

# The New Great Inflation Era - The Causes and Potential Responses in the Face of Stagflation

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## Abstracts

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### SUMMARY

The times of low and stable inflation experienced in developed economies since the 90s now seem to have come to an end, with high inflation to prevail, at least in the mid-term. Monetary policies must be carefully drafted more than ever before as the global economy faces the threat of stagflation for the first time after four decades. The causes and potential responses to this phenomenon are hence analyzed.

### KEY HIGHLIGHTS

Inflation, at high levels, has been the cause of economic instability, but over the past few decades, it had been seen as an economic phenomenon under control in most economies, especially in advanced economies. The current state of the global economy shows that it can still be present. Inflation rates have risen sharply across economies since mid-2021, approaching nearly double-digit rates, resembling older decades during the Great Inflation period. Consumers have already started to feel the pain seeing their purchasing power reducing as the cost of basic goods keeps rising.

A perfect storm of supply and demand shocks has sparked the inflation spiral seen since mid-2021. Surging demand for goods amid monetary and fiscal expansion, supply chain bottlenecks, tight labor markets, wage growth, all linked to the COVID-19 pandemic, along with an energy crisis due to geopolitical

developments, have more or less contributed to the rising inflation levels.

Current figures and projections show that the risk of a stagflation cannot be overlooked. The projected economic slowdown of the global economy may also be combined with high inflation, and in this case a new recession would be inevitable.

Policy responses to avoid this can be complex and variable across economies as the different causes of inflation imply different diagnoses. The balancing act between a tighter monetary policy and economic growth can be difficult, so that sharp interest rate rises inducing recession may still be an option, especially for advanced economies. Moreover, in any case, central banks need to act fast, before high inflation becomes endemic to people's expectations.

Governments can also step in to combat inflation through taxation of increased profits of those who stand to win from inflation. Additionally, a long-term, but effective fix is structural reforms aiming at increasing productivity.

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## SCOPE

See how much of a problem inflation is in 2022

Understand how it can be defended against

Learn what is likely to happen as a result

## REASONS TO BUY

What is stagflation?

Why is it so worrying?

What are central banks doing to combat it?

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