

Macroeconomic stability after the COVID-19 pandemic and the war in the Ukraine

Giancarlo Corsetti

Expert Group Meeting: Sustainable Development in Times of Recurrent Crises

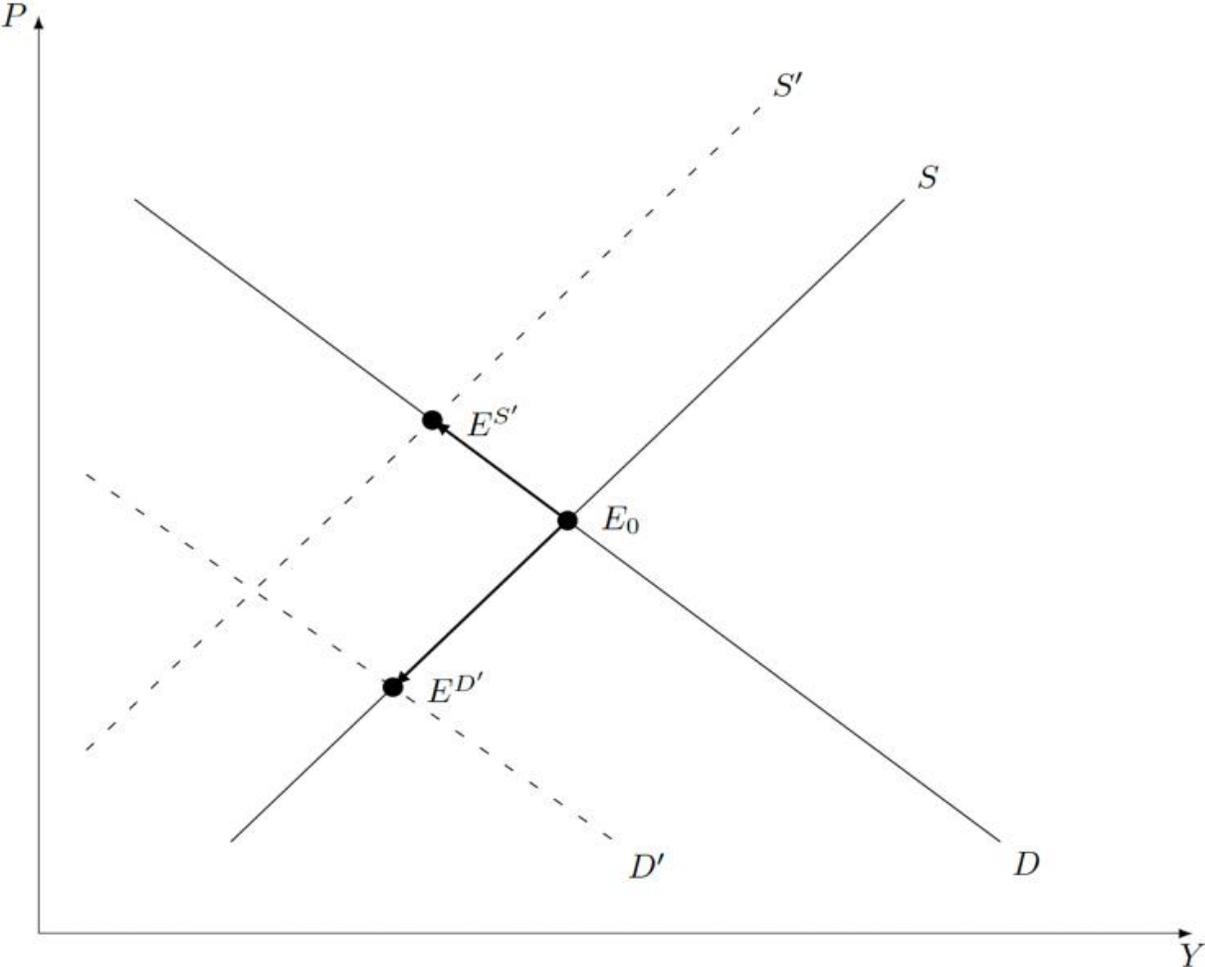
New York, 21-22 March 2023

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Outline

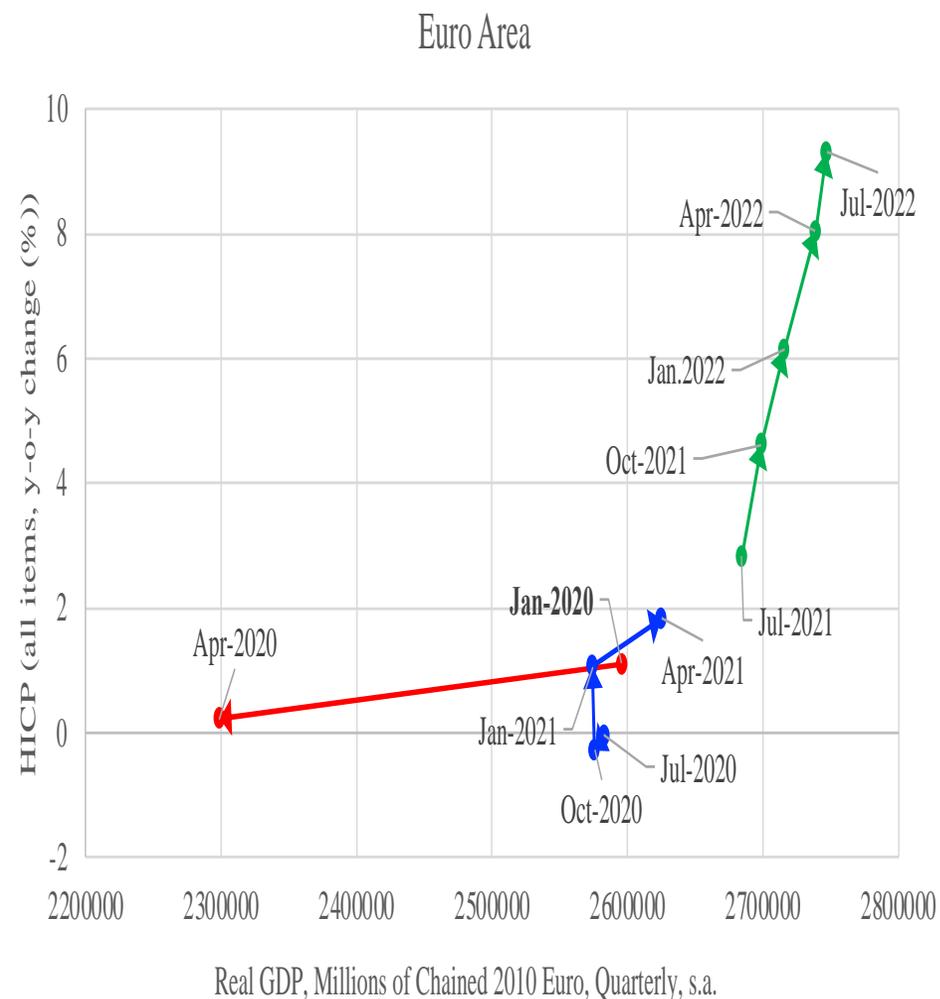
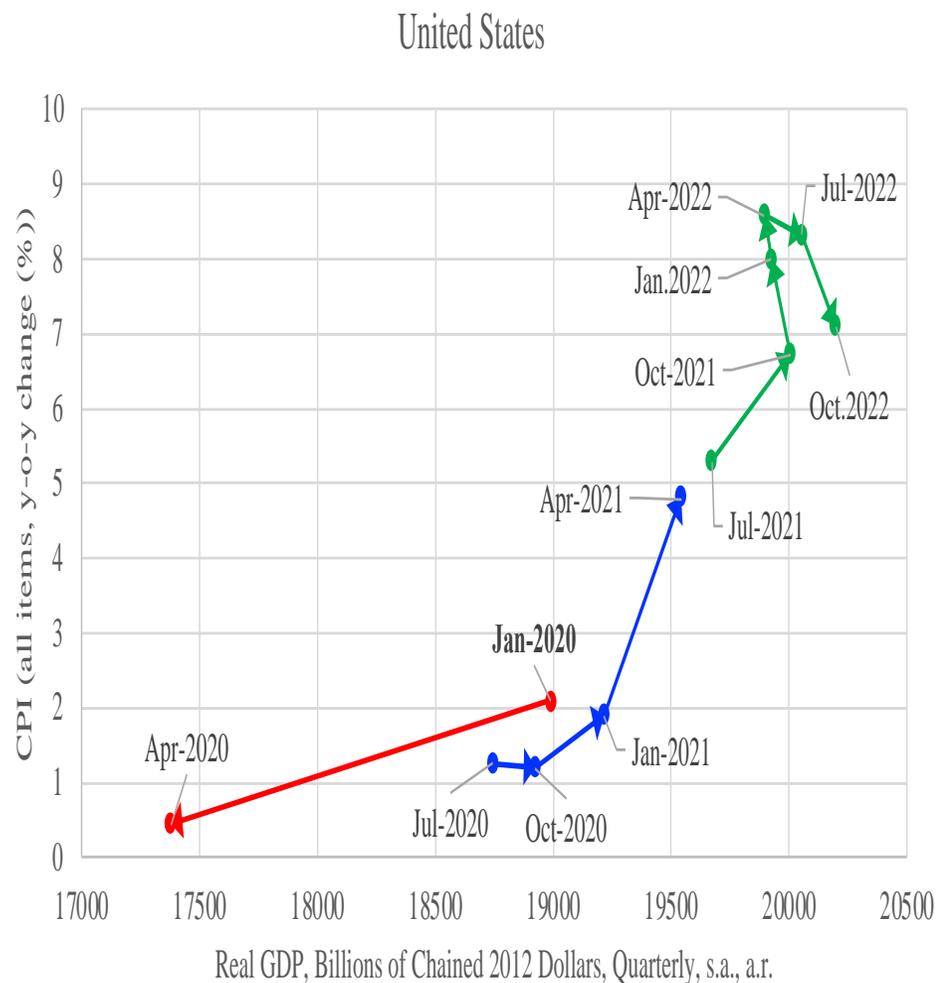
- The “inflation crisis” in advanced countries
 - Demand and supply
 - A tale of two inflations
 - Beyond the narrative of two inflation: price level and distribution conflict
 - Unpleasant monetarist-fiscal arithmetic
 - Long term bond yields driven by inflation vs. liquidity risks
- Policy trade-offs with tail risk
 - An age of vulnerability to belief-driven crises
 - Are we hitting the limit of feasible monetary and fiscal backstop at national and international level?
- How to rethink the economy policy model?
 - Monetary fiscal regulation, cross border cooperation
 - Inclusive multilateralism

