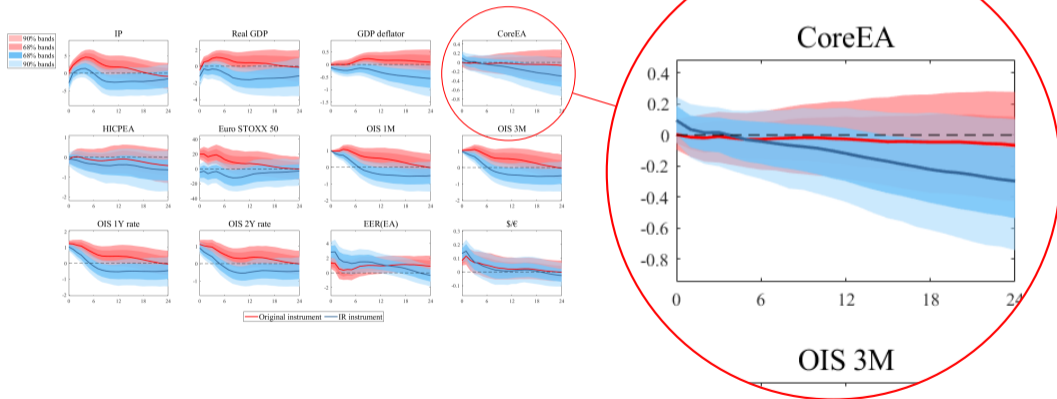
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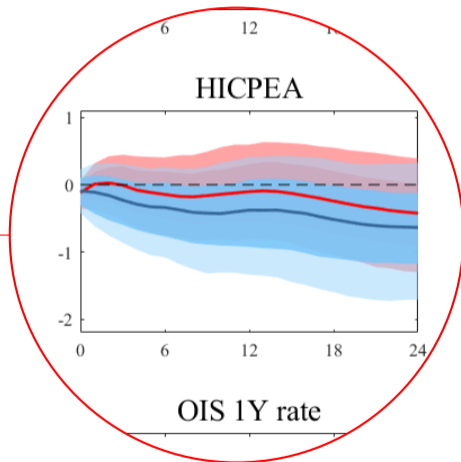
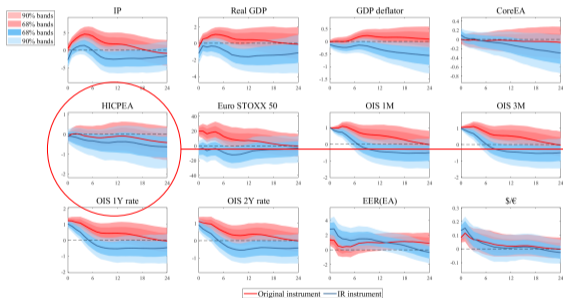
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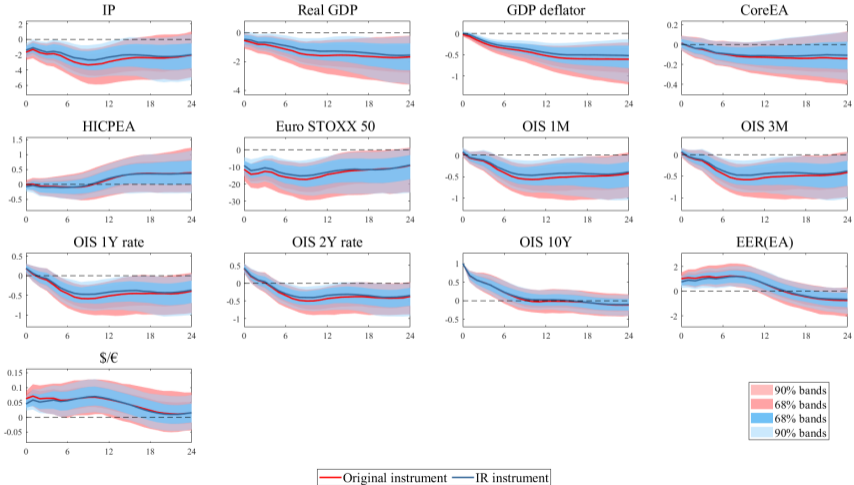
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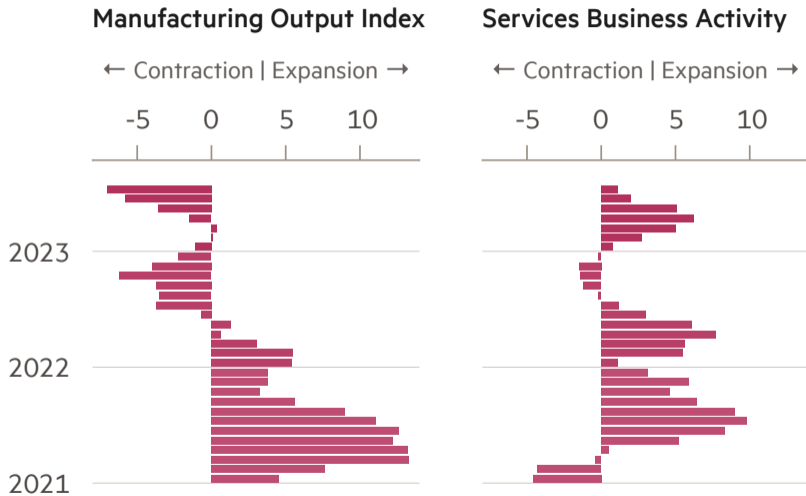


# Quantitative tightening in the Euro Area

source: Reichlin, Ricco, Savini, Tuteja (2023)



# Risks to growth in the Euro Area

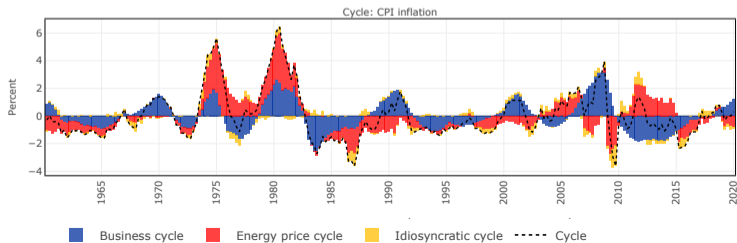
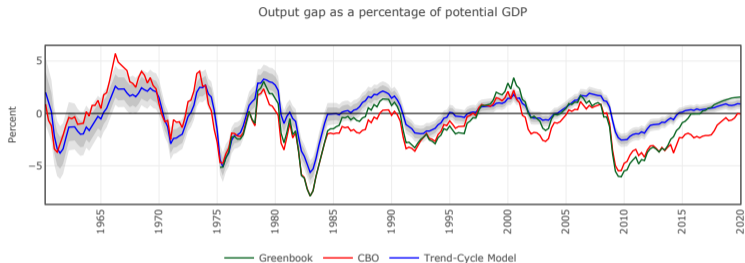


## Group-thinking and policy mistakes

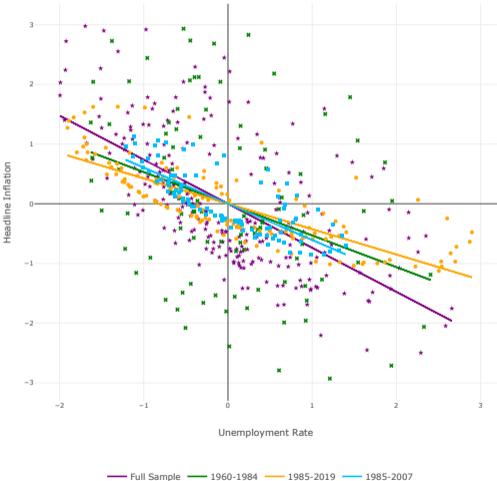


# A Fed's policy mistake?

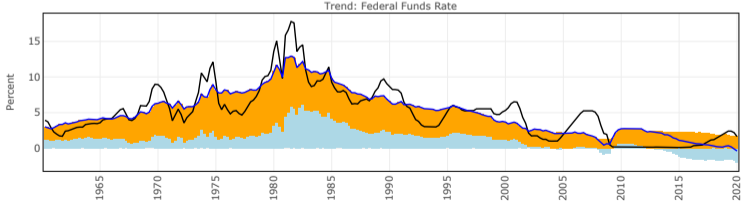
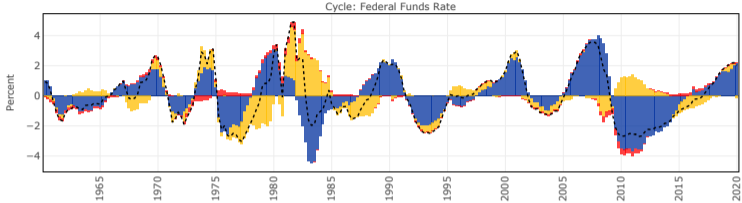
source: Bini, Reichlin, Ricco (2023), Hasenzagl, Pellegrino, Reichlin, Ricco (2022)



# How flat is the Phillips curve?



# Should MP respond to energy shocks?

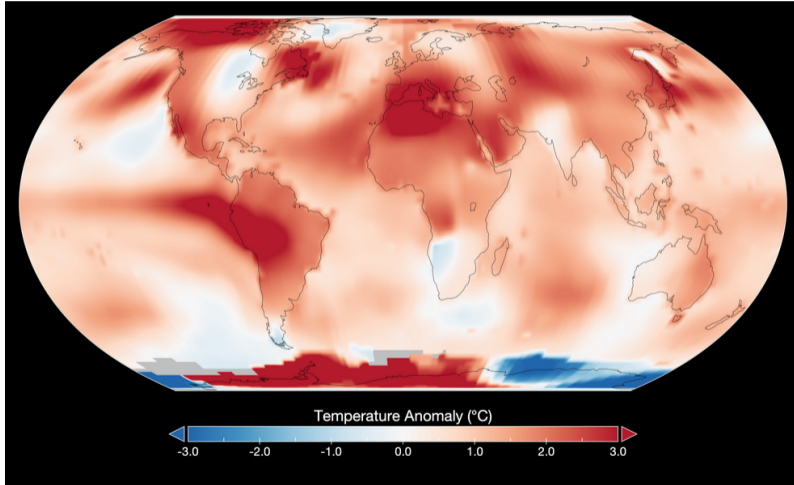


- Business cycle
- Idiosyncratic cycle
- Energy price cycle
- Cycle
- Data
- Idiosyncratic Trend
- Common Trend Inflation

## The future of central banking

# A blueprint for the future?

July 2023 the hottest month on record since 1880



# Are we all all submerging markets now?

- ▶ Large shocks in a volatile environment:
  - ▶ geopolitical tensions
  - ▶ climate and ecological risks, green transition risks
  - ▶ pandemics ...
- ▶ Central banks:
  - ▶ running out of good luck
  - ▶ ... and good policies harder to define
  - ▶ mandate increasingly difficult to archive
  - ▶ difficult trade-offs
  - ▶ important lessons from emerging markets!
- ▶ A path forward
  - ▶ a more open and less centralised academic debate
  - ▶ humility and clarity in policy objectives
  - ▶ a nuanced view of what can be archived

# Central banking: not a kids' game!