The economics 101 of the “inflation crisis” in advanced countries



The “inflation crisis” in advanced countries

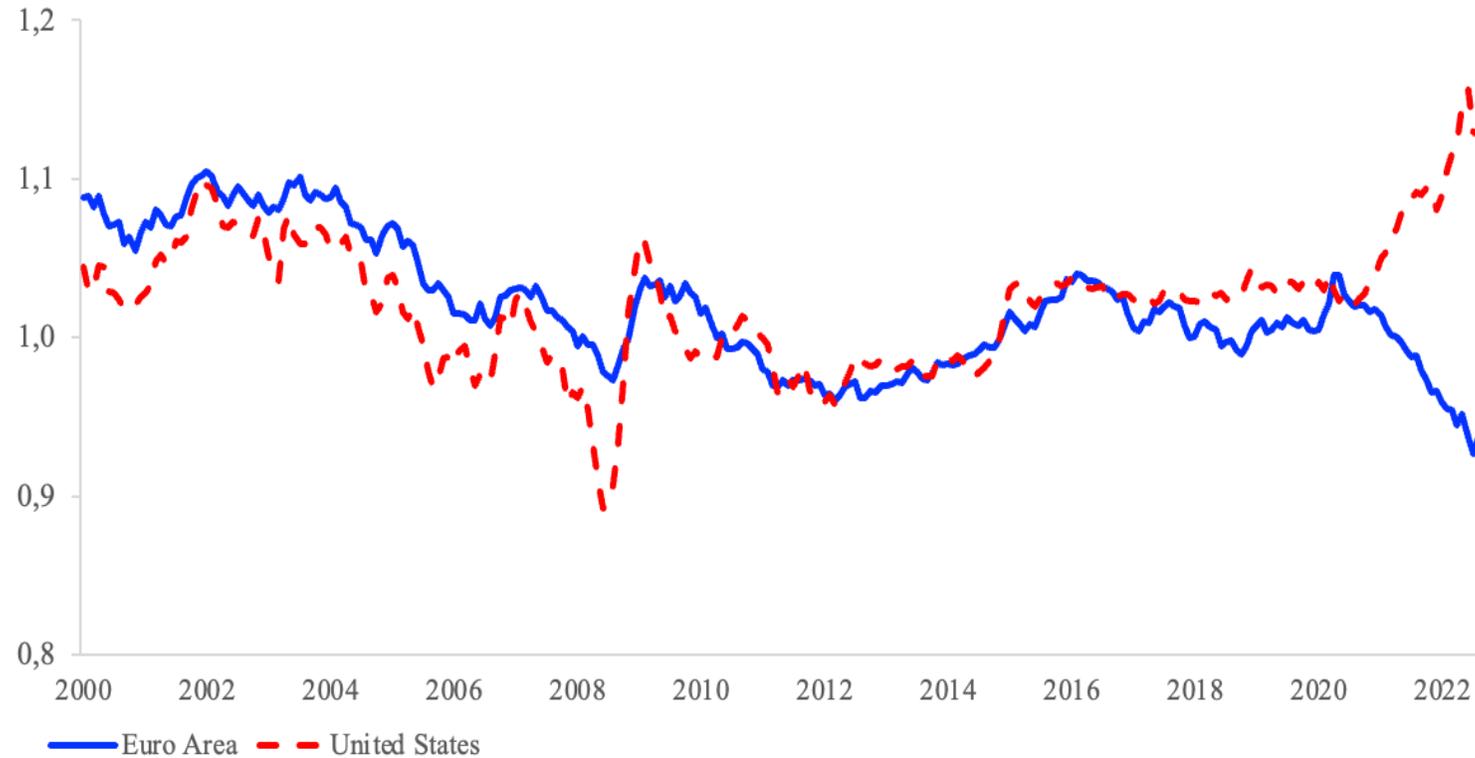
Three phases



If inflation expectations are anchored (as they have been according to most measures) the above are Phillips Curve

A tale of two inflations

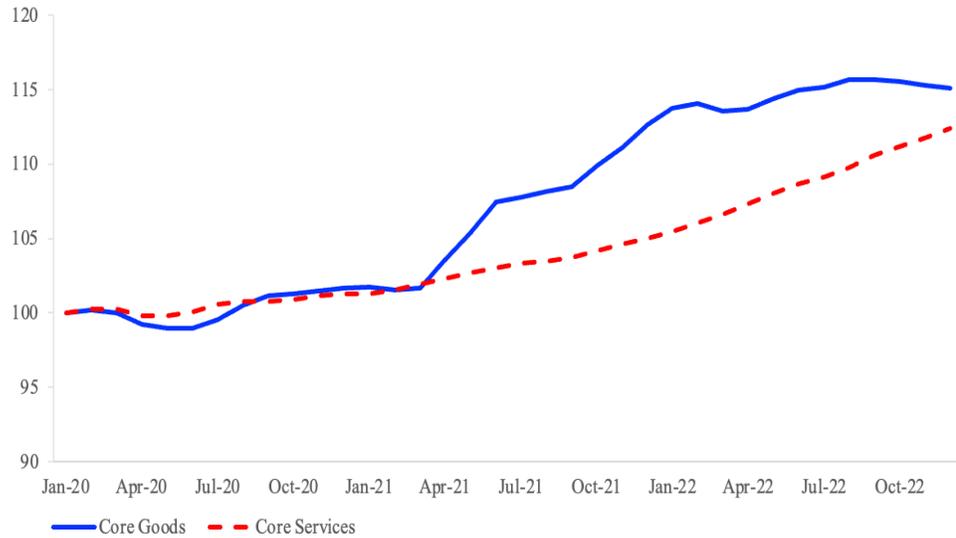
Terms of trade US vs EA



Source: World Trade Monitor from the CPB Netherlands Bureau for Economic Policy Analysis.
Monthly data. Latest observation: 2022m11.

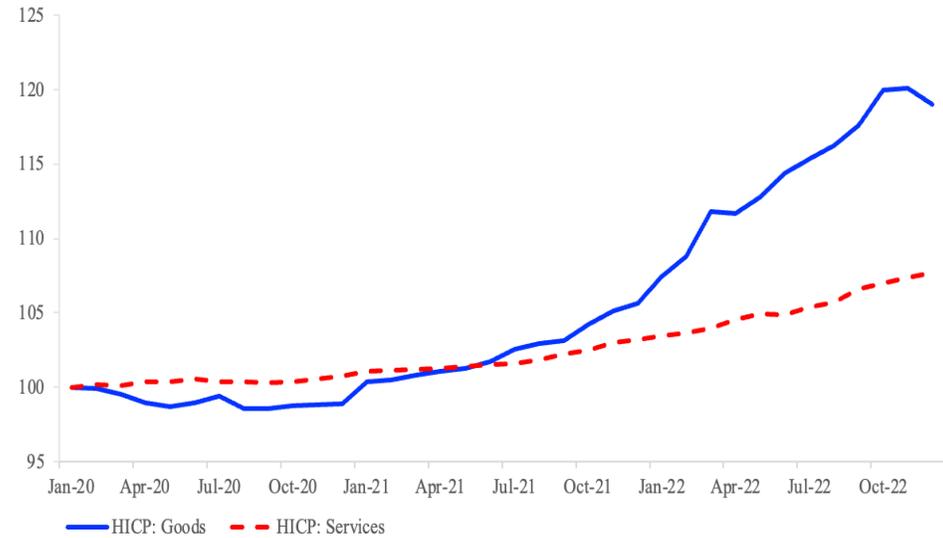
Beyond the two-inflation narrative

Price levels US vs EA



Core Goods (Source: FRED;
CPI Commodities less food and energy commodities, s.a.;
Index: 2020m1 = 100);

Core Services (Source: FRED;
CPI Services less energy services, s.a.;
Index: 2020m1 = 100)



HICP Goods (Source: ECB Statistical Data Warehouse;
HICP Goods, s.a.;
Index: 2020m1 = 100);

HICP Services (Source: ECB Statistical Data Warehouse;
HICP Services, s.a.; Index: 2020m1 = 100)

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Kintsugi
(金継ぎ, "golden joinery")

Humpty Dumpty



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- How to rethink the economy policy model?
 - ‘Unconventional collaboration’ of monetary fiscal regulatory institutions within and across borders
 - Inclusive ? multilateralism